



**CAYMAN ISLANDS LEGISLATIVE ASSEMBLY
COMMITTEE OF PUBLIC ACCOUNTS**

**“EFFICIENCY AND EFFECTIVENESS OF
THE UTILITY REGULATION AND COMPETITION OFFICE
(OfReg) — JUNE 2020”**

*Edited verbatim transcript relating to the Official Report of the Standing
Public Accounts Committee Meeting—22nd July 2020*

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PAC Members Present:

Mr. D. Ezzard Miller – MLA, Chairman
Mr. Bernie A. Bush – MLA, Member
Mr. Austin O. Harris, Jr. – MLA, Member
Mr. Christopher S. Saunders – MLA, Member
Hon. Barbara E. Conolly – MLA, Member
Mr. David C. Wight – MLA, Member

In attendance: Mr. Kenneth Jefferson, Financial Secretary/Chief Officer - Ministry of Finance and Economic Development

Mrs. Gloria Myles, Deputy Accountant General - Ministry of Finance and Economic Development

Mrs. Sue Winspear, Auditor General, Office of the Auditor General

Witnesses: Mr. Pierre Magnan - Sol Investments SEZC and Parkland International
Mr. Nicolas de Breynne - Rubis Cayman Islands
Mr. Dow Travers - Refuel Cayman
Mr. Michael Alberga - Attorney-at-Law
Mr. Johnny Brown - Brown's Group of Companies - Brown's Esso

PAC Clerk: Ms. Manesa Webb

**OFFICIAL VERBATIM TRANSCRIPT
STANDING PUBLIC ACCOUNTS COMMITTEE
WEDNESDAY
22 JULY 2020
9:24 AM**

Meeting with witnesses

**“EFFICIENCY AND EFFECTIVENESS OF
THE UTILITY REGULATION AND COMPETITION OFFICE
(OfReg) - June 2020”**

Verbatim transcript of the Standing Public Accounts Committee Meeting held on Wednesday, 22 July 2020, at 9:24am, in the Chamber of the Legislative Assembly Building, George Town, Grand Cayman.

[Mr. D. Ezzard Miller, Chairman, Presiding]

The Chairman: Good morning, everyone.

Let the record show that we have a quorum present and I would like to call the Committee to order.

We are continuing to hold our public hearings on the “**Efficiency and Effectiveness of the Utility Regulation and Competition Office (OfReg)**,” as prepared by the Office of the Auditor General in June, 2020.

The public will recall that last Thursday the Committee requested the Auditor General to fact check the claims of inaccuracies made by the Chairman of OfReg’s board and the CEO [Chief Executive Officer]. At this time, I will invite the Auditor General to present her findings.

Mrs. Sue Winspear, Auditor General, Office of the Auditor General: Thank you, Mr. Chairman.

I have prepared a two-sided statement which I have given to the members of the Committee. Do you wish me to read it into the record or can it stand . . .

The Chairman: Yes, I would prefer for you to read the actual findings into the record. I notice that you have reams of supporting documentation; those can just be given to the Committee.

Mrs. Sue Winspear, Auditor General, Office of the Auditor General: I do.

What is important to me is the factual accuracy of our report, which still stands. Clearly, witnesses may not like the conclusions I draw from those facts.

The first point was that the OfReg Chairman stated several times that the audit team had not met with him or consulted him as part of the audit; the first reference being 34 minutes in where I quote, “no

communication with me, as Chair, during the audit—with me personally.” He did later acknowledge that the audit team met with the full Board. This is incorrect. The entire audit team which comprised Angela Cullen, Julius Aurelio, Yolanda Clarke and Erin McLean—and they will all testify—met with the entire executive team, a number of other OfReg senior managers, the Cabinet Secretary and all non-executive board members, including the Chair, individually.

There were 15 individual meetings in total and a list of these and the attendees is attached. Most meetings, including the one with Dr. Pierson, were attended by the whole audit team of four people. Those four staff met with Dr. Pierson on Wednesday the 13th November, 2019 at 10:00 a.m. The meeting was scheduled to last for an hour but lasted until approximately 12:30p.m.

The team also met with Dr. Pierson, the entire board and a number of other OfReg staff at the OAG offices on the 12th December in order for the team to share their emerging findings with the OfReg board.

The second point was the OfReg Chairman stated that had the OAG team with him, he would have been able to provide information about the CEO succession plan and rationale for the approach taken. I refer to his testimony 39 minutes in, “*If I had been consulted, as the oldest serving member of the OfReg Board of Directors, I would have provided the OAG . . .*” and he continued. This is incorrect; during the meeting on the 13th November, my audit team and the Chairman discussed the rationale for the approach taken for filling the CEO vacancy on an interim basis.

At that meeting and during that time, Dr. Pierson did not mention a formal succession plan and we can find no evidence anywhere of a formal succession plan over and above acknowledging that there was a paper sent in from Dr. Pierson as a consequence of last week’s meeting. There is no board

Minutes or reference to that succession plan paper that he provided anywhere in the OfReg records.

Thirdly, the OfReg Chairman in response to a clarifying question from you, Mr. Miller, stated that the board had approved this succession plan. I refer to his quote 44 minutes in, that he *"would check the records to see what Minutes that was approved at, but I can assure that that happened."*

Since the session like week, as I said, the OfReg Chairman has sent in e-mails and an undated OfReg board paper drafted by the Chief Executive at the time, J.P. Morgan.

We have subsequently re-reviewed the OfReg board Minutes for 2018 and although there were a number of mentions of the CEO vacancy and recruitment and Deputy CEO and Acting CEOs, there was no mention of a succession plan nor reference to the board paper sent in last week by Dr. Pierson. There was also no formal record of this paper going to the board and no Minute. Therefore, it would suggest that the paper went from the Chief Executive to the Chair and the Chair only, but this cannot be clarified without asking the other non-executive members of the board at that time, as it is possible it went to the board and was not minuted or documented in any way, shape or form, in which case a formal decision was not taken.

The fourth point was when questioned twice by MLA Connolly about the Cabinet direction to him, as Chairman for OfReg, to adopt various government policies and procedures in August 2018, the OfReg Chairman appeared to state that these policies were adopted and appeared to imply that there was not a delay. I would refer to the tape at 2 hours and 26 minutes in: *"What we were asked to approve was acted on."* This was not the case. The Cabinet direction of August, 2018 was not acted on by the OfReg Chairman in a timely manner. Our audit found that these policies were being drafted while the audit was ongoing. Our 2019 financial audit of OfReg, completed in 2019, reported significant deficiencies in the internal control framework, including a lack of policies including those mentioned in the direction.

As stated in the report, the board only started to approve some of these policies and procedures in October, 2019. The CEO also stated in his evidence that it was a priority for him to do this when he took up post in September, 2019.

The final point relates to the evidence from the Chief Executive of OfReg, Mr. Malike Cummings. The Chair of the PAC asked the CEO if he had difficulty with the findings of the OAG's report. In response he stated that there were some areas of difficulty and a number of e-mail exchanges. When pressed by the PAC Chairman, he stated that the main issue and the only one he highlighted, was the OAG's conclusion that OfReg was costing more than its predecessor bodies, when the intention was for it to deliver a quarter of a million dollars of savings a year.

I did respond to this issue at the time in the hearing, stating that the report made it clear that it was difficult to do an exact like-for-like comparison, which I stated in the report, but despite that, I reported on this as the saving was part of the rationale for the creation of OfReg.

I have plenty of documentary evidence including all the clearance comments made by various people in OfReg and can confirm that most of those comments were taken on board and changes made to the report. Therefore, I believe to the best of my ability, that there are no factual inaccuracies in our report.

Thank you, Mr. Chairman.

The Chairman: Thank you, Auditor General for that comprehensive report; I know it must have taken some time over the weekend.

In lieu of the findings just presented by the Office of the Auditor General, which clearly demonstrates that the facts in the report are accurate, I would therefore invite the Committee to move a motion to strike the accusations of inaccuracies of the Chairman and the CEO of OfReg from the record. Can I have such a motion, please?

Mr. Christopher S. Saunders: Mr. Chairman, I move that motion.

Ms. Barbara E. Conolly: I second the motion.

The Chairman: All those in favour, please say Aye; those against, No.

AYES.

The Chairman: Unanimously approved; therefore the Minutes of this Meeting will reflect that the Committee has decided to strike those accusations of inaccuracies in the report from the record of the Committee.

Mr. Saunders, I think you wanted to raise another matter?

Mr. Christopher S. Saunders: Yes; thank you Mr. Chairman.

It was just something that was sent to me by a couple of my constituents and some people outside of the constituency and it had to do with a post made on the Governor's Facebook page. I forgot the date of it; it was sent to me and says:

"Good to catch up in the office with Sue Winspear, our Auditor General, with appropriate social distancing of course. We discussed Covid expenditure, OfReg report, next PAC session, media and upcoming elections. Sue and her hard-working team have essential role supporting our good governance and strong international reputation".

I just want to state for the record, and to clear up any public views that people may have, that I have

worked with the Auditor General for well over three years and I can safely say that I feel that her Office is independent. I do not have any reason to think that her Office is being directed or controlled by any entity.

I want to read section 114(6) of the Cayman Islands Constitution that basically says: **“In the exercise of his or her functions, the Auditor General (and any person acting on his or her behalf in the exercise of those functions) shall not be subject to the direction or control of any other person or authority, save that the Auditor General is answerable to the Public Accounts Committee of the Legislative Assembly and must attend upon the Committee at its request”.**

Part 7 goes on to say, **“The Auditor General shall submit reports on his or her activities to the Public Accounts Committee of the Legislative Assembly at least twice every year and as requested by the Committee”.** Another thing I want to add for the listening public, Mr. Chairman, section 114(1) of the Constitution that says: **“There shall be an Auditor General whose office shall be a public office, and power to make appointments to the office of Auditor General, and to remove or exercise disciplinary control over any person holding or acting in that office, is vested in the Governor, acting in his or her discretion.”**

The Constitution is clear in section 55, in that all civil service appointments are part of the Governor's reserved powers, but I do not think, or want anyone out there to think, that it was the intention of the Governor to say that they were trying to influence anything in the Auditor General's Office or anything like that. But, having gotten it from Facebook and as a few people reached out to me, I just wanted to set the record straight.

If I believed that there was any form of influence or anything, I would have been the first one who would have said something. I just wanted to make that clear for the listening public and others who may have seen it.

The Chairman: Thank you, Chris. I got similar representation and, surprisingly, from professionals in the community not so much from my constituents, although I did get one or two calls from them.

I think it is unfortunate that the Governor decided to put it on Facebook and I would just encourage him not to do it in the future because I agree with the sentiments that Mr. Saunders expressed. I am also confident that there is no interference. It is unfortunate, when it goes on Facebook like this, that there are members of the public who are drawing reference and the complaint to me, particularly, is with COVID expenditure. I think it is just one of those unfortunate things and I would discourage the Governor from posting such things on Facebook in the future.

I think that dispenses with the administrative matters that we had to deal with. So, I would invite the Deputy Serjeant-at-Arms to bring in the witness.

[Pause]

SOL INVESTMENTS SEZC AND PARKLAND INTERNATIONAL

ADMINISTRATION OF OATH OR AFFIRMATION

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: I do solemnly, sincerely, and truly declare and affirm that the evidence I shall give to this honourable Legislative Assembly shall be the truth, the whole truth, and nothing but the truth.

[Pause]

The Chairman: Good morning, Mr. Pierre and thank you for attending the session of the Public Accounts Committee. You would have been informed that we are dealing with efficiency and effectiveness of the Utility Regulation and Competition Office (OfReg), in a report prepared by the Auditor General on June, 2020.

The Committee was of the view that in addition to talking to the regulators, we should also have a conversation with the companies and entities that are being regulated so that we can hear what your concerns might be and how do you believe OfReg is functioning; is it advantageous to your customers and business or not, et cetera.

I would invite Mr. Saunders to lead off the questions.

Mr. Christopher S. Saunders: Thank you, very much Mr. Chairman and also Mr. Pierre, for attending this morning.

Before we get to the question, I would like to expand on what the Chairman said. As elected representatives, we get a lot of feedback from the public and as the Auditor General is required by law to do a report every three years on the effectiveness and efficiency of OfReg as a regulator, we figured it would be in the public's best interest at this time to also get a 360 degree view.

So, we got views from the public, we have heard OfReg and now we are basically looking to get the views from the licensees. One of the things that we want to take from this PAC session is to be forward looking. What has happened has happened, and there is nothing I can change, especially with regards to fuel. Fuel is one of those areas that has only recently been regulated I think within the last three years so it is still in its embryonic/development stages. As such, we want to see what we can do and if there are legislative or regulatory changes that we need to

make. We need to kind of get a better idea because at the end of day, we need to create an environment where businesses can survive and make a reasonable return to their shareholders but at the same time we also have to make sure that the consumers are protected.

I think I can safely say for all Committee members and by extension the House, that we do believe that these areas need to be regulated, there is no question about that; but how do we go about it to make sure it is efficient and effective?

This will also give you an opportunity to tell the public a little more about your business. It is meant to be informative not adversarial, and allow people to better understand the fuel market as a whole. That is really the purpose and with that I will lead off with my first question.

I noticed in late 2018 and I think it was finishing early 2019 that the Parkland Investment Group bought 75 per cent of Sol's operations in the Caribbean and I think they are scheduled to buy the remaining later on this year. Could give the Committee an update on what we can expect going forward with Parkland now being involved with the Sol Group; and what benefits can the Caymanian people expect to see?

As you answer your first question, just state your name for the record and then proceed to answer.

Thank you very much.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Certainly.

Good morning, Mr. Chairman. For the record, my name is Pierre Magnan. I am the President of Sol Investments, the parent company of all the Sol entities, the affiliates throughout the Caribbean region and South America. I am also President of Parkland International and an officer of Parkland, which is a Canadian-listed public company, with operations in Canada, the US and throughout the Caribbean, North and South America.

Through you, Mr. Chairman, the Committee member is quite right. On January 9th, 2019, Parkland completed the acquisition of 75 per cent of Sol Investments and that was our entry into the Caribbean market as an independent fuel marketer and distributor. We do have the right but not the obligation to buy out the remaining 25 per cent in 2022, but it is still to be determined.

A few words about our business: Our mission is to power journeys and energise communities and we do that through the safe and reliable supply of high quality fuel products throughout the communities that we serve. So our first priority and a core value of ours is really the safety element, and that encompasses personal safety, but also operational excellence and the protection of the pristine environments including here in Cayman where we do business.

I am proud to share with the Committee that the headquarters for the Sol operation are here in Cayman. In addition to the local team at Sol Cayman, we have 29 corporate employees here. Our leadership team is based here, as well as our shipping operation and our regional shipping and logistics business.

Mr. Christopher S. Saunders: Thank you very much.

I had a very busy time reading up on the Parkland Group, actually. I noticed that for the last couple of years, there have been a lot of inorganic growth, in terms of buying up a number of different operations, mostly in the northern part of the United States and as you rightly said, serving Canada.

I also noticed the Barnaby Refinery that you have also. Looking at the size of the Parkland Group, I did not realise that you also have your own refinery.

Something people have always been curious about is, those prices in the North American market not being rolled out to other parts of the Caribbean. Now, we do recognise that there are additional shipping costs and to some extent, government duty, but I think one of the things most people are curious about is when can we expect to start seeing some lower fuel prices or in the case of Parkland now, which is a much larger organisation, which is able to buy much larger parcels and get the economy of scales, when do you foresee we can probably have I guess, more competitive fuel prices here in the Cayman Islands?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Through you, Mr. Chairman, this is a good question and I am not sure what the protocol is with the Committee but I have brought some charts which may assist in the discussion.

Mr. Christopher S. Saunders: The Floor is yours. As we said, the main point here is information for the public and that is what we really want, so by all means.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: I would say generally, the supply chain for fuel products begins with the upstream portion of our industry which is the extraction of the hydro carbon out of subterranean reservoirs and there is transportation to refineries.

We have a small refinery in Canada and an interest in a small refinery in Martinique but for purposes of the Sol business, we do not operate a refining business that would be relevant to the Cayman Islands market. So we are what is called a "REC buyer". We buy refined product out of the US Gulf Coast on a Platts posting basis, so it is Platts US Gulf Coast water borne as do many others. It is one of the largest refining complexes in the world, so we are a price tak-

er in the US Gulf Coast into our network. Most of our 23 markets are supplied out of the US Gulf Coast through our shipping operation.

As you would expect, Mr. Chairman, it would be inefficient for any one single market to be supplied from the Gulf Coast but when you bring them together into a milk run or a shipping rotation, we can supply them more cost-effectively. However, there is still that cost of freight and demurrage; we call this a price build-up in the supply business, where you have your product cost, insurance, inspection fees, and you have potentially blending to reach a certain specification for a market. At times there are storage costs; not all of the barrels come directly to the destination; and then there are port fees and duties once the product reaches the market.

What I'd say generally, across all of our businesses—and all of our financial statements are public—it is a tough business. It is very competitive and what you will see is that we have very high revenue as it is typical for our industry and a very low margin. So it is all about running—pardon the pun—the tightest ship possible and running the most efficient operation possible because it is pennies a gallon that we make on the supply.

Mr. Christopher S. Saunders: Thank you very much, Mr. Pierre.

I looked at on your website and I think there are 22 or 23 markets within the Caribbean that Sol operates in. I have actually been going through and looking at the prices in each market and I noticed that there are some... Well granted, that this is an average price within the market and it may not necessarily reflect Sol's prices, but one of the things we are conscious of just looking at the average prices... And we do recognise there are some places where there is volume, in terms of greater populations and everything else.

When I did this analysis on the 20th July, I could not help but notice for example, St. Kitts and Nevis, which is in the Eastern Caribbean, their average, when they were paying just a little above US\$3 for a gallon and we did the conversion to make sure that we are looking at Imperial gallons. So St. Kitts was just above US\$3 for a gallon of gas, whereas the Cayman Islands was about US\$5.14; St. Lucia was also US\$4.42. So, if you are coming out of the Gulf, you would think that the shipping cost to some of those areas which I noticed, even in Barbados, which was US\$6.77 a gallon, but I know they have a high duty on their fuel compared to elsewhere within the Caribbean.

Looking at those swings in the Eastern Caribbean versus here, where we would be closer to the Gulf, what is driving that their prices are much cheaper than ours, but yet in terms of population and even usage and consumption, we are not that far apart because we do have a lot of people here driving as op-

posed to those place where they have public transport, et cetera.

So, I am curious as to what is driving the Eastern Caribbean to have far cheaper prices than we do even though we are closer to the supply source.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Certainly. Through you, Mr. Chairman: I realise that I circulated the chart but did not directly answer your first question, so I will try to tackle both this time.

What you see in the Cayman market is that we buy parcels from the US Gulf Coast, load them onto the ships which also make drops to different markets and the layers that come in here are priced based on our acquisition costs and the freight at the time that we pick it up. Depending on the demand in the market, those layers as we call them—and it takes a week to two weeks to get the product to Cayman—typically, a layer is one discharge a month. When the market is robust, the market will consume that product through our dealer retail partners and then when the new cargo comes in there will be a repricing based on essentially the price in the US Gulf Coast two weeks before. That is how the system works.

So unlike Florida, which reprices several times a day and their tanks turn, so their inventory turns over frequently and so you get frequent price changes. Even if you look at Bahamas which I set out in the chart, they have more frequent price changes. In Cayman we have very infrequent price changes.

I think there is another layer coming on but I say all that to say that there is an important lag effect in any small Caribbean market where we get the pricing from a month ago or perhaps due to COVID even two months ago and any decline in the commodity price takes time to be reflected in the layers that we see here but conversely, we benefit from lower prices longer.

If you look at the absolute weekly change index, on the second page of the charts, you will see that our reference markets, of Florida and Texas, have already seen important gains in their fuel prices, whereas Cayman has stayed low. You will see in Bahamas, which is a regulated market; they already started to come back up. So these things vary but I think that the time lag is the most important factor because of the size of this market, in terms of understanding how fuel prices move and when Caymanians see the benefit of lower prices or bear the burden of higher prices in the US Gulf Coast.

Mr. Christopher S. Saunders: On average, how many times per month do you take deliveries?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: My understanding is, and certainly since I have been with Sol—so 18 months—it is about once a

month. COVID has thrown a wrench into that and we saw demand constrict very significantly during the crisis.

I do not have the facts in front of me, but I would guess just based on the last layer, that it has taken much, much longer to work through the product.

Mr. Christopher S. Saunders: Well, actually, one of the things I did was go to the Cayman Port Authority's website, <https://www.caymanport.com>, which has a breakdown of every single thing that they bring in and I can provide you with a copy later on.

I do recognise, from an inventory standpoint that usage will also affect inventory and everything else but I could not help but notice that in January this year—and this includes Sol, Refuel and Rubis—the total amount was just above 1.3 million gallons of gas imported into the country. In February, it was just about 429,000 and March, which kind of jumped out at me, was roughly 1.147 million. When I looked at previous years, for example March 2019, it was almost 635 million versus 1.1 million and I could not help but notice that it was also well above the average coming in since 2011.

It is actually quite a detailed report and one of the things we started plotting was the fuel prices around that time for those different months, in terms of the market at the wholesale level and also when Cayman was starting to ramp up. We noticed the ramp-up of fuel delivery started in January, which at that time global demand dropped around 2-3 per cent because of the Chinese market. So fuel started decreasing from then and we noticed that large purchases started taking place when the price went down.

Again, the global demand was because of the virus in China, their economy shut down, and they are a large player; but by the time we reached March it was around 30 per cent drop in global demand because of the effects in the United States. Again, we noticed that there were large imports of fuel around that time as well.

You mentioned that the prices may stay down a little longer in Cayman, the regulator testified here that they pretty much reached out and said to either your organisation or Rubis that they had to lower the prices when they started doing their own analyses. Who was it that dropped .30 cents?

[Inaudible interjection]

Mr. Christopher S. Saunders: The regulator testified here last week that when they did their own analysis on what was purchased and what was at the pump, they basically reached out to them and told them that they needed to lower their prices. Mr. Munroe is back here tomorrow, so we can just confirm that with him just to be on the same side.

However, one of the things we have been looking at is the fuel coming in, compared to different months. Like I said, this goes all the way back to January 2011 and it is actually very current in terms of keeping the information. We do see where the prices have dropped on a global level and we see where larger purchases were made in that period of time. I have actually mapped it going back at least the last three years, looking at when purchases were made and deliveries came to the Island. However, what we are not seeing is the price drop, as much as could be expected.

Perfect example: In the southern United States—and granted, as you said, the prices vary daily or several times a days—we have seen prices drop from US\$2.90 to US\$1.07 within the space of a week. That is just the prices we are talking about, and we are still looking for that drop in Cayman, bearing in mind all that has happened, and we have yet to see it and we are now in July.

In terms of your inventory—I think that will be a better understanding for me—how many days' inventory do you guys normally keep on hand?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Through you, Mr. Chairman, as a wholesaler the constraint that we are managing is the storage that we have in Cayman, which is limited, and the demand in the market. So really the priority every day for the supply team, and what we say in the office, is that we have to keep the markets wet. Especially in hurricane season, we want to make sure that we have sufficient supply to the power company, the airports and to our dealers, so that if something were to happen and we have a disruption which is going to throw off shipping, that the markets have the supply that they need and that that supply arrives safely.

I can assure you there is no reference to Chinese or crude markets in that calculus. For better or worse, we buy on the US Gulf Coast basis and we typically have one or two MR vessels a month that load in the Gulf Coast and that do a run of the Western Caribbean. As I mentioned earlier we have long-term contracts but those contracts are based on the current Platts price when our vessel loads. We have to nominate those vessels well in advance and we do not know what the price will be so there is no possibility for us to game it, and then we pay a differential over the Platts price for the product. We really run it as a supply chain, as a mid-stream operation and again, at very low margin, so there is really no gaming of the system or correlation to Brent or WTI pricing.

Mr. Christopher S. Saunders: Going back to the inventory levels, what I am trying to understand is, I went on Google Earth and noticed that you have four tanks?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Hmm.

Mr. Christopher S. Saunders: I think two are diesel, one maybe has—

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Jet...

Mr. Christopher S. Saunders:—Avgas and the other would be gas.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: That is correct.

Mr. Christopher S. Saunders: So two would be diesel, one would be avgas (Aviation Fuel) and the other one would be gas itself.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: One is under repair at the moment, so there are only three in service.

Mr. Christopher S. Saunders: So the three—are they two diesel and one gas or one diesel, one gas and one avgas?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: In ordinary course I think two are diesel, one gasoline and one jet.

Mr. Christopher S. Saunders: Okay; but one is down. Which one is it that is down, is it the avgas that is down or. . .?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Everything has been reconfigured—

Mr. Christopher S. Saunders: Okay.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: And again, I am not in the day-to-day operations, so I do not...

Mr. Christopher S. Saunders: That is fine. I am just trying to...

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: The three in service are probably one for each product.

Mr. Christopher S. Saunders: One thing I have been made to understand is that typically speaking, most times, the full inventory on Island, outside of hurricane season, where the maximum capacity—which I am trying to work out across the whole Island is—I think, six months' worth of fuel between Rubis, Sol and CUC's tanks. I think it is roughly somewhere around four to six months' worth of fuel.

One of the things I have been trying to get a better understanding of is, for each of the actual providers, I understand sometimes anywhere from 10 to 20 days' worth of fuel is in the tanks and then there may be another five to seven days in the tanks at the gas station. So, it is normally roughly around 30 days' worth of fuel, generally speaking—outside of hurricane season—where the main distributors, Sol and Rubis, would have anywhere from 10 to 20 days and the gas station would have the difference inside their pumps.

I was trying to map out the delivery using Platts Gulf Coast prices to kind of get an idea of what is driving the prices. You used the Western Caribbean for example: Puerto Rico is in the Western Caribbean and Sol services the Puerto Rico market, I think, based on your website. However, even in Puerto Rico, for example, on July 20th the average gallon was US\$2.92; while the Cayman Islands average price was US\$5.14 on July 20th which was just a few days ago and we are both in the Western Caribbean market.

That is what I am trying to understand, when I look at the Western Caribbean areas that both Sol and Rubis, I am still trying to understand the major price differences between the markets when the same ship is going pretty much from port to port.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Mr. Chairman with your permission: We do not supply Puerto Rico directly with our own ships. It is a very large market with robust local storage. It is also a regional storage hub like Bahamas. I think Bahamas has north of 20 million barrels of storage and significant refined product storage in that for gas, diesel and jet. So they have different market dynamics at play.

In support of the fuel regulation review that OfReg is conducting, we have commissioned an independent economist report from a very well know firm to study these things and to support us and support the regulator. Some of the insights that the economist has shared with us is that for the Caribbean market, when you take out the critical variables, being the different levels of taxation or duty in the market and the cost of living in that market, the remaining variable is size; and it does make sense to me intuitively. When you look at our terminal infrastructure here the fixed costs are very high and there is a certain portion of those fixed costs and the freight to get a vessel here

have to be distributed on a smaller number of gallons being sold.

So, I think that is one of the key drivers of the differentials between Caribbean locations.

Mr. Christopher S. Saunders: Something I was also looking at in terms of the price differential, in the United States, built in into their gas I think is the 18.6 cents Federal tax rate—well, it is actually in every gallon—whereas here, when they buy it out of the Gulf they are not having that 18.6 cents. I understand from some industry professionals that 15 cents per gallon is pretty much the cost in terms of shipping.

Therefore, I think to some extent, the shipping cost per gallon would pretty much wipe out the Federal tax per gallon, which I think is 18.6 cents or something like that.

I look at St. Kitts, which is also in the Eastern Caribbean, and is much further from the Gulf but their price at July 20th was roughly US\$3.05 per gallon and Cayman was still at \$5.14. Even with the duty and the differences, US\$2.14 a gallon is a big difference and that is what we are trying to understand. In this globalised world, everyone gets access to everything and everyone can see everything. We are trying to figure out what St. Kitts is doing for US\$3.05 per gallon and what is it we are doing for US\$5.14 when our shipping costs should be much cheaper than St. Kitts.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Mr. Chairman through you, what I can assure you is that we have provided the detailed information of our price build ups to OfReg.

I think it is difficult to prove a negative and to do a comparative exercise of the different markets even though we do business in those markets and I can speak to them generally; it is difficult to do a comparative exercise. What I can tell you is what we make and I think that may be helpful for the Committee.

Sol Cayman makes about 1/5 of what the government makes as net income on every gallon sold in the market. I think there may be a fear that there are inflated margins or profit taking or profiteering. Let the Committee rest assured that that is not the case. In fact, the margins are razor thin and this is a very competitive market.

We compete with Rubis on the quality of our product, on the reliability of our operation, on the safety, on our value proposition to dealers and this is not a high margin business. Even if you include the full margin of all our entities, cutting across affiliates, it is only about a 1/5 of what the government of Cayman makes. So there is no price-gouging happening in the Cayman Islands.

Mr. Christopher S. Saunders: Well, you mentioned earlier about the high fixed costs that an area like Cayman would have and I was looking at the Parkland Fuel Corporation Consolidated Financial Statements

for 2019. Just to break out your revenues—and by the way, maybe it is just the CPA in me, but on page 55 of the Consolidated Statements they actually made an error in the different years. It should have been 2018-2019; they have 2017-2018, so you can just let them know that you picked up on that.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Thank you.

Mr. Christopher S. Saunders: I noticed that they have the total revenue broken out by geographic information. For Canada it was \$10.6 billion, for United States it was \$3.7 billion and they made a note that this was the international market, primarily the Caribbean, \$4.1 billion. It made sense because there was no comparative number for the previous year because of the early acquisition in 2019.

However, when I looked at the property, plants and equipment for those areas, Canada was \$2.5 billion, United States was \$202 million, and international was a little over \$1 billion so, just to amalgamate them: In Canada, property, plants and equipment \$2.5 billion, they made \$10.6 billion in revenues; in the United States, with \$202 million in property, plants and equipment, they made \$3.7 billion—which I think is actually quite efficient—and in the Caribbean, with just a bit of a billion, they made \$4.1 billion in terms of revenues.

Granted, this is 22 or 23 different markets and Jamaica, Bahamas and so forth. So it is kind of difficult to match like to like when we have all of these different geographical information. As we are looking at it in terms of a percentage of the returns or even just the assets, one of the things that we are trying to get OfReg to push is the whole RCAM-type concept that they have for CUC. In other words, you force companies to do better and as they do better, you give them a reasonable rate of return. That is one of the pet peeves that I have with the telecom companies. They are making all of this money but they are not making that capital investment or staying current on many different issues; but tomorrow is their day to deal with that.

This is what we and the residents are trying to understand. Even on your competitor, Rubis' website where they have the Fuel IQ, of all their different websites, the only one where they have the fuel IQ on is the Cayman Islands, with a list of different issues that people are raising. At least they are aware of the fact that people are complaining with the large groups.

Even when we look at the price of diesel which the duty on that is .25 cents, and is way below that of fuel; and comparing diesel with what CUC is paying for the millions of gallons they use each year compared to elsewhere, in some cases it is even above the US retail prices when you match like for like. That is something I cannot understand. If CUC

prices, with the millions that they are burning through—I think three million or something monthly—if they cannot get prices and their wholesale price is above retail price after doing the conversion from US gallon to Imperial gallons, then something is fundamentally wrong with the pricing in Cayman.

Ultimately, this is where we need to find the bottom line because, if you have serious fixed costs issues and you have a rate of return, then naturally, that will impact your pricing.

I noticed even in Parkland, for example, in the first quarter of this year, I noticed that they cut \$300 million, I think, from the capital budget and they had losses within the first quarter and they were doing layoffs. So I know from that standpoint, there would be pressure on the entire group, not just the Caribbean but the entire group, in terms of recouping a lot of that because of the COVID-19 prices.

I think this is really where the rubber meets the road, because we have been sitting here waiting on those cheap prices to roll in and we are not seeing the percentage drop that the United States has. It has been how many months now and we still cannot see the percentage drop. I think someone needs to explain to the public why that is case.

I will say this with all due respect: Ultimately, your responsibility is to your shareholders and you have to give them a reasonable rate of return. You have made a considerable investment but at the same time, I think everybody is looking for their reasonable rate of return.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Hmm.

Mr. Christopher S. Saunders: I think the consumers are also looking for their cheap COVID prices that we have not quite gotten yet. It requires more than a .30 cents drop at the pump is what I am saying.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Mr. Chairman through you, the shareholders are certainly an important stakeholder; but first and foremost in our mind are the customers, the communities in which we do business, we work, and our dealers.

I do agree with the honourable member's statement here, that it is important to be transparent in terms of the return on assets and the net income that we are receiving as a percentage of revenue.

I have done what I call my "chainsaw" math; so this is very rough, but if you compare SOL (Cayman) to CUC or Consolidated Water, that have public statements, our return on assets is a little higher than

CUC's and a little lower than the water company, but our net income as a percentage of revenue—because of those very thin margins—is about a third of those two by comparison.

The laws of economics are like gravity. You asked: "When will we see lower fuel prices in Cayman looking at the supply chain?" Looking at the supply chain, we probably missed the opportunity to lift out of the Gulf when prices were at rock bottom, we just did not time it, and we were not trying to because there was no room in the tanks here in any event. So, I would say that they likely will not go down given what I know of the supply cycle. The product that we are lifting now is at much higher cost than the product that we were lifting two months ago. So it is not margin.

Mr. Christopher S. Saunders: Like I said, looking at the Port Authority's numbers a ton load of fuel arrived in March, compared to prior periods. So if Sol did not bring it in, it means someone else did. At least now we know; we will direct it where it is coming at next. Worst case, we can probably get the Port Authority to figure out who brings in what but that is a different thing.

Thank you.

The Chairman: I have a couple of direct questions.

I think you said that the normal time for delivery of fuel to Cayman, after purchase, is two weeks. Can you explain that?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: The typical run, if it is coming directly to Cayman as the first stop, would be about five to seven days.

The Chairman: Why is Cayman not always the first stop?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Because there may be a run out in another market, there may be a product that we have to pick up in Bahamas...

The Chairman: Okay. Your pricing for delivery to Cayman, when you go to the Eastern Caribbean before you come to Cayman, do you charge cost per mile or per nautical mile of travel on that or is your price for delivery to Cayman from the Gulf Coast the same regardless of which route you take?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Yes, Mr. Chairman the freight is consistent. The ships that come here do not go to the Eastern Caribbean, they go from the Gulf and they may go as far as the Dominican Republic (DR) and Bahamas but

it is a Western Caribbean rotation on a medium-range vessel. So, 300,000...

The Chairman: Okay, but my question is: Do we pay more when the ship goes to the Dominican Republic before it comes to Cayman?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: I am not aware of that ever happening, DR first, but there is some variability in the freight rates but it should not be material if there is but I do not know. I can find out.

The Chairman: When you set out to buy fuel for Cayman, do you buy it at Platts plus a mark-up? And you just said that you missed the opportunity to buy fuel for Cayman when Platts was close to zero.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Well, WTI went below zero but the Platts refined product was nowhere close, Mr. Chairman.

However, the timing of the rotation is such that if we just landed product in Cayman, there is nowhere to put additional product until that product is sold. So we are on a cadence of deliveries and to come more frequently would be very expensive, and that cost would be passed on to the customer.

The Chairman: Okay. At what point in your inventory level do you trigger an order for Cayman?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: We try to be as efficient as possible for the entire system because the more efficient we can be with the milk-run, the lower the cost of freight for the entire system.

The Chairman: Do you understand that I am really not interested in your entire system? I am only interested in Cayman.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: I understand. Our pledge to the people of Cayman is that there will always be product and it will get here safely and reliably. We think of security of supply before we think of timing markets.

The Chairman: You do not buy product and store it in any other country before bringing it to Cayman, right? All of the fuel that comes to Cayman is a direct purchase from the Gulf Coast and brought to Cayman whatever route it goes, but the fuel that comes to Cayman is always bought at the best prices available at the time on the Gulf Coast?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: It is the best price available; because Cayman has a higher specification than many markets it does not always, but most of the time it comes directly from the United States Gulf Coast.

Occasionally, if we find a lower-cost source of those 93OI barrels, we may store them somewhere else and have a reserve of them. However, we would only do that if we, for example, had access to a cargo from Europe of that product with that specification that was cheaper than what we could buy in the Gulf Coast. Then we may put it in Bahamas at Oil Refining Co Int'l. Ltd. (BORCO), where we rent tanks; we may put it in Antigua and then reconfigure the rotations in order to benefit from that lower pricing.

The Chairman: But the cost of that storage and that additional transshipment from ship to port and back to port and on the ship is added to the cost coming to Cayman?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Yes, it would.

The Chairman: When you say it is a higher specification, are you talking about the quality of the fuel for Cayman?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: I am talking about the octane levels; it is very high quality fuel that we sell here.

Mr. Christopher S. Saunders: One of the things I came across during my research was a company, Afton Chemicals. They basically have something they refer to as doping system where you get x fuel and then there are some additives that they put inside the fuel that boosts the octane levels. They were saying that most fuels are pretty much the same and then it is the additives—sorry I have so many papers, my bad.

That is one of the things I was looking at. My understanding was that most of the fuel is pretty much general fuel and then there is an additive that basically boosts the octane level within the fuel and it is the additive that basically drives it to the different levels. Is that not the case?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Mr. Chairman, there are octane-boosting additives and there are different views on those but we can buy and market participants buy different octane levels for different markets. So, some markets may have a lower specification than Cayman.

The customers here may demand a higher specification, but just for completeness we do additise

our gasoline here in the market for performance and cleaning. There is a lot of science behind the additives—I am not a chemical engineer—but there are performance and maintenance claims that can be made around additives and we certainly are heavy users here for the benefit of the consumer in Cayman.

Mr. Christopher S. Saunders: Yes, because I actually went through your website and I noticed several of them throughout the region were pretty much advertising the same type of fuel. I am just going by what you have on your website.

So, you are saying that there is a possibility that Jamaica, which is around .70 cents cheaper than the Cayman Islands and of course that is because their gas is taxed even more than ours is, are you saying that the octane levels in Cayman are much higher than those in Jamaica?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: I cannot speak to Jamaica, because we are not a wholesale provider of refined product in that market, but certainly compared to many of the markets in the Caribbean. There is a higher specification demanded across most of the Western Caribbean.

Mr. Christopher S. Saunders: Okay, so if we were to basically get the same octane level as say, St. Kitts, which is like US\$3.00 a gallon, there is a possibility then, that if we dropped the octane level we could actually see a reduction in prices like that?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: That is a possibility, yes.

Mr. Christopher S. Saunders: That is something worth exploring. Thank you.

The Chairman: You said earlier than lower prices stay longer in Cayman because of the delay.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: That is correct.

The Chairman: But is not that also true, and more likely to be true more often, of higher prices as well?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: It is however long it takes for that layer of inventory to be sold; so slow down and sticky up is the way to think about it, Mr. Chairman.

The Chairman: Do you keep records of your delivery at a particular price and when a new shipment comes then new price and those records would be auditable

by OfReg to determine that there is no cross because you do not wait until the tanks are empty. There is fuel in the tanks and you are mixing it all up but you are relying on your inventory.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: That is correct.

Now, Mr. Chairman for completeness, I will say that there are times where competitive pressure will cause us to lower prices or, for example, this happened during COVID, where there are competitive pressures and we are getting feedback from our dealers that one of our competitors has brought in a lower priced layer, there is pressure on us to make changes even before our new inventory arrives and that does happen.

I am not part of the local team; the local team has to manage competitive forces to make sure they are getting it just right.

The Chairman: How many retail outlets do you own and operate in Cayman?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: We have a network of eleven Esso-branded sites. The precise ratio of how many we own, I have that in my notes.

The Chairman: Make a particular note of that number.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: I have to get back to you, Mr. Chairman. I believe that we own five and we have dealers in eleven but the land is owned by SOL (Cayman) in five cases, so we are also the landlord.

The Chairman: Here in Cayman the adage is if you own the land, you own everything on it. That is the normal interpretation.

Without getting into the commercial sensitivity of it, do you operate these stations yourselves?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: No, no, no, no.

The Chairman: Do you have a lease agreement with a private operator company separate from you?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: We have dealers who operate the sites. So we support 11 businesses and they are all Caymanian, as is most of our SOL (Cayman) staff—93 per cent, I believe.

We are supporting the business through a wholesale supply of fuel, we provide the site I believe, in all those five cases, and then there are marketing systems, training around health, safety and environment. So we provide a retail system similar to a franchise but it is not a franchise.

The Chairman: Does that lease separate fuel pricing or fuel sales?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: The pricing is their decision, Mr. Chairman. We do not set fuel price.

The Chairman: That is not the question I am asking.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Pardon me.

The Chairman: If I lease a site from you, are there separate lease expectations for the sale of fuel and for the sale of goods in the building versus what you sell from under the ground in your tanks?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: That is an excellent question.

The way the lease structure works, is typically when we renew a lease there is an investment in the forecourt or the backcourt that is being done; it may be new pumps or new subterranean tanks. So we will invest capital in exchange for a long-term lease. It may be a new point of sale system, could be new refrigerators but significant capital gets put in. They are very long-term leases and they are always tied to the wholesale supply. So beyond the wholesale supply, the entire margin is the dealer's. So the retail margin in Cayman belongs to the dealer and our dealer partners set the price.

To answer the second part of your question: there is a variable component of the lease which is tied to what we call the backcourt or convenience sales because we are very active in the backcourt providing marketing systems, promotions, everything from planograms—which is the lay out—merchandising, those sorts of things. So there is a variable component to the convenience piece of the lease.

The Chairman: Right. Is your lease pricing is fixed or variable according to the percentage of sales?

The Chairman: There is a variable component to it, as I just described, Mr. Chairman.

The Chairman: Okay. Do you have any relationships with any dealers where they own the facility and all they get from you is fuel?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: I would have to connect with the team. I am quite certain, and this would be typical across our 500 sites across the region... It is very competitive when these dealer sites come up we will put our best foot forward and so will our competitors to try to get that business and a big part of our value proposition is the money that we will invest in the site to improve it. These sites need to be refreshed periodically, so that is part of the value proposition, as well as the lease's economic terms.

The Chairman: Okay. Would you entertain a proposal or application from anybody who has property, who can go to Planning and construct a facility according to Planning specifications—so we know all the safety and traffic flows and everything are right—to purchase fuel only from you and that person be allowed to charge you a monthly fee for advertising your product on their property?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Yes, certainly if Refuel came to us and wanted supply, I am trying to think how this would work.

The Chairman: No; I am not talking about a competitor.

For instance me; let's just use me as a bad example. I have property in North Side and I decide that I want to build a station. I make a Planning application, I build the station according to Planning requirements, I go to OfReg and get all the safety sets and everything else. Then I decide to open my facility to competitive bid for the two fuel suppliers and we negotiate based on the price of fuel, but also the benefits that you would get by me selling your fuel.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Mr. Chairman, respectfully, the benefits of the brand and marketing arrangements go the other way. Those are very expensive; for us, for example, to use the Esso brand, system and additives, there is a significant cost to that. So the payments, sadly, would be going the other way in this example.

For wholesale supply of fuel certainly—we call them the white pumps—we supply truly independent retailers without a brand affiliation and they may come to us for one load and to a competitor for another. I do not think there are any in this market but it is not uncommon throughout the region or in North America.

Now, I will say that there is a pricing differential but yes, that is entirely possible.

The Chairman: If they are not getting all your marketing and brand the price would be cheaper.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: It would.

The Chairman: Okay. Are you are aware of such a situation being applied to your company in Cayman and being told that is not the way it works?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: No, I am not. No.

Mr. Christopher S. Saunders: Just a little house cleaning and you can send this to the Committee clerk afterwards.

In terms of the capacity of the tanks, and a breakdown of what is diesel, what is Avgas, et cetera... I am just curious with capacity and it is more from an analysis standpoint, just to see the maximum capacity we have across the country. That is something we will be asking of everyone that is coming in, just to give us a breakdown of that.

Mr. Chairman, I am through with my questions. I just want to thank—at least I am finished with mine...

The Chairman: Do not let him off the hook so quick.

[Laughter]

The Chairman: Under what legal entity are you owning service stations in the Cayman Islands, is it under this company—Sol?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: No, it is under Sol (Cayman), our local affiliate.

The Chairman: Okay. All you have in Cayman is the Sol (Cayman) affiliate? Is there a particular reason why you advertise yourself as Sol trading as Esso in Cayman?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Well, Esso is our consumer brand in the Cayman Islands, so we proudly fly the Esso banner. Sol is our corporate and employee brand and we do not have the rights to use Esso as a corporate brand. So it is a bit of a nuance between how we go to market and we go to market under different brands in different markets, but Sol is the corporate brand.

We have several entities in the Cayman Islands. There is the local affiliate that is the wholesale supplier and does marketing services in Cayman, that is Sol (Cayman), and we have entities that are in the Special Economic Zone that really run the regional business that is offshore, not in Cayman, although we do enjoy calling Cayman home.

The Chairman: Okay; but there is only one company, Sol (Cayman) Ltd., that has a business license to operate in Cayman.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: That is correct. Yes, sir.

The Chairman: Okay, thank you.

Mr. Bernie A. Bush: Through you, Mr. Chairman. I am going to be quite short. He took most of my questions on the number of stations that you own, so I only have two really easy questions.

When you said earlier that you hired a well-respected economist company to support you and also the regulator, who is paying for that bill?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: We are.

Mr. Bernie A. Bush: Sol?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Sol, yes.

Mr. Bernie A. Bush: Is Rubis in that with you or just Sol?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: No, just us.

Mr. Bernie A. Bush: Okay.

Mr. Chairman through you, last question: Do Rubis and Sol ever sit together and set a price margin on anything?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Never.

Mr. Bernie A. Bush: Never. Thank you very much.
Mr. Chairman, I am finished.

Mr. David C. Wight: Through you, Mr. Chairman, as MLA Bush said, you and MLA Saunders have been digging deep and asking questions so like him, I will be very simple and quick.

I just want the information to get out to the public because many people are asking out there, so you can explain it. I will ask the Vice President and the Managing Director of Rubis the same question.

During the pandemic, how did you go about pricing and how did COVID-19 affect your company with pricing and how did you go about handling the pricing during the pandemic.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Certainly. Thank you for the question.

Through you, Mr. Chairman; before I answer the question directly, I am very proud of the local team for what they did to support first responders during the pandemic. We provided fuel discounts to medical and front line personnel who were active in the rescue.

To answer your direct question we did have quite an expensive layer to work through during the pandemic and the local team did lower prices once, partly because of competitive dynamics but also because it was the right thing to do.

How were we affected? I would say I have to be careful because we have not released our results but we were affected materially by the COVID crisis not just here in Cayman, but across the region. Obviously our fixed costs are very high and our volumes and sales were very low and the margin was also lower. So it is a tough time for all of us in the industry.

The Chairman: But it would be fair to say that you will not hesitate to use that in your future marketing; your response to the COVID and the fact that you gave some relief to the front line responders, as a good corporate citizen.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Yeah. That is not the purpose, but . . .

Mr. Austin O. Harris, Jr.: Thank you, Mr. Chairman and again, good morning to the witness and thank you for your testimony. I have a few quick questions.

Through you, Mr. Chairman: My colleague asked the question about the potential of the importation of a reduced quality fuel as a means of acquiring perhaps a more optimal or satisfactory price. Other than fuel quality, what else can be done to optimise price on the market?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: That is an excellent question.

I will give kudos to one of our competitors, Refuel, who I believe are blending ethanol into their product. In certain markets... Ethanol is its own commodity but the price rises and falls, but certainly for many years ethanol has been an attractive way to provide a greener product at lower cost. Now, there

are different trade-offs, but I think there is a customer segment for whom that makes a lot of sense.

I think that lowering the administrative burden; certainly we never want to compromise on environmental or health, safety and environment (HS&E) requirements but lowering the administrative burden associated with compliance is one way to overall reduce costs.

I think that as we start to think about alternative energy and renewables, there will be efficiencies but short term, lower octane, ethanol, the government and the Committee may consider an ethanol mandate. Many markets globally are going to. Now there is a supply chain complexity to this, which I may regret saying this later and my team will kick me, but most of the world is on an E10 so 10 per cent or E15, and going higher standard. I think that with many decades of experience, the fear that this would be hard on automobiles has abated. That is certainly a way to be greener and potentially cost-effective, understanding that ethanol has variability in its price as well.

Those are really, in the short term, the variables that I think should be considered.

Mr. Austin O. Harris, Jr.: Thank you.

Mr. Chairman, through you to the witness sticking with the expansion to, perhaps, an ethanol brand; does the introduction of ethanol not require different holding, storage, distribution, and of course, pumps at the retail level?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: I would have to check on the modifications that would have to be made on the pumps, but yes, there are extensive supply chain and storage requirements depending on the level that is being blended and where the ethanol is being added to the product.

Mr. Austin O. Harris, Jr.: Right.

Through you, Mr. Chairman: Are fixed costs higher because of the change in the value of assets after acquisition?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: No.

Mr. Austin O. Harris, Jr.: No?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Through you, Mr. Chairman: The fixed costs are high on a relative basis because of the size of the market and that is really something that is difficult to manage. Smaller markets will have as a proportion of the total cost just a higher proportion of fixed; running

a terminal, having health and safety programmes, there is just a cost to it.

Mr. Austin O. Harris, Jr.: Thank you, Mr. Chairman.

The Chairman: I just have one question. You spoke about the size of the market. Are you including the number of retail outlets that may be too many for the number of vehicles that we have?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: No, Mr. Chairman. It is just really the size of the demand in barrels.

Mr. Christopher S. Saunders: Actually, just piggy-backing on the response to my colleague from Prospect.

You mentioned the safety features; I think tomorrow will be two years since the July 23rd fire at the Sol plant. I am not sure this is something you would be equipped to answer but what safety measures have since taken place to ensure that something like that does not happen again.

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Mr. Chairman, thank you for the question.

That was before my time but since we arrived, we made a material investment in health and safety programmes across Sol. I will just say that if we look back at the last six years, Sol (Cayman) has spent US \$29 million on infrastructure, including safety but more importantly, in the next two years, we will be spending US\$16.5 million on one critical piece of safety infrastructure that is being added to the Jackson Point terminal—a state-of the art fire-suppression system. That will happen in concert with the addition of our new gasoline tank which may enable us to bring in lower octane fuels that will provide more price differentiation for the customer.

Mr. Christopher S. Saunders: Does Sol have underground pipes running throughout the Islands or anywhere carrying fuel?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Through you Mr. Chairman, yes we do, from Jackson Point to CUC.

Mr. Christopher S. Saunders: Okay. Does Sol know exactly where those pipes are located?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Yes, sir.

Mr. Christopher S. Saunders: I know there was a report where some of those pipes that were laid from way back when are now past their useful life and people have built over them in some cases and people cannot locate these pipes. You know where your pipes are? Okay, so it is not you.

Mr. Austin O. Harris, Jr.: Mr. Chairman, just one more question.

Is there any involvement on the part of government or is there anything that the government can do to drive better pricing? For example, a government-to-government negotiation in an oil-producing island in the region to acquire fuel at a better price or is there anything in the administrative chain that the Government can do to drive prices?

Certainly, the governments of the past have sought to reduce duty, which is really their only connection in this fuel supply chain.

Is there anything or anything more Government can do to lead to more optimal pricing?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Through you, Mr. Chairman, thank you for the question.

Fundamentally, in the region there is not enough local refining capacity. So we are a net importer. Most of the markets are net importers and as a region we are a massive net importer of refined product, which a very efficient global liquid market. That said—and we have not explored this, but maybe government to government—Jamaica is figuratively speaking next door, does have a refinery and I am aware of their bilateral arrangements with other countries where they do have supply. So that may be something worth exploring at the political level.

In terms of what the government can do to keep prices lower; I would say continue to foster competition, and really, let the free market do its job. As I shared, our net income is very low. That is a sign to me that robust competition is working in the Cayman Islands and if we over-regulate that, that will just add costs and administrative burden, which will ultimately get passed on to the customer.

I realise that as parliamentarians you need to strike that balance, but let us not let it go too far the other way. That would be my suggestion.

Mr. Austin O. Harris, Jr.: Just two more questions. Earlier on my colleague for Bodden Town West asked about pricing based on market price. The Chairman talked about the ongoing acquisition of new product by Sol, often-times new fuel adding to the existing fuel in the tanks gets all mixed up and sold.

We understand that the fuel pricing model, particularly at the CUC level is usually based on a two-month lag but presumably, yourself as supplier, are buying product on a daily, weekly, or monthly basis. In recent months, March and April specifically, we

saw the value of the refined product drop down to zero dollars per barrel. Presumably, Sol is buying fuel at those prices.

Do you hedge your fuel so as to acquire fuel at the most optimal price prior to resale to suppliers and distributors? More importantly, when you purchase that fuel for future use, it is rare that the consumer ever benefits in a significant way from that discounted price upon which you acquired that product.

Can you explain to us your buying versus reselling model, particularly in a down market where the refined product as of April, was worth zero dollars per barrel?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Yes; through you Mr. Chairman, excellent question.

What I would say is that—and this market is efficient and complex—in concert with product prices collapsing, storage prices went through the roof. You may have seen in the media even floating storage people were chartering vessels, especially the big trading houses, to hold low-value product for future sale.

We do a bit of that but we are not a global trading house, we do not have limitless working capital to store hundreds of millions of dollars of product for months or maybe going into more than a year here. We try to use common sense. I would say that substantially those savings get passed on to the markets, because most of it is happening... If I look at Cayman on the chart that I circulated—and I know it does not feel like it because it is not as dramatic as the United States price drop—Cayman has benefitted from the lower COVID-related commodity prices, and will continue; whereas for everyone around us, the fuel prices have gone up, they have remained lower for longer in Cayman.

To answer your question on hedging, we do not hedge speculatively. There is a form of hedging which is more speculative in nature, we do not do that. We do hedge our product movements to make sure that if something crazy happens between the time that we buy the product and the time that we get it into a market, that we do not suffer that radical change. So, it is more about risk-management and making sure that we have price stability during the time of transportation as opposed to locking in prices for longer periods.

Mr. Austin O. Harris, Jr.: Thank you. Mr. Chairman, one final question through you.

Prices in the Cayman Islands are often-times compared to prices at the pumps in the United States. The argument that usually comes with that is supply and demand and per capita. The US has 300 million people give or take, more than that and the Cayman Islands 65,000 people. Bigger market, bigger volumes

and bigger volumes usually mean lower prices than perhaps smaller markets; supply and demand.

It has been argued or proposed, that the building of a tank farm where the Cayman Islands can import significantly larger quantities or volumes in petroleum products, whether they choose to expand our markets to trans-shipment, refuelling, refuelling of what you use that product for, refuelling of cruise vessels, whatever. Would the development of a tank farm that would allow the Cayman Islands to increase its annual volume in petroleum products from you lead to reduced pricing at the wholesale and/or, the retail level?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Mr. Chairman through you.

I think that if we look at markets where those large regional storage hubs are located, they do benefit from more liquidity, in terms of potentially having the opportunity to access a distressed barrel or quicker tank turns, so that you are having access to lower-priced product faster.

So you think of Bahamas, St. Croix, St. Lucia, Aruba, and Antigua there are many examples throughout the region. Unfortunately, as a region, we are over-tanked so I think that Cayman may have missed its opportunity because we have way too much storage capability in the region, so there is more supply of storage than demand. Now much of it has been soaked up because of the commodity prices but I do not view that as being a long-term opportunity.

Thank you.

The Chairman: You said earlier that you were planning a \$16 million investment soon. Are you getting the kind of support from OfReg to facilitate that investment that you believe you should be getting?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: We are.

I would say that in my very limited experiences with OfReg they have been very thorough and very professional with us, and certainly that is the feedback I have received from the team. Now, as a market participant, we always want things approved faster and that is in any market, so it is not specific to OfReg.

The Chairman: You are currently the 80 per cent supplier for CUC or the 20 per cent supplier?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Sadly, and hopefully only momentarily, the smaller supplier.

The Chairman: Okay.

Now, I have compared my CUC bill similar kilowatt usage to June last year, similar kilowatt usage this year. My fuel factor for CUC is down 40 per cent. Why am I not seeing something similar or close to that in the fuel at the pumps?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Mr. Chairman, I could guess; I do not know the answer. I do not know.

The Chairman: Any other questions?

Mr. Christopher S. Saunders: I just want to clarify: Earlier you said that your net profit as a percentage of sales is just higher than CUC?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Yes, so this is all based on our 2019 Audited Financial Statements for Sol (Cayman). Our return on assets was 5.8 per cent and our net income as a percentage of revenue was 4.9 per cent. I can speak to those numbers using my meatball math for CUC. I believe, and this is subject to verification—this is my outside view—is that they are around 5 per cent for return on assets and my rough math is that they would be around the 14 per cent range for net income as a percentage of revenue.

Mr. Christopher S. Saunders: In 2017 and 2018, I think they were 13.2 per cent return net income as a percentage of revenues, so 14 per cent is not that far.

You say you are 4.9 per cent in terms of net income and 5. . . .

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Yes, 5.8 per cent return on assets which—for the record—we think is on the low side; for the record, Mr. Chairman.

Mr. Christopher S. Saunders: Okay, thanks.

The Chairman: Obviously. Obviously; that is an accepted fact, that you would think that.

Are there any other questions? If not, sir, I would like to thank you very much for taking the time to come in to give evidence.

[Inaudible interjection]

The Chairman: Okay.

Mr. Christopher S. Saunders: Sorry.

If there is one thing that OfReg can do, that would actually be better for the industry and the country, what do you think that would be? Is there one

thing you would like to change or would like to see more or less of?

Mr. Pierre Magnan, President and Chief Executive Officer, Sol Investments SEZC and Parkland International: Mr. Chairman through you.

I think that one thing would be public education because where there is a lack of transparency, there is frustration and we have seen this in other markets.

In my humble opinion, the people of Cayman deserve to know what goes into the pricing and how expensive it is to really get high quality products here safely and reliably; and to know that they are not being taken advantage of. That would be a benefit for the industry as well, that I sincerely believe are not engaged in anything inappropriate.

The Chairman: Thank you very much.

We will take a five-minute break before we call the next witness.

Proceedings suspended at 10:58 a.m.

Proceedings resumed at 11:08 a.m.

The Chairman: The Committee is called to order.

[Inaudible interjections]

RUBIS CAYMAN ISLANDS

ADMINISTRATION OF OATH OR AFFIRMATION

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: I swear by Almighty God that the evidence I shall give to this honourable Legislative Assembly, shall be the truth, the whole truth, and nothing but the truth.

The Chairman: Thank you, sir.

Good morning, Mr. Nicolas. As you would have been aware we are holding public hearings on **the Efficiency and Effectiveness of the Utility Regulation and Competition Office (OfReg)**, in a report done by the Office of the Auditor General on June, 2020.

You have been summoned to appear on behalf of Rubis (Cayman Islands). So welcome and thank you for taking the opportunity.

The first question you answer, please state your full name and title; that is for purposes of the Hansard so that your official name and title are properly recorded and I do not have to mispronounce it to record it, sir. Thank you.

I will invite Mr. Saunders to lead off the questions.

Mr. Christopher S. Saunders: Good morning, Mr. Nicolas and welcome.

As the Chairman noted earlier, we are looking at the Auditor General's report on OfReg and one of the things we wanted to do was to get a 360 degree analysis of the regulator itself.

As elected representatives we have gotten feedback from the public, in terms of their views on OfReg; rightly or wrongly, but they have put their views out. We think, in order to get a 360 degree view, it would be interesting to bring in the players that OfReg deals with to see what we can do to have a much better regulator. I think it is safe to say that everyone believes that these industries do need to be regulated to some extent but, at the same time, we also recognise that you have a responsibility to your shareholders to make sure that what you do is also profitable, just as we have a responsibility to the consumers to make sure that what they are receiving is value for money.

So, one of the things that we want these sessions to be is more informational and educational. It is not meant to be confrontational or adversarial, but to give the public opportunity to understand what Rubis is about also.

One of the things your competitor said for his last question was that more needs to be done from the public education standpoint for the public to get a better understanding of the industry and at least maybe that was said with expectations. I notice from your website that you have also done that with your fuel IQ part on it, which I think it is actually quite commendable because it does give an explanation on some things.

So that is more what we are looking for here; public education and more informational and what we can do to get better regulation in the market.

This is a new area of regulation for us. It is only a little over three years since we started regulating the fuel market, so we are just trying to see what changes we need, whether via legislation or even via regulation, to see what we can do to make it more efficient and effective.

With that, I will just ask you my first question. Can you walk us through Rubis history in Cayman, and what we can expect from Rubis in the future? What are the exciting things to come?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Good morning honourable Chairman and members of this Assembly.

My name is Nicolas Henry Martin de Breyne; you can call me Nick; that is usually the best way.

Thank you, through you Mr. Chairman, thank you about the clarification about the purpose and objectives of this Hearing which I completely adhere to and I am happy, without being professorial I hope to bring more clarity about the fuel industry, especially the one I am representing with Rubis.

To answer your precise questions about history of our presence in the Cayman Islands and the future: Rubis acquired the Chevron downstream fuel activities in the wider Caribbean between 2010 and 2012; Cayman Islands became part of the downstream oil Rubis portfolio in 2012. What we have done so far is transitioning from the Chevron days to the Rubis days, which means a lot of investments. I cannot give the accurate figures for competitive reasons but let us say that we have invested nearly US\$20 million in the Cayman market over the last seven years.

What happen is, when a major oil company divests its business somewhere, they usually tend to slow down the investment in the previous years and when someone acquires such business, then you have to put the necessary amount of money for rebuilding the infrastructure, especially the storage and distribution ones so as to invest in the future because our company is entering markets and has been so for the last thirty years on its own terms. We are not a company interested in increasing the profitability of our businesses for the purpose of reselling them with a mark-up. This is clearly not the strategy of the Rubis Group.

What will the future be made of? It will be made of bringing the best value for money we can to our customers; increasing the market shares as much as we can because in our industry volume is the key element to offset the huge cost it takes to operate our industry; investing in improving the safety of our operations and the nature of our business, importing and distributing fuels is a permanent reinvestment circle, through new regulations which can be brought through natural inspection and repairs of our current assets being stored for the end customers.

Mr. Christopher S. Saunders: Thank you very much.

I went through Rubis' parent company's consolidated Financial Statements as of December 31st 2019 on their global website. I noticed within the geographic zone in their financial statements they noted that within the Cayman Islands (Grand Cayman and Cayman Brac) there were 11 gas stations—two on free-hold land, two white products storage depots and one fully-owned aviation depot—listed as part of the Cayman Islands operations.

In terms of those 11 gas stations, of which two are on free-hold land, does Rubis own those two gas stations? I am trying to understand that explanation.

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: It is correct.

It is two forecourts which were owned by Chevron and by acquiring Chevron we became the owners of these two service stations plus the other fuel infrastructure you mentioned.

Mr. Christopher S. Saunders: We have also been trying to determine the total capacity that we have on Island. I went on Google Earth and I realised that Rubis has seven or eight big storage tanks.

Is that correct?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: It is, sir.

What is available from the sky on Google view is a clear representation of what we have.

I would just put a caveat for our Cayman Brac Creek terminal, where not all of the tanks are in service because we have storage capacity which is larger than the one we actually use. So, not all of the tanks in the Creek terminal are in use at the moment.

Mr. Christopher S. Saunders: Okay; but are there seven tanks in Grand Cayman?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: That is correct; three Diesel, two gasoline, and two jet tanks, to be precise.

Mr. Christopher S. Saunders: I very much doubt that you have this information but would it possible to supply to the Committee clerk—that is the young lady who sent you the invitation—the capacity of each of those tanks?

We have been trying to determine the max range that we have across the country in terms of storage. We have been given different numbers but we just want to calculate it. I mean, we live on a hurricane belt, so if you can do that for us, it would be quite helpful.

Something the public has been trying to understand, and this goes back to the COVID crisis, in terms of the fuel decrease where we are seeing, especially in the North American market—and we used the example earlier—where within a week we say South Florida where gas went from USD \$2.90 to \$1.07 a gallon.

I also did an analysis of the amount of fuel imported into Cayman for the start of 2020 and compared it to prior periods as appeared in the Port Authority's website. Something we have been trying to understand is: Despite the duty, which is .75 cents per gallon, when can we expect to see cheaper fuel at the pump?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Through you, Mr. Chairman.

The prices of fuel in the United States and everywhere else in the world have collapsed as a consequence of the COVID situation. That is a fact and I think everybody has in mind that, I think it was the WTI index, which is a crude product index not refined fuel—which is what we bring to the island be-

cause we are not a refiner—at some point went negative, which was unique and highly commented in the press.

I have some figures that I am happy to share with you about how our supply worked during the COVID situation. Our supplies as I shared OfReg, each time we import a tanker are based on Platts. Platts is the average of the transaction for a specific product in the Gulf Coast, which is where the vast majority of our products are being sourced.

The Platts being an average means that some guys pay more than the average, some pay less than the average; and of course, if you are a large continental player you will pay less, if you are an offshore importer, you will pay more. This is just to set the picture and what difference there is between WTI, which is stocks of crude oil which are sitting in tankers coming from the Middle East or wherever in the world, waiting for capacity to be refined, which are driven by the capacity for us to bring the refined product so that is two very different elements.

The Platts for gasoline, excluding CUC fuels and aviation fuel, which represents the vast majority of what we sell to the end customers—the individuals, the car drivers—is quoted at the Platts. Before COVID so I would say at the beginning of March, the Platts was quoted around US\$ 1.50 per US gallon. It is important is to keep the US\$ 1.50 figure, because it will come as an element of comparison.

When demand obviously fell in an unprecedented manner globally, this Platts index fell to .50 cents; that was mid-March. Then prices have gone up as a consequence of demand resuming differently in different markets, of course. It came back to \$100 and now it is at \$125, so we are not at the pre-COVID Platts level, which again is the price our supplies are based on but nearly.

There has been an enjoyable moment when refined prices in the US were sort of what they are usually or they were pre-COVID but now they have gone back to, I would say, previous days' levels.

What happened is that here in the Cayman Islands we usually import a tanker of multi-fuel product a month. That is the usual pattern which is driven by the demand for each of the various grades we import.

So, when the prices collapsed and the demand collapsed as well, we had an existing stock which had been procured at pre-COVID prices, as anyone can guess. When prices collapsed, we then imported a further tanker for which we enjoyed cheap prices and as a consequence, ahead of even having this tanker loaded in the US Gulf Coast heading to the Cayman Islands, after discussions I had with several Ministers, we dropped our wholesale prices by .40 cents and then by .80 cents in Grand Cayman. That was the 20th of March to be precise; 40 cents and minus .80 cents after we received our tanker on the 14th April.

This was a decision which was made even before we knew precisely what sort of supply cost we would get from the oncoming tanker. We did it because we had the feeling that, since there was huge pressure internationally about the fuel prices and the huge concern locally as to how large companies could help the local population, we did it.

One word about Cayman Brac, the drop of prices for gasoline in Cayman Brac at the same dates were by .90 cents

What happened next is that our next tanker which we brought to the Island came with supply prices based on Platts which had started going up again. We had two fuel tankers come in and each time the parcels of fuel were more expensive than the previous ones and we are expecting one I guess next week, which will be even more expensive than the previous ones.

So, if there is an expectation that at local level prices could have gone negative or could have been cut by half, compared to what they were before the COVID situation [...*Inaudible*] I must say that this is just impossible because we do not have the luxury of deciding on the spot how much quantity and at what price we are going to buy and bring to the Island.

We have to nominate ships 45 days in advance and the storage capacities we have cannot be expanded in the event that we wanted to welcome more product at a time where it was convenient to buy them because the prices were cheap.

Mr. Christopher S. Saunders: Thank you very much for that, Mr. Nicolas.

Earlier you said the pre-COVID price was US\$ 1.50 in Platts Gulf and that was based on US gallon. If I were to convert that to Imperial gallons that would be, roughly, CI\$1.50; roughly the difference. So it is CI\$1.50 equivalent in terms of Imperial gallons sat on the Gulf. I understand from industry that it is .15 cents per gallon, in terms of shipping so that put us at roughly \$1.65 and then we have .75 cents duty on gas. So we are talking about landed—

[Inaudible interjection]

Mr. Christopher S. Saunders: On gas. Gas is .75 cents CUC is .25 cents but gas is .75 cents.

So, we are talking CI\$ 2.40 landed and by the time you put on the transportation and the duty we are talking CI \$2.40 and this pre-COVID.

I noticed for example, in the Bahamas, where the government regulates the margin between Diesel and gas from ship to pump, in terms of the retailers, et cetera, if it lands here at Cayman Islands \$2.40 and we are going back to pre-COVID, there were times when the price at the pump was above 100 per cent of that and even more than \$ 5.00 a gallon. I think this is where many people are trying to reconcile why the

margins are so high in Cayman where \$2.40 landed cost becomes basically \$5.00 or \$5.50 at the pump.

That is what we are trying to understand. What drives that mark-up?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: I am afraid I am not competent to comment on other markets because I am in charge of the Cayman Islands but since I heard that the Bahamas market could serve as a comparison to the Cayman market, especially for the fuels, I did a bit of research—

Mr. Christopher S. Saunders: Actually, just for the record, I would not compare Bahamas to Cayman because Bahamas has different dynamics and I do have challenges with the Bahamas market, the reason being the fuel... because I have spoken to some of my colleagues in the Bahamas and they themselves question the value of the fuel that arrives in the Bahamas, but that is a different story for a different time.

Nevertheless, something I looked at was the margin that they allow, and while price control is not something that is being entertained by the regulator at this point, at the end of day I am still just trying to understand the \$2.40 landed cost more than doubling to more than \$5 within the Cayman market.

That is what I am trying to understand but not to use the Bahamas as a model because I have concerns with them; just to set the record.

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: I do not have the elements of comparison to clearly answer your question.

Each time we have a tanker coming in we supply OfReg with all the invoices and volume information about what we import and what quantities. We have recently answered an information request from OfReg which gives clearly how much stock we had in stock before receiving the tanker, what was the cost of stock of this existing inventory, how it melts with the freshly brought stock of fuel and what is the new cost of inventory. All this information is available to OfReg permanently.

If I wanted to answer your question precisely, if you want to compare two prices the same month, as I explained earlier, it can simply depend on which precise day the tanker was loaded. If a tanker was loaded on a day when the Platts was at 50, 80, 100 or 150 it makes a whole difference. The other element is what you have in stock when you receive this tanker?

If the new product you are bringing in at a cheaper price represents less than half the overall inventory you have after receiving this tanker, then it is a weighted average of the value of the cost you had before and the value of the cost for the overall inventory. As you may guess, when we are bringing new tankers during the COVID situation, our stock of fuels

were there when they are usually there because the demand had just collapsed, so that would probably be a factual reason for suffering differences.

However, once again, I do not have the elements of the build-up of the prices you mentioned for the Bahamas, so I cannot make a factual assessment or comparison.

Mr. Christopher S. Saunders: No, no. I am ignoring COVID and just using the CI \$1.50 as the high mark because that is normal price going back to normal times.

I am trying to understand the normal rate where it lands here, by the time we add in transportation and the government duty we are at CI\$2.40. I am just trying to understand what else goes into it to get it to the Cayman Islands \$5.00 plus, in normal times. I am trying to understand where it, literally, more than double.

The reason I referenced the Bahamas is because I think they set the CI equivalent of maybe around .27 cents margin for Diesel, and .33 cents for gas. So, I am trying to understand how the Bahamas set a margin ship-to-pump but yet we, without any margins are going from \$2.40 to above \$5.00 in normal times.

What is the driver? Is it that Cayman has a high cost, is it high fixed costs? That is what we are trying to understand.

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Through you, Mr. Chairman.

I am sorry if I forgot to mention this in my previous replies, apologies.

Firstly, the prices do not double. If we are talking about \$2.45 x 2, we would be at \$5.00. Doing my homework this morning on the road, the Rubis forecourt was at \$ 3.77 for regular gasoline. So I think it is a bit exaggerated.

Mr. Christopher S. Saunders: No, no, no. I am ignoring the COVID environment. I am just going back to the normal—

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Yes, but I am talking about today. I could use the reference three months ago or within three months, it would not make such a difference.

The explanation about what adds to the landed cost inclusive of duties is just the cost we have to operate and make these fuels available to the end customer. That is simply Cayman is an expensive country in which we operate because we have to make available many services, materials and equipment which can be managed only by oversea companies.

For example: When we have to build a tank in our fuel terminal, which is what we are preparing and hopefully will be delivering as soon as the borders reopen, we are talking about more than \$1.5 million and talking to our contractors in the US they say it is between 2.5 and three times what the cost of similar equipment would cost in the US.

We have talented people running the company and the cost of labour in Cayman is very high. The cost of infrastructure is high and the through put is low. The Cayman Islands is a 65,000-people country and basically what it takes to import, stock, and distribute fuel is about the same.

If the country was twice or three times larger, in terms of population, and the divider which is required to offset these costs can only be what it is. This raises very high costs for operating and for depreciation, which unfortunately cannot be offset with sufficient volume in order to compare or try to understand how fuels could be cheaper than what they are at the moment.

The Chairman: Are you suggesting that a welder or a steel fabricator in Cayman is more expensive than one in the United States?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: I do, yes.

The Chairman: Do you have comparative figures you can give us? Because in the US those things are usually union-driven and when I talk to my friends here in the steel-making industry, they are being hired for \$7 to \$10 an hour, whereas in the US they are in the \$20s.

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: I do not operate in the US, so once again, I cannot make elements of comparison; but I have a quite significant Island experience in my background and it is a fact that we have highly competent personnel on Island, but the cost for compensation is probably one of the highest I have seen in my business life.

The Chairman: We keep hearing that one of the reasons for fuel is the high cost of living but I would argue that the biggest driver of the high cost of living is the cost of fuel.

So are you suggesting that we are in a vicious cycle, that you drive up the cost of living then you justify higher prices because of the cost of living and the cost of doing business?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Honourable Chairman, of course it can be seen as a vicious circle; and I think in some ways, it is.

When you want to have fuel distributed to the end customer through a service station, no matter who owns the service station, the price of land is only growing; the cost of compensation of staff is growing, the cost of any service is growing. I mean, the inflation last year I think, if I remember well, was above 4 per cent. I suspect it will not be the case this year, but all the services you are requiring for delivering from A to Z, your service is suffering ever-increasing costs.

We do our best to control these costs to make higher efficiency when we are operating our infrastructure, but at some point the costs are what they are and for some of them we have limited ability to change them.

The Chairman: Do you have an average cost per gallon as a percentage of the cost of fuel arriving at the pipeline at Jackson Point versus delivering the gallon to the gas stations?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: I would say that the landed cost including duties out of the wholesale price we sell our fuels at is more than the two sales.

The Chairman: I am including the duties and the price of delivery to your tank because that is part of the price that you pay to get it into your tank. You have to pay the duty before it is delivered into your tank.

What I am asking is: Is there an average cost per gallon for the operation of storage and distribution in the local market?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: I do not have this breakdown in mind; I am sorry.

The Chairman: Okay. Is there a delay between when you purchase fuel on the market and its actual delivery to Cayman; and if so, what is it?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Typically, if Rubis (Cayman Islands) Limited were to purchase and ship on its own fuel from the Gulf Coast to here, it would be incredibly expensive because we represent nothing in the shipping world and the refiner world. So our Rubis affiliate is in charge of dealing with negotiating contracts, being annual [... *inaudible*]; sourcing the product and shipping it down to the Cayman Islands.

The way it works is that a ship usually does the milk run; they load product in the Gulf Coast then they discharge; load again some grades, discharge, load again so that we have the best mix between getting the cheaper product and getting the cheapest freight arrangements—freight being shared with other jurisdictions where the tanker is delivering.

Traditionally, I would say that it is a bit more than two weeks between the moment the fuel is loaded for us and the moment it can be discharged in the Cayman Islands but then we have a local factor which is the weather. Sometimes it takes up to one week before we can have the tanker moored in front of our fuel terminal, and since we do not have a harbour where the tanker can berth through any weather and discharge the product, it can bring a significant delay to the timeframe between loading port and discharge port.

The Chairman: What you are saying is that, because you can purchase a bigger volume in the Gulf Coast and charter a bigger tanker to take it to the Bahamas to storage and then use a smaller tanker to do the milk run, which is a number of islands; do you have any idea what would be the cost of a much smaller tanker just to deliver to Cayman from Florida or the Gulf Coast?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: I have no idea, sir; this is not something I am in charge of but I am very sure because although we use a Rubis subsidiary, we do not take as granted the way they manage our supply.

We are heavily challenging them because everybody seems to think that it is granted that fuel is always available but you can believe me, it is a challenge to make sure that we have the right grade of product and the right quantities at the right time and it is probably one reason why my hair has turned grey so quickly.

The Chairman: No, that is age; but anyway, experience.

The question is: Who pays for the cost of the storage facility in the Bahamas or wherever it is. Is there a difference between the purchase price on the Gulf Coast and the price by which it is sold to Cayman from your storage facility in the Bahamas?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: We do not, properly speaking, store fuel in the Bahamas for the Cayman Islands. If we have to load some fuel in the Bahamas, in Puerto Rico, Jamaica or wherever in the Caribbean for the Cayman Islands market it will be sourced from sell parties, not from Rubis' companies or Rubis' stocks.

The Chairman: Maybe I misunderstood. I thought you said that you were able to take advantage of better prices at Platts because you could buy higher volumes than what was required for Cayman and you take that to a storage facility. Was I mistaken?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: I guess my explanation was not correct.

What I meant was that the tanker going from the Gulf Coast to Cayman Islands will stop at many locations in several jurisdictions and they will load and discharge product for other customers or parcels of product by advanced set and quantities; and we know in advance that this product will be loaded here, another product will be loaded there and a sub-product will possibly be loaded in a third jurisdiction because that is where there is the best value for money.

However, we do not discharge product somewhere so as to take advantage of a better price which has just arisen out of the blue. The shipping schedule is set in advance and also it suffers many contingencies. The challenge for us is to determine, 45 days in advance, what are the quantities that we will need at what time and when the tanker is showing up, make sure we have sufficient storage capacity to receive this product—which is another challenge—but we cannot play around with *'give me a little bit more, give me a little bit less, what about if I take this product instead of this one.'* That is not the way it works.

The Chairman: The two week delay is because the milk run, although in the majority of your markets Cayman would be closer to the Gulf Coast, than most of the others, is the two-week delay because you go to the other countries first? It cannot take two weeks to sail from Houston to Cayman.

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: I think it is like you are using an Uber shared service in the continental market. You ensure a better price, but you need to bring a bit of flexibility into when you will receive your fuel because the tanker will stop, indeed, in locations which make the duration of the trip longer, but at the end of the day it brings a higher efficiency in terms of cost because you have mutualised the cost of the shipment and it is shared between different buyers.

The Chairman: Does Rubis own or charter ships?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Rubis owns some ships, but they are not the ones delivering to the Cayman Islands.

Mr. Christopher S. Saunders: Thank you very much.

Mr. Nicolas, you mentioned earlier that the high cost of living or the cost of doing business in Cayman is one of the primary drivers as to why the landed cost becomes more than double.

One of the things I noticed while going through the Consolidated Financial Statements for Rubis, and while it is not broken down by island, be-

tween 2018 and 2019 the total revenues within the Caribbean region dropped by 5 per cent.

Comparing the actual Consumer Price Index (CPI) that is done by the Economics and Statistics Office [ESO], looking at the difference in terms of fuel increases—and this is something you can probably look at when you have the chance—on page 92 of the Compendium of Statistics; it basically looks at regular fuel, premium fuel and also diesel full service.

Again, this does not include CUC but, just between 2017 and 2018, the amount of increase in the actual fuel is even above that of the CPI, in terms of the actual increases in the price.

As a matter of fact, over the last two years, between 2016 and 2018, the prices actually went up by roughly 13 per cent on fuel but again, when you look at the two year increases in the CPI, it is nowhere close to 13 per cent increase.

If you go back and you look at the historical cost of fuel using the Platts Gulf Coast again, you do not see that 13 per cent increase that we have between 2016 and 2018 and those are the kinds of questions that we have in terms of what is driving the cost, where there does not seem to be a rhyme or reason.

As we said before, we do recognise that there is a responsibility to the shareholders and that there has to be a reasonable rate of return. What we are trying to understand is: If there is something that is driving up your cost that is government or policy-driven, we need to understand what it is so at least, if we can make it cheaper for you to do business, then it will be cheaper for the consumer. That is the kind of thing we want to understand.

What are the main drivers? You mentioned that you have to pay for your talent, which we agree, but what are the other issues that really would push the price up from say, that \$2.40 to that \$5.00 plus? What are the other components? If there is something that we need to tackle then we need to tackle it. We need to fix it because, ultimately, as the previous witness said, it is a matter of public education.

I think everyone can accept that the Cayman Islands are an expensive place to do business, but we need to understand what the drivers of those costs are to basically get the price down.

In your opinion, what do you think that we can or should work to reduce in order to get the price down?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: The first component of the price is the Platts, so the cheaper the Platts in the US Gulf Coast, the cheaper the fuel over here. There is a direct link between those two elements.

Then the local costs; we have to keep infrastructure operated at the highest standard and we need to keep people. So we try to permanently gain

efficiency in that domain, which one of the main costs is always depreciation and staff.

Compensation: as we have discussed, increasing each and every year. So we work with the Rubis Caribbean department to permanently find and select contractors helping us deliver maintenance and investment duties in a manner which is efficient in terms of cost.

When you are a contractor from the US and you have to fly to the Cayman Islands or just give a quote for doing some specialist repairs, the trouble is that these guys always put the safety element and then there is a layer of security margin on top because they never know before they reach the Island, what the work will actually be, how long it will take, what the local cost of things they have to subcontract will be, what is the duration of the travel time, et cetera. So we try to leverage as much as we can through our Caribbean hub, I would say, to find the best value for money in our investment.

This is critical because it means every single dollar you invest will build up your cost base for the next 20 years because we are doing a long term investment. So, we try and work toward bringing cheapest investment which will, as a conclusion, be cheapest depreciation and cheapest components in our cost-base for the future.

Then we have our intel costs and we are permanently challenged by the Rubis Group to gain efficiency and we have OPEC's reduction plans; we have sat our reviews, we have plenty of domains in which we try and target to be best-in-class in order to gain efficiency. Ultimately, the two leverages I would see are volume and quality of product.

Every day we fight to offer our customers the best value for money offer which is bringing additivated fuels from the US, quality fuels which offer good mpg and we fight competition to have the best possible market share. This is a critical element because once again, the most fuel you sell the more it acts as a cost divider. So on the one hand it is about spending not as few as you can, but getting the best value for money for every single product or service you buy and on the other hand, you want to have the through put as high as possible, so that you offset your cost in the highest possible manner.

This is why, to achieve this mix, the prices offered to the end of the customers are at the centre of the game and is the key component. So, we keep an eye on prices, we try to make them as affordable as we can so as to deliver the best mix because earlier we talked about the vicious circle. The vicious circle is also that the higher you sell your fuel for, the lesser volume you will make and then the higher your fuel prices will be in the future because you do not have this divider.

Mr. Christopher S. Saunders: I want to ask the white elephant in the room.

Going through the different islands where you have websites, I could not help but notice the number of locations shown. I could not help but notice in the Cayman Islands; compared to other islands, as part of the population we seem to have a lot of gas stations in the Cayman Islands. The question I really have to ask and you can just give me your opinion: For the population that we have, do you believe we have too many gas stations?

I am looking at the numbers, the consumption and the rough average of what each gas station used to do and I must confess that in a previous life I did accounting work for some of those smaller gas stations shortly out of college, so I do have an idea in terms of their working operations and what they make as margins, et cetera. I can safely say for the gas stations that I did—Texaco and Esso at the time, none for Rubis or Sol but prior to—most of those gas stations mostly made their money from the convenience stores, not the gas sales margins.

I could not help but ask: Do we have too many gas stations in Cayman for our size? What is your opinion on that?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Through you, Mr. Chairman.

I do not think there are too many gas stations. What is true is that if you take a country's network of service stations it is a permanently evolving matter. In the recent past some Rubis-branded forecourts have closed and some others have been created. A large number of motorways or highways have been created in the recent past and there is quite a significant project towards East End highway which will be built in the future.

There are also growing population which are developing; I think West Bay and Prospect have grown a lot and will keep on growing a lot. So for that reason, you have to reshuffle your network of service stations every couple of years because you have to be aware that the customer needs fuel and other things which are sold at service stations; so you cannot contemplate and change nothing.

It does not really answer your question but I think that an increasing number of service stations also means that when you create a new service station, since the size of the [...inaudible] will not be changing, you might create the fact that another service station will become obsolete and will close in a few years.

I do not see any ridiculously low unit through puts on the Rubis forecourts, of course there can be a strong variation between one site and another, but I have been operating in countries where through put is lower, made up of plenty of small garages. Some of those countries have a smaller number of forecourts but much larger infrastructure. I do not think reducing

or increasing the number of forecourts will be a significant game-changer in terms of prices.

The more forecourts, the more investment involved but the more completion at the same time and the dealers are setting their prices.

Once again, looking at price displays this morning, there is a fierce competition between dealers, between brand networks and within brand networks as well, because I have seen for some brands, quite significant variances in prices if you take one on as a forecourt from the same brand.

So, the larger number of players, the higher the competition, I would say. Of course, if the number of stations were to double it would become ridiculous, but I do not think there is any area of concern regarding the number of forecourts at the moment.

Mr. Christopher S. Saunders: Sorry, when you say the higher number of competitors...

Something that I think was established last week based on testimony that this Committee received, is that barring Refuel—which has a very small market share—between Rubis and Sol, even if you are competing at the retail end, until there are major price changes at the wholesale end, those guys can only make the margins and that margin on the fuel is basically a few cents—roughly between .15 cents to .30 cents, and that is just going from my memory. So there really is not that much room to play with on the dealer end, if the wholesale price is already set.

Now, going back to normal times, if it is situation where your landing cost is \$2.40 and then you are selling it to the dealer at say, a dollar mark-up, which is \$3.40 and then the dealers are now adding it up to another \$1.60 to get it to the \$5.00, then I can understand that, but the question is: Where along the supply or distribution chain, where it lands at \$2.40, and it gets to \$5.00. That is one of the reasons why I think we have one of the dealers coming in this afternoon. We are trying to understand that extra \$2.60; where along the line it is incurring the most cost. That is what I think we need to go and tackle as legislators and policy makers. It is a commodity that everyone needs, it is now considered essential, and we need to understand where we can arrest the \$2.60 mark-up.

In most other countries that we have looked, nowhere else have we seen where it is more than 100 per cent mark-up between landed cost and into the pump; that is what we are trying to understand.

I think ultimately that is what OfReg and everyone else need to look at because, as you rightfully said, if you have your cost that you need to recoup, return on your investments, et cetera, and also provide your shareholders with a reasonable rate of return, at some point the regulators have to come back to us and say, *well, if these are the internal targets that both Rubis as a group have set, and Sol as a group have set for their companies and this is what they are working towards*. Then at some point, as with

any market, if you have a set target we need to look at demand and supply. We know what our demand is, then at some point we have to do what we have to do to fix the supply side because the demand is not going to change, but we can look at rules to basically affect supply; or maybe there are things we can do for demand too, but that would be much more difficult but in the short term, it is on the supply side.

As you said, I have seen gas stations pop up less than a mile from another gas station then one close, one opens. A perfect example we could use is Maedac. There was Maedac and then Peanuts right up the road.

[Inaudible interjection]

Mr. Christopher S. Saunders: But that is Sol, they are competitors. I am looking even in network, at just how close some of the stations are to each other. Naturally, Maedac closed down.

We basically traded one for one. You look at that and ask yourself is this the model that we want to get to, where someone just has to lose? That is the question I am asking.

I am looking across the Caribbean at populations, number of cars, consumption and I still just see too many suppliers. As you rightfully said, that the pie is only X size, but the mouths to feed on the pie are actually growing and at some point somebody is going to start starving and we are already seeing it. Most gas stations right now are going into joint partnerships and doing different things just to survive and we are seeing that as the trend.

We need to understand where along the supply line is driving that cost and that is what we need to tackle. We accept it is a high-cost jurisdiction, but there are some things I think we definitely have to fix, and this is a priority for us, thus the reason we are having these sessions.

I am looking for that situation where OfReg has asked you guys to do something that is driving up the cost; is it work permits, company fees or the royalties you pay to Government? Is it the duty? We are just trying to understand what it is that is driving up the overall cost in normal times. We accept that COVID is a little bit different and eventually we have to get back to the normal times, but the more than 100 per cent mark-up is something that we need to tackle. We are trying to understand what is driving that.

The Chairman: How many licenses does Rubis have to do business in the Cayman Islands?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: We have one Trade and Business Licence which covers the overall activities. We have a LCCL license, if I remember well—

The Chairman: Local Companies Controlled License.

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Correct.

The Chairman: But the business license that you have is the Local Companies Control License (LCCL) related to the two?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Yes.

The Chairman: They are not two separate licenses?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: They are two separate documents and two separate licenses. We have a yearly license and we have a ten-year LCCL, if I remember well. So those are two different things.

The Chairman: Mr. Jefferson, maybe you can help me here. If a company has a 12-year LCCL—I think, is the actual length of a LCCL—in addition to that, do they need to have an annual business license to operate?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: If I may, Mr. Chairman, because I have the elements under my eyes?

The Chairman: Okay.

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: So, we have a 12-year LCCL license, which is actually an obligation by the shareholding of our company; then we have a T&B, as any local business has.

The Chairman: Yes. I am just trying to find out from the Financial Secretary, if he happens to know now, whether the LCCL that you have is like a company license but to do business you need an annual Trade and Business License. So, is it the same license, is what I am trying to find out.

Mr. Kenneth Jefferson, Financial Secretary/Chief Officer-Ministry of Finance and Economic Development: Thank you, Mr. Chairman.

Over the lunch break I will endeavour to find out.

The Chairman: Thank you.

You say you own two gas stations. That means you own the land, the buildings, et cetera. Do you operate or lease them?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: We are not

allowed to operate any service stations, so we have third party dealers who operate the forecourts.

The Chairman: Okay.

The other nine—because you said you have a total of eleven stations on the Island—do you lease the facility from the owner and then re-lease it to somebody else to operate?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: This is the case for two service stations.

The Chairman: For two?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Yes.

The Chairman: Is there a difference between what you lease it from the owner and what you lease it to another operator for?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: It is back to back.

The Chairman: Back to back. Is that what you said?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Yes.

The Chairman: That means there is no difference in the price.

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: No.

The Chairman: Okay.

You rely on the fact that they now have your product on that station to your advantage and leasing it back, right?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Basically.

I think on all forecourts but one, no matter if we are the owners, the lessor, or if a third party owns the site, we always pay for the fuel infrastructure. So, all the tanks, dispensers and canopies are typically investment elements which are made by the company.

The Chairman: Okay. Would you do business with anyone who owned their own tanks and infrastructure?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Of course.

The Chairman: Okay. The lease that you set up: Is the fuel component separate from what I call the store—the building? Is it a different lease for the stor-

age tanks and the pumps, separate from the buildings that have the stores?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: No. There is no segregation as such.

The Chairman: Okay, and the cost of that lease, is it a percentage of income or is it fixed?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: It is fixed.

The Chairman: Okay.

I do not have your accounts before me but what is your annual depreciation and capital investment?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Just under two million.

The Chairman: Pardon?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Under two million?

The Chairman: Under two million?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Yes. I mean, OfReg has our Financial Statements. For competitive sensitivity I do not want to give you the accurate figure here, but it is available through the OfReg.

The Chairman: Okay. I am not an accountant so, in other words, if you invest in infrastructure, tanks and pumps, what is the timeframe that you expect to make back the money that you invested in those pumps—one year, two years, three years, or ten years?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Our Investments are typically depreciated over twenty years. So we are looking at doing some standard return on investment rates as applicable to the industry which are usually between 5 per cent and 6 per cent. That is the norm on such investments.

The Chairman: Okay. Is the length of your leases related to that 20-year depreciation on the return on investment?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: We try to, but it is not always the case.

The Chairman: If I own a facility and I lease it to you, is it easy for me to get out of that lease or is that a very complicated process?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: As long as the parties agree and this is case for any contract, it should be fairly simple.

The Chairman: All of your leases have “get-out clauses” in them, so to speak; termination clauses?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Yes; they have duration, they are not evergreen leases.

The Chairman: No, I am not asking for duration. Does it have a termination clause during the length of the lease?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: They usually do but as with any contractor, there must be conditions which have to be met or triggers which can make one or the other party break the contract.

The Chairman: What is the range of volume of fuels that you have delivered to Jackson Point?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: On a monthly or yearly basis?

The Chairman: Per shipment or between shipments; what is your average volume on delivery?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: About 1.5 million barrels a year.

[Inaudible interjection]

The Chairman: How many gallons make up a barrel?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: From the top of my head, 34 gallons.

The Chairman: Huh?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: A barrel would be 34 gallons, if I remember well.

The Chairman: Do you have the breakdown on the different fuels on the 1.5 million barrels? Diesel, does that include CUC?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Yes, this is overall.

Once again, this is a bit competition sensitive but the majority of it goes to CUC, the second largest volume would be for aviation, and the balance would be for retail and commercial customers.

The Chairman: Okay. We can get the details from OfReg if we need them. Are there any other questions?

Mr. Bernie A. Bush: Yes, sir.

The Chairman: Mr. Bush. Sorry.

Mr. Bernie A. Bush: I just told you that and you got to ask that, sir?

Through you, Mr. Chairman, I guess you must respect that a lot of the products on these Islands deal with the environment, tourism, and so forth.

In what year did Rubis buy out Chevron?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: That was in 2012.

Mr. Bernie A. Bush: Okay, thank you.

Through you, Mr. Chair, I think it was in July of 2015 that one of your tanks sprung a leak and then, I think, it was late in 2019 that once again a leak was discovered. I was not able to determine whether it was the same tank or another one. When these leaks happen, do you go in to find out what caused the leak?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Of course.

When there is an environmental issue caused by our product, we have to work in close relationship with the OfReg and the Water Authority firstly to remediate in full up to the standard which is agreed by the regulator and the Water Authority—which we do—and learn from what happened so as to ensure it does not repeat again in the future.

Mr. Bernie A. Bush: I think it is too short a time to have a report on the 2019 leak but the June/July 2015—I think it was July—we should be able to get a report on what was wrong with the tank; why it leaked. We should be able to get that by now, am I correct in saying that, sir?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: I think the one you are relating to is the failure of a tank at a service station, not in the fuel terminal. Correct?

Mr. Bernie A. Bush: I have to go back to my notes but I am pretty sure it was the fuel terminal.

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: That was before my time, so I cannot give you absolute answers, but what is a fact is that all remediation which had been ongoing at our fuel terminals have been closed and have satisfied the conditions imposed by the OfReg and the Water Authority.

Mr. Bernie A. Bush: Okay, sir. I guess I will have to go through OfReg but it cannot be before your time if you bought it in 2012 and this took place in 2015 but thank you very much, sir. I will go through OfReg to get those answers fully cleared in my mind but I appreciate it.

Thank you.

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Just to clarify, it was before my own time because I have only been in charge of the company for the last two years only.

[Inaudible interjection]

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Yeah, my time; and the 2019 incident is currently under investigation and monitoring with the competent authorities.

Mr. Bernie A. Bush: Thank you very much, because we have to be doubly careful with our environment; we are a small country and if that goes, I am sure a lot of you will disappear as well. So we have to be very careful with our environment.

Thank you very much, sir. I appreciate it.

Mr. Christopher S. Saunders: Sorry. Just to confirm; you said Rubis does about 1.5 million barrels per year that includes CUC?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: That is a rough figure. Do not consider it a precise one, but to give you an idea that would be it.

Mr. Christopher S. Saunders: That is fine. How many gallons did you say are in each barrel?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Again, one barrel is 208 litres and 34 gallons if I remember well.

Mr. Christopher S. Saunders, Elected Member for Bodden Town West: Thirty four?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Thirty-four.

Mr. Christopher S. Saunders: Okay, thanks. All-right; I thought you said 74, that is what threw me off. Okay it was your accent.

Okay. Thanks very much.

Mr. Bernie A. Bush: Mr. Miller through you, one more follow-up.

The Chairman: I asked this of the last dealer and I will ask you the same thing. Are there any times that Rubis and Sol get together and determine any type of profit margin or anything—any kind of collusion?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Certainly not.

Mr. Bernie A. Bush: Thank you.

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: I would add that Sol and Rubis are two large Caribbean competitors fighting hard on many other jurisdictions than the Cayman Islands and we have strict guidance and training about competition regulations which we strictly adhere to.

Mr. Bernie A. Bush: Thank you very much, sir.

The Chairman: One follow-up question on the environment. You have sufficient containment at Jackson Point to contain the total stored there within your boundaries at the moment, right?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: We are operating under the American Petroleum Institute (API) and we designed together with OfReg, our infrastructure so that they match the best standard. We are audited every year, technically speaking, before we get our operating permit renewed.

The Chairman: What is that standard as of containment percentage of actual volume stored?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: I do not have the figure in mind, I am sorry.

The Chairman: Any other questions? Mr. Wight.

Mr. David C. Wight: Through you, Mr. Chairman.

Good afternoon, Mr. Nicolas. I asked the President of Sol, Mr. Pierre earlier and I would just like to ask you the same question but I would like to make a comment.

Earlier you were asked by the Member for Bodden Town West concerning if you believe there are too many gas stations on the Island for a population of 65,000 people and you gave him an answer.

I would just like to say that I believe if the Member for Bodden West had asked the Member for George Town West, he would have gotten a different answer, but the question I would like to ask you—

[Inaudible interjection]

Mr. Christopher S. Saunders: I will take the answer, actually. I will direct the answer to you then.

[Laughter]

Mr. David C. Wight: How did you deal with the pricing during the COVID-19 pandemic and what sort of struggles did the pandemic cause your company?

I would like to ask a further question that I did not ask the President of Sol: How capital consuming is it to operate the business, not only during the normal times but especially, during COVID-19 times.

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Through you, Mr. Chairman; thank you for this question.

COVID, of course, brought a number of unexpected elements to the way we operated during that time. We have been one of the essential services running 24-hours with a team dedicated to ensuring that those who needed fuel—there were not a lot, I am afraid—could get access to them and that was a great achievement for our team.

One big challenge, aside from the drop in sales was that the supply pattern got completely changed because the aviation segment just collapsed overnight when the airport shut. Traditionally, we bring in a mix of road fuel, Diesel for CUC, and the jet fuel for the planes, and one of these three components was no longer necessary. This meant the traditional sources of supply and shipping had to be reshuffled because our sales suffered a change in what product mix we needed; but other countries which are delivered between the Gulf Coast and ourselves also had strong discrepancies compared to the usual supply pattern.

Of course, it was a stressful situation but we managed to keep everyone in the company employed, we even paid the pensions during this period of time. We are all now back in the office with the appropriate safety measures and we have reshuffled our operations so as to have our aviation personnel kept busy delivering tasks for us as they do not really have the opportunity to perform their regular duties.

Mr. David C. Wight: Also, referring to what the Member from West Bay North asked you about the tanks leaking and so on, that affects your operating cost so that is why I asked that further question. So how do you deal with all that?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: We have contingency plans in place and we are able to operate without using our full storage capacities by adapting the supply pattern. And obviously, the current dropping demand makes things easier to manage these days.

Ms. Barbara E. Conolly: Mr. Chairman, just one quick question to Mr. Nicolas.

Sol advised earlier that over the next few years they will be investing several million dollars' worth on their safety measures around their terminal.

Does Rubis have any plans to upgrade any of your safety measures in the next couple of years, just to ensure that the issue with Sol and the fire, doesn't happen? If you could just give us an update if you have any plans.

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Yes, we have very clear plans.

As a matter of fact, our storage tank needs to be inspected every ten years that is more conservative than the API regime which is the applicable standard. So every ten years we empty, gas-free and clean our tanks, run an independent inspection of such tank and then proceed with either repairs or replacement of the tank so as to make sure we have robust storage capacities in which we can operate for another ten years under safe conditions.

As soon as travel restrictions are lifted we have a team coming from the US to fully rebuild one of the two largest tanks in our Jackson Point terminal. In parallel, we are investing in fire defence because protecting our assets is critical for our company but also for the general public because this is where the fuel is made available on a daily basis. Therefore, at the moment, we are implementing some foam protection system to protect the loading entries of both Jackson Point and Creek Terminal in Cayman Brac.

We have invested in rejuvenating our fire pump in Cayman Brac and next year we will start again the circle of ten-year inspection regime taking back from 2012 when we first inspected the tanks.

So, that is a rolling investment programme to make sure that we are the best standard in liaison with the OfReg, of course, which would advise and recommend some upgrades when they feel necessary and which we discuss investment plans on an annual basis.

Mr. Christopher S. Saunders: Through you, Mr. Chairman, since your time with Rubis has there been any safety violation, et cetera flagged or raised by the Government with regards to Rubis?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Not that I am

aware of and obviously, I would be very aware if this had been the case.

The Chairman: Given your response to the COVID experience, the Cayman customers can now realise that reducing demand will drive prices down because that is basically what you say happened during COVID; the bottom fell out of the sales because there was no demand and one of you all decided to increase your sales by lowering the price and then the others had to follow.

So, if the customers in Cayman decide to boycott one company they could do so by driving the prices down.

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: The only reason the prices went down was that we went the extra mile to make an effort on our end and we enjoyed having one tanker of regular gas which was procured at the right time when the Platts prices went down. Together, this is what brought the prices down by, as I said, .60 cents in Grand Cayman and .90 cents in Cayman Brac between end of March and mid-April.

The Chairman: So during COVID when the shipment came in the tanks were empty? There was no delay in reducing the prices because that shipment was so cheap?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: The quantity received in that shipment has been sold now and we have received two other ships since that date.

The Chairman: I am talking about the fuel that you already had delivered at a higher price because COVID was not that long a period of time and the prices dropped.

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: No, no; but to be factual, we received a tanker 21st of March, the 18th of May, the 8th of June and we have one coming next week.

The Chairman: It would have been the one from the 18th of March that the prices went down?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: This is correct.

The Chairman: Okay.

What was the time lag between the tanker arriving on the 18th March and the price reduction at the pump?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: As I said earli-

er, we passed to the markets a significant reduction in price by 40 per cent in Grand Cayman ahead of the tanker even being unloaded. So that would be, I would say, ten days before we physically received the product which was procured at the cheaper price.

The Chairman: Well, the evidence given to us by the Fuel Sector of OfReg as an explanation for the delay in price adjustments based on price of product arriving on the Island is because of the volume that is in inventory at the time that ship arrives.

The answer I am trying to find out is: You say it was ten days between the ship arriving with cheaper fuel and you consuming all of the fuel that was in your inventory at a higher price.

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: No, sir. What I meant was that we made the decision of dropping lower prices because of the COVID context ten days ahead of receiving the parcel of fuel which would be the subject of a better supply cost.

Usually, when you load a tanker it takes two weeks before the tanker is discharged on Island and traditionally, the fresh parcel of product would be aggregated to a similar quantity you previously held in stock. That is usually the way it works.

The Chairman: Yes. So you do not exactly separate the total volume at one price to the total; you blend the cost and come up with an average price.

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: This is a weighted average, indeed.

The Chairman: Okay.

[Inaudible interjection]

The Chairman: Is there a particular reason why you are in the retail business? Is it a way of increasing your market share?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: I did not fully understand your question. I am sorry.

The Chairman: You are in the wholesale business. You decided to go into the retail business. My question is, was that so that you could increase your market share?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: The mix of segments that we are operating is the typical downstream oil type of segments.

We have the utility fuel supply, which is a key factor to offset the industrial cost of operating fuel

terminals. Then, we have the airport and aviation segment which is one sub-segment and the retail is what any fuel company would be interested in as an addition to other segments of markets.

To answer your question, yes, being in the retail segment is a way to increase your market share. That is a fact.

The Chairman: The .80 cents—I think it was what you said—in wholesale price reduction was that passed through to the customer?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: It was, yes.

The Chairman: What methodology do you have in your lease agreements to ensure that that was a pass through?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: In the lease agreement between who and who, sir?

The Chairman: Pardon?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: In which lease agreements?

The Chairman: You have a lease agreement with operators of the stations. Do you set the prices in the stations that you own for retail?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: No, we don't.

We have a wholesale price which is applicable to the dealers and they would set their own prices based on this price, based on the inventory they have as well in their tanks, and their pricing strategy.

The Chairman: So you have no way in your lease agreements of ensuring that that .80 cents was passed on to the customer?

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: No, we do not have any way of doing that.

It is the competition which applies; if one would be reluctant to do so, knowing that their competitors would do it will just make it happen at the end of the day.

The Chairman: Are there any other questions? If not, I want to thank you Nick for coming.

Thank you very much, sir.

Mr. Nicolas de Breyne, Vice President and Managing Director, Rubis Cayman Islands: Thank you, everyone.

[Pause]

The Chairman: Committee, Committee, we are not suspended yet.

You all have seen that we have been notified by Refuel (Cayman) that Mr. Dow Travers will be bringing his attorney Mr. Michael Alberga with him.

[Inaudible interjection]

The Chairman: I have agreed to that. Anyone has a problem with that?

Mr. Christopher S. Saunders: Sorry, Mr. Chairman.

There is actually something I am trying to reconcile and I may need the help of either the Auditor General or members of the finance team. I am not sure which one will be able to...

[Inaudible interjection]

Mr. Christopher S. Saunders: That is alright.

Going back over the testimony given by Mr. Nicolas; in terms of the roughly 1.5 million barrels imported, give or take—I do not expect an exact science and I accept that he gave the number off his head—that 1.5 million barrels is equivalent to 34.979 in terms of Imperial gallons, roughly 35 per barrel.

That would put it at around 51 million gallons per year, but just looking at the Port Authority numbers that have come in:

- For 2019 it was a total of a little over 54 million;
- For 2018 a little above 51 million;
- For 2017, just under 51 million; and,
- For 2016, around 50 million

I am not going to say his number is incorrect but, just out of curiosity, I think what would be useful for this Committee... If it is a situation where we now have one competitor even at the million-mark that is bringing in 80 per cent or 85 per cent of the fuel, the law speaks about people within a dominant market share. I am curious to know if we can get those numbers between the Cayman Port Authority and OfReg just bottom out in terms of who is bringing what in.

Is it a case where the Cayman port is missing something or something else is coming in that is not being counted? The numbers need to be reconciled because it is a material difference and even if he is off by 20 per cent, based on his testimony, it almost appears as though they are bringing in 100 per cent of the fuel and I know that cannot be right based on what the Port Authority has.

So, if you can look into that for me and report back to the Committee in terms of the actual...

[Inaudible interjection]

Mr. Christopher S. Saunders: Well, you have the access. Your team has access to all records, statutory bodies, et cetera. It is just to confirm between the Port Authority's statistics and OfReg's, in terms of where the fuel is coming in.

[Inaudible interjection]

Mr. Christopher S. Saunders: Well, yes, the ESO must have figures also but their figures were pulled from the Cayman Port. I am actually using the Port Authority's website.

I just want to confirm if the Port Authority is actually correct and what the numbers are between the different providers.

Alright, thanks so much, Madam Auditor General.

The Chairman: I do not ask a question that I do not already have the answer to.

The Committee is suspended until 1:30pm

Proceedings suspended at 12:42pm

Proceedings resumed at 1:42 pm.

The Chairman: I would like to call the Committee back to order.

Will you bring in the witnesses please?

[Pause]

REFUEL (CAYMAN)

ADMINISTRATION OF OATH OR AFFIRMATION

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: I swear by Almighty God, that the evidence I shall give to this honourable Legislative Assembly shall be the truth, the whole truth, and nothing but the truth.

[Pause]

Mr. Michael Alberga, Attorney-at-Law: I swear by Almighty God, that the evidence I shall give to this honourable Legislative Assembly shall be the truth, the whole truth, and nothing but the truth.

The Chairman: Good Afternoon Mr. Travers and Mr. Michael Alberga.

We want to thank you for availing yourselves to come here to give evidence today.

As you will both be aware, we are looking at the **Efficiency and Effectiveness of the Utility Regulation and Competition Office**, commonly known as OfReg, on a report done by the Auditor General in June 2020.

Last week we had evidence from the regulators and this week we wanted to get the views of the people being regulated. We want to find out whether you're satisfied with OfReg, if you are getting the kind of cooperation when cooperation is necessary, and if you are getting enforcement when enforcement is necessary.

The only rule we have, really, is that the first you answer a question we want you to state your full name and your title so that it appears in the Hansards correctly.

I will let Mr. Chris start off the questioning.

Mr. Christopher S. Saunders: Thank you very much Mr. Chairman and I want to welcome Mr. Travers and Mr. Alberga this afternoon.

Just to expand on what the Chairman mentioned a short while ago: We want this session to be more informational and educational for the public. We recognise that fuel has only been regulated for the last three years, so it is still a young industry in terms of regulation.

I must say upfront that this is the one group I was actually looking forward to hearing from the most because one of the things we need to get, in order to really make this market effective, is more competition. And as a new entrant in the market and recognising that there are challenges and barriers to entry, we are keen to know what can be done either from a legislative or regulation standpoint, to make it easier for your business to become more competitive against the two existing giants.

I think everyone can agree that it is in the public's best interest that competition is actually pretty good.

With that said, my first question is: As a fairly new entrant in the market, what challenges have you seen thus far? What do you think we could have done a little bit better or what are some things we need to work on in order for the market to become more competitive with regards to the current situation that we have?

Thank you.

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: Good afternoon. My name is Dow Travers and I am the founder and CEO of Refuel.

Shortly, our vision is to make modern emission-reducing content fuels commonplace in Cayman.

In addressing your question a little more directly, we had several obstacles in our path to getting to where we are today, but to become more competitive at this point, in the shortest term, we need to be able to expand, compete, and increase our supply and this will allow us to lower our costs for the benefit of the consumer and community.

Mr. Christopher S. Saunders: When you say expand are you talking about having more stations? Have

there been any challenges or push backs with you getting more stations or finding more stations or people to work with?

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: We have had some challenges, yes.

Right now our fixed costs are incredibly high; we have a lot of the overhead that the big players have but with only one small station. So the best way forward from here is to expand. Last year we did put forward a proposition to expand on West Bay Road and we were refused planning permission.

Mr. Christopher S. Saunders: Sorry. When you say refused, what was the reason or purpose for the refusal? I am just curious now.

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: I believe the quote was '*we failed to demonstrate that the gas station would serve the needs of the community.*'

The Chairman: Not a planning requirement, is it?

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: We went to appeal on these grounds and we lost the appeal.

Mr. Christopher S. Saunders: In terms of your study then, is there anywhere else you have looked elsewhere on the Island? I can tell you that within the eastern districts, we definitely need competition up that side and I would love to have some of those low prices up on my side. Have you looked there, or are you getting similar pushback?

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: We are looking around all over. Our primary goal was this first location. We went to Planning a year ago in April and it has taken until now to adjust our plans and try to get planning permission again.

We looked at a few other locations in the area; one of our biggest requests from customers is that we are too far away from them. So, we are absolutely looking to go out east but also probably towards West Bay.

Mr. Christopher S. Saunders: You said you have some of the high fixed costs similar to the bigger players; what would those entail?

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: In Cayman it is really everything that goes into running a business. A lot of these have been shown in the Income Statements that we have given to OfReg. However, we do have a high cost of living in Cayman and we cover everything throughout the supply chain. So, we have insurance from Florida to Cayman, we have the salaries, bank commission fees

and we do have some regulatory constraints and fees but I would say actually, they are on the lower end of our fixed costs.

Mr. Christopher S. Saunders: What do you see as the optimal number of stations you think you need to have in order to really achieve economies of scale and make your business model more profitable?

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: This question is a little complicated because knowing exactly the optimum volume is quite difficult, but in a bit I might go on to our pricing structure.

We use a demand-based model; this model essentially tells us what our optimum price point should be and right now, we are constrained. We cannot physically bring more cars to our station and it is only through increasing our volume sold that we will be able to lower our costs. So at this time, the more stations we could build, we would have revenue enhancements from having more stations. Additionally, there are some cost-saving synergies involved with having other stations. There are many of our fixed costs that could be allocated towards multiple locations.

The Chairman: Is the fact that the other major fuel companies themselves own retail outlets an impediment to your expansion?

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: We do not look to the competition in that sort of game.

We believe that our product is superior and that we will be able to gain market share where we move. Certainly the demand at our current location has been overwhelming to the point where we are now at capacity and this was within a short time frame.

The Chairman: I was going to get back to the reason you were refused planning permission because I believe that some, if not all, of the current retail outlets on the Seven-Mile Beach corridor are owned by the major fuel companies who have wholesale licenses.

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: I cannot speak to their ownership arrangement or the reasons that they got planning permission in those areas. I do know that there is a precedent for having stations in the zoning that we applied for, but that is far as I can speak to what the reasons were as to why we did not get permission.

Mr. Austin O. Harris, Jr.: Thank you.

Mr. Chairman through you, I want to go back to your business model. Is it correct to state that what makes Refuel as a retailer, different than the rest of the retailers, is that you cut out the middle man? You

do not purchase your supply from Rubis or Sol. Is that correct?

Mr. Dow Travers, Chief Executive Officer - Refuel Cayman: That is one of the parts of our model, whether you refer to it as a middle man or marginalities that are being removed, but I do not see how you could be competitive whilst purchasing from one of them on Island as an independent station.

Mr. Austin O. Harris, Jr.: So you do not buy from Rubis or Sol. Is it correct to state that you buy direct from the market?

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: We buy from the US market.

Mr. Austin O. Harris, Jr.: Would that be out of Port Everglades, Florida or where are you buying from?

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: When we first opened we spent a considerable amount of time shopping around for available options.

In the States, the people we buy from are called Jobbers and they essentially go to various racks and then sell it on or have supply arrangements with petrol stations in the region. So, we have a particular jobber that we have a very good relationship with and have been working with for some time and they are a major supplier in that region.

I forgot shortly the first part of your question; but, in essence, we have another jobber as well that we use to keep our prices all honest.

Mr. Austin O. Harris, Jr.: Through you Mr. Chairman: you stated earlier on that your product, in your opinion, is far superior. Could you state what the octane quality of the gasoline product that you bring in is?

Mr. Dow Travers, Chief Executive Officer - Refuel Cayman: Perhaps I misspoke in that something is superior. There are trade-offs for everything.

Our goal was to make the modern emission-reducing fuels that are supported in the national energy policy commonplace in Cayman. The national energy policy specifically relates to E10 [Ethanol 10] and B5, both of which we sell in Cayman.

There is incontrovertible evidence that the addition of ethanol to gasoline reduces emissions, and the introduction of biodiesel to diesel reduces emissions, so from that standpoint, they are superior. Other than that, we meet the exact same quality standards of the other importers.

Mr. Austin O. Harris, Jr.: Thank you.

Mr. Chairman through you: When we looked at the cost breakdown we determined last week from the fuels' director of the various layers or margins that affect the price of fuel by the time it gets to the pump.

There is a supplier cost which comes directly from the refinery to the distributor, which is usually one of the ports—Gulf Coast, New York or otherwise. Most of the fuel for the Cayman Islands comes out of the Gulf Coast, Port Everglades. There is the first margin.

That then arrives to the Cayman Islands. There are the fixed costs of customs duty, freight, insurance, and port fees which add another layer of margin. That then goes to the distributor, which excludes Refuel, which tacks on the distribution, the pipeline fees or otherwise rack price that Rubis and Sol, the two main suppliers, then provide onto the retailers. At that wholesale point there is yet again, another margin which Refuel does not have to pay because they buy direct.

Rubis and Sol then, as we heard testimony today, allow a further margin to be decided on by the retail gas stations to determine the price at the pumps.

Not knowing what your pricing structure is—but you did say that you buy fuel out of the US from the US market—the EIA website (U.S. Energy Information Administration) provides pricing on gasoline, heating, low-sulphur diesel and propane. At today's pricing, gasoline coming out of the Gulf Coast is selling at US\$1.25 per US gallon.

We discovered earlier on through the fantastic mathematics of the Member for Bodden Town West that we convert from US gallons to Imperial gallons we simply convert the price from US to Cayman Islands; so CI\$1.25 plus .15 cents for freight and insurance, .75 cents for duty plus .04 cents for port charges works out to approximately CI\$2.30 landed cost.

[Pause]

Mr. Austin O. Harris, Jr.: The Member for Bodden Town West reminds me of transportation costs, so we add on another .08 cents in miscellaneous; takes our price up to CI\$2.45.

A look at the OfReg pricing, because the OfReg website lists the pricing that is available at all gas stations and according to their website today, Refuel is selling their premium at CI\$3.82, their E10 at CI\$3.70 and regular at CI\$3.37.

If we use the landed figure of an average of CI\$2.30 landed, we are seeing a mark-up to the consumer of 205 per cent on premium, 196 per cent on E10 and 169 per cent on regular fuel. Are those margins about correct from your standpoint?

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: I will address pricing separately in a moment, but I do not believe your percentages are correct.

Mr. Austin O. Harris, Jr.: Thank you.

Mr. Christopher S. Saunders: Just to expand on what my colleague for Prospect was getting at.

One of the things we were a little bit confused on, from earlier testimony when Rubis was here, they basically used an example that typically the price on the Gulf was US\$1.50 per gallon.

Going back from previous reports they produced, we knew that their shipping cost was about .15 cents per gallon, the government duty about .75 cents, so basically we are talking about a landed cost of about \$2.40 and by the time you add on maybe port fees, you are talking no more \$2.45 in terms of cost and this is normal times, pre-COVID, et cetera.

However, in those cases, we realised that it was going to the pump at basically \$5 to \$5.50. In other words, anywhere from \$2.50 to \$3.00 was being added at the pump in normal times. What we are trying to determine is what was driving their cost. Now, granted, using the figures that the Member for Prospect raised, I think your mark-up would have been less than 50 per cent of their mark-up, in terms of what they were doing.

Now, we know from different means that .30 cents per each gallon is pretty much what the retailers have to play with, and we were trying to determine where then, of the \$3 and their ten per cent is going to the retailers. What drives that \$2.70?

Granted that your mark-up, based on the calculation my colleague gave is nowhere close to that mark-up, we are still trying to figure out what it is, in terms of the normal fixed costs, that actually drives that number. What we are trying to get at is what do need to do or fix to kind of help your cost to come down so the consumer can get basically cheaper fuel.

Mr. Austin O. Harris, Jr.: Mr. Chairman, if I may correct my mathematics; certainly, I was basing my percentages on the US price.

The margin between \$2.30 and what Refuel is selling at: Premium at \$3.82 is 66 per cent margin; E10 is 60 per cent margin and regular fuel 46 per cent margin or increase. Would those percentages be closer to your present pricing model?

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: I do not have my calculator on but they seem close. Everything, I said, is correct, except your last sentence where you said closer to my pricing model. Let me address my pricing model now because this has come up a couple of time.

I think at Refuel we do something quite unique; we do not have a cost plus marketing model. We do not have a competitive-base model either, we do something called demand-based. What this does essentially, is the consumer decides our price for us.

Over the last three years we have collated data of our price points relative to the national average and the volume sold at each volume. By doing this we can construct what is referred to as a marginal analysis and it essentially tells us what your optimum price point is.

Mr. Austin O. Harris, Jr.: Mr. Chairman, the problem I have with demand-based pricing is much like what determines real estate prices in the Cayman Islands. Real estate prices are not based on the value of the product; they are based on the value of what the last property sold for.

In Refuel's case, certainly by by-passing the middle man Rubis and Sol, they are bringing product cheaper than the competition, no question about it. But if they sold their price for .05 cents or .10 cents cheaper than the competition, that is still .05 cents or .10 cents cheaper than the market would otherwise say, *yes, I am prepared to pay for that*; but what that market is prepared to pay, which may very well be a discount on what is presently being charged does not represent the true value of that product. And, if the OfReg model states that rather than selling price control, they are encouraging price reduction through competition, then is it not arguable that the prices at Refuel, based on their supply-chain model, could be considerably cheaper than what their demand-based model would suggest, as the witness gave evidence, what the market is prepared to pay for it?

Just a statement, you do not have to respond to it.

Mr. Christopher S. Saunders: I am just trying to understand the fixed cost as a fairly new business, because one of the things that Sol, I think, testified was that their return on their investments or assets was around 5 per cent.

I was a bit surprised at the number being that low and also that their profit was around 5 per cent of their sales, which again, I was a little surprised at. Nonetheless, something I do recognise is when you have very small margins, like say, .30 cents to .60 cents per gallon and then you have considerable fixed costs; have there been any new regulations that have driven up your cost that would also impact your pricing from that standpoint?

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: Yes. One of the ways that we are able to import the way we do is that we have to control supply chain, otherwise we would have what we refer to as hold-up problems. In order to control the supply chain we have a huge amount of capital investments. Those capital investments are depreciated and have to be repaid over time.

Particularly though, there is some legislation that has driven up our capital costs. In 2017 I believe, the Dangerous Substances Law was passed and it

outlawed the loading of trucks by one particular method. To comply with that law in 2017, we have now had to build a \$1.5 million facility and it has taken us three years to do so. This significantly drives up our PPE and our capital costs changes our capital structure and that will have to be repaid.

Mr. Christopher S. Saunders: This is just for my own understanding. You said the loading of trucks?

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: Yes.

Mr. Christopher S. Saunders: I am just trying to understand that. Sorry, I am not familiar with that, this is not my industry but how does that work or come about?

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: Sorry. Let me clarify.

There are two methods that you can load a truck at the rack; one is called the top-loading method. It is where you fill the truck quite literally from the top. You have someone at the top and you fill it. You can build infrastructure to do this and in the US it is certainly a plurality that trucks are loaded this way.

The other method is the bottom-loading method; it is where you attach the fill points with a coupler to the bottom of the truck and the truck fills up and you have overfill protection systems that tell you when the truck is full.

At the time the Law was passed, there was mobile delivery done through the bottom loading station and there was mobile delivery by an independent company done through the top-loading method. This Law, with the stroke of a pen, essentially out ruled the top loading method and the competition of that company.

For the next few years, in order to come in compliance with this bottom-loading method, because we want to compete in this industry, as part of our goals to increase supply and lower costs, it has taken about a \$1.5 million investment and it is coming up on three years in January.

The Chairman: What is the difference between bottom loading and top loading in terms of safety?

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: It is up for debate. The reasons given to us here is that someone has to be on top of the truck for top loading and so there is a fall risk.

The Chairman: From the truck exploding or . . .

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: No, it's—

The Chairman: For the person sitting on top, I mean.

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: I am not an expert in rack systems and bulk petroleum loading systems but one of the reasons given to us in the past was that the person on top might fall.

The Chairman: I would think that some kind of boat-swain's chair, which would be familiar to the mariners or some rigging, could have solved that problem short of a \$1.5 million plus investment to load from the bottom.

So, when you load it from the bottom no one is around the truck, or just because they are standing on the ground they do not expect them to fall?

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: There is no one standing on the top. There is a set of National Fire Protection Association (NFPA)-compliance laws that we need to be compliant with and we are building to that standard; but in essence—in essence, it is a quicker and safer method—but if your objective was to lower costs, perhaps that could have been weighed off against these codes.

Mr. Christopher S. Saunders: So if that cost you \$1.5 million—

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: This is about.

Mr. Christopher S. Saunders: Yes, \$1.5 million, that is fine; and you are making about \$1.00 on each gallon. I mean, that is \$1.5 million of gas that you have to sell just to pay for that, in addition to your other costs. That is just to cover that cost.

How long would you have to sell that 1.5 million to recoup that cost? Just out of curiosity.

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: The depreciation is significant and as mentioned, we do not actually price entirely based off those costs; but a failure of the demand system would be in an event where you are not covering these costs, so we do take that into account. Yet years, we are talking years and years.

Mr. Christopher S. Saunders: Wow; from one change.

Are there any other regulations that were changed that have impacted your business, or something that you think needs to change that could actually help your business, because we actually want more competition in the market and we are trying to figure out what do we need to do or what can be done to get this market more competitive.

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: Well, one of the benefits of our system is that when a marginal cost falls, it is incentivised for us

to lower our price because demand will increase by a percentage of that. So any scenario that would lower our marginal cost relative to the competition would be an advantage to us.

One clear way that we see that is that a percentage of our fuel is renewable, it is not petroleum product. If the duty was to be waived or reduced on that small percentage of renewable content that is being imported, that price savings would be almost directly passed on to the consumer with the exception that we are currently at capacity and would not be able to sell that volume. We need more stations.

The Chairman: Just another question on the bottom loading versus top loading. Were the other fuel companies already in a position to do bottom loading?

Mr. Dow Travers, Chief Executive Officer - Refuel Cayman: Yes, I believe so.

The Chairman: Understood.

Mr. Christopher S. Saunders: You were saying something earlier about the duty being waived on...

You can ask the question because it was one of the motions you dealt with.

The Chairman: You currently pay duty on volume like everybody else, or you pay CIF?

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: Actually I do not know what CIF means.

The Chairman: Cost, Insurance and Freight.

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: No, we pay on volume per gallon and Ready to Ship (RTS)

The Chairman: Volume; okay.

What you were just suggesting is, because yours is a mix of renewable fuel, the ethanol—you buy it already mixed?

Mr. Dow Travers, Chief Executive Officer - Refuel Cayman: Correct. There are two examples here, the gasoline we do import already pre-blended and the percentage of it is that ethanol content.

The bio-diesel we used to manufacture locally we used to go around the restaurants, collect the waste vegetable oil that was being thrown away, turn it into bio-diesel and blend it in; it became prohibitively difficult with—this is one example of when regulations came in—it was being treated for a very long time as a petroleum product, even though it is a non-toxic substance; it biodegrades as fast as sugar water.

So that did cause problems. We are now importing bio-diesel not blended, predominantly. We are actually doing both but that bio-diesel that we import is

also being charged added duty at actually, I believe 22 per cent, because there was nowhere in the tariff code—I need to confirm this numbers—for bio-diesel; so customs, for lack of a better explanation, picked a duty rate to charge it.

Mr. Christopher S. Saunders: Sorry; hold on. You guys were going around, just so that I can understand this, and collecting all of the restaurants' food oil—

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: A separate but affiliated company was, yes.

Mr. Christopher S. Saunders: You all were actually taking that and recycling it and making diesel with it

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: Correct.

Mr. Christopher S. Saunders: And you have been stopped from doing that?

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: I am afraid to say we have had more obstacles than I can go into in this time in setting up that programme in Cayman.

Mr. Christopher S. Saunders: Okay. I consider that almost like a public service to some extent. So the question is, with all these restaurants and all this oil around the place, what are they doing with it then?

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: We went to look at the Department of Health (DEH) facility at one point. It is collected and exported to the United States; but you can go and have a look at the DEH facility that currently treats this.

Mr. Christopher S. Saunders: Sorry. It is now collected and exported to the US, so it is being sold to somebody in the US?

Mr. Dow Travers, Chief Executive Officer - Refuel Cayman: For cents; for a minimal amount. It is being mixed with motor oils and other things and just shipped... Actually, I do not want to really talk about it, this is just what I believe is happening, but it is definitely being put in a container with other oils that cannot be treated in Cayman and exported.

Mr. Christopher S. Saunders: So in essence you started a business here of taking something like that and putting it to use here which would have been better for the economy versus now it is just being shipped off.

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: Yeah. That is how we started. We realised

though that we could not market—this is actually the foundations of Refuel.

We created this company to recycle bio-diesel on Island. We quickly learned that no one else on Island would add it to their fuel supply as they do in the US or other places where they encouraged these things. So we had to create our own gas station to bring our fuel to market and circumvent the existing infrastructure. So we set up Refuel as a way to bring this product to market. There are problems with this volume of it. We need to get to a certain volume and at times, that volume is not available in Cayman.

We did realise this quite early on and approached customs—Michael might be able to tell me—seven year ago? And asked them if we could import waste vegetable oil from the US to supplement our product and get to a volume that could maybe work in Cayman, but we were told that it would be charged at a duty rate of full-food grade vegetable oil and not the waste product that it was which essentially killed that endeavour.

Mr. Christopher S. Saunders: Mr. Chairman, I am speechless.

The Chairman: Just so I will understand, you are suggesting that if they would give you a reduced duty on:

1. Your bio-diesel and;
2. Your ethanol-blended

You could actually lower the price or you would be able to keep your price stable if they treated that section of your business as renewable energy? I thought under the Customs Law, things related to renewable energy were duty-free now.

Anyhow, we will have that researched but that is what I thought.

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: I could sit down with you another time and show you our demand curve if you like, and show you the effect that duty reduction would have on our prices.

The Chairman: Okay.

Mr. Christopher S. Saunders: I would think that it is in the public's best interest for your organisation to expand in order to compete and naturally get to scale and get the prices down.

What can be done or is there anything that we can do, in essence just like when we—and Michael will be the best one to tell you—liberalised the telecom market, we put certain safeguards in place to allow new entrants not to be over powered by the existing players. Is there anything that we can do?

What I am fearful of is the two established players at this point basically combining or using simi-

lar tactics to basically limit your business, in terms of what you can do and bring to the market. And to some extent and in other countries there are incentives both in legislation and regulations to allow new entrants to get into a market to compete and bring prices down.

Is there something that we can do or need to do to make it easy for your business to expand and basically start pushing lower prices across the Island? Because I will accept that with the fixed costs that you have, running it through one gas station you will not get any major economies of scale.

So, what can we do to push it out across the island and pretty much bring prices down more?

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: It would be naïve of me not to address the competitive threat from the competition but certainly, it is non-market forces that have a lot of sway in this area.

So, the ways you can help is any incentive that encourages competition. For instance, the one that keeps coming to the tip of my tongue is the planning permissions; that has set us back tens of thousands of dollars and years of time. If we could speak to someone who could align the visions of the departments to your visions, so that we could accomplish our mutual goals, it would be a lot of help.

The Chairman: When you apply for planning permission, is Planning in a position to supply you with a set of criteria to which you must build your stations and once you meet those criteria, planning permission would have to be granted. Because I do not think the Planning Authority has the authority to delve into the markets and set demands and regulate—

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: Michael may actually be interested in addressing this because this was part of our appeal at tribunal.

Mr. Michael Alberga, Attorney-at-Law: Michael Alberga.

Mr. Chairman, the position with the Planning situation was that we complied with all the parameters necessary to build the station. In fact, the station was going in close proximity to the existing station on West Bay Road. It was the opinion of the majority of the board that the station did not serve the immediate needs of the community and for that reason the station was turned down.

So, in our opinion, there is a misalignment between the government's national energy policy and the views of the majority of the Planning Board or the majority of the board, in regards to whether a station which produces gasoline on ethanol basis is in the needs of the community because the government designated that in its national policy. The board has a different view of what is in the needs of the community

from that in the government's policy and for that reason, the station was turned down.

To the earlier question, the capital costs in Cayman of land, and building stations or any buildings, is significant and when those costs are spread over a limited market, the margins are completely different as they are in major countries.

So, to enhance the policy, there needs to be some incentives on the construction of the station, the fees that it costs; because the fixed costs of electricity, labour, et cetera, are basically fixed, there is nothing you can do about that. As you know, Cayman's population is small so you do not get a lot of volume, so you have to spread the capital cost over many, many more years.

I mean, for instance, when the station was built the electronic lighting on the top of the station which gives the pricing, at one corner there was no electronic pricing required when the planning permission was granted and before we could open the station new electronic lighting had to be put up on all four corners of the building. That cost a lot of money to redo that whole enterprise. Whether that is a cost beneficial analysis for people who drive by stations, most people in Cayman at least have the intelligence to look at the pump or to know what the price of gas is going to be before they get there.

In America they have these huge signs and the reason is, normally you are travelling down a highway at high speed and you have to see the sign but to have a regulation that you need these huge signs and letters all over them, may not be necessary; those things cost not a small amount of money.

So, as you add to the capital costs, the time to recover your capital and return on investment is significantly stretched out and that is why the figures that you are getting from the other stations are probably right. The amount of money you make from gasoline is marginal. The money is made on the service part of it, where you go in and buy food or whatever; without that, the price of gasoline may be double.

So that is just about where we are on the economies of scale, and the pricing, fixed costs of building and land, et cetera, are significant. Therefore, for this station to succeed, we need more stations and we are at capacity now, so that the fuel that is brought in can be brought in bigger quantities at cheaper prices, less shipping, et cetera, and that can be passed on. In a nutshell, I am just giving you an overview.

Thank you.

Mr. Christopher S. Saunders: In terms of OfReg, have any of these issues been raised with them and what has been their response?

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: We have a generally good working relationship with OfReg. As mentioned so far today, they

have not been the issue of note but that pricing story that just came up was from them.

The Chairman: That is one of the marquee successes of OfReg, an electronic sign that gives you the price of the fuel.

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: I think it was good for the retail stations in general, but when we imported more choice for the consumer—we have five different products—having all that up there was a little unnecessary in our regard.

Mr. Christopher S. Saunders: In terms of moving forward, and this is something I just want you to think about because we can have a separate conversation or meeting on it.

Think through what we can do outside of the planning issue, in terms of pushing to get more stations, and you can reach back out to any of us or the entire Committee through the Clerk to give us an idea of what can be done to get your business up and running. Because it is good to see a Caymanian-owned business starting out from this level and growing. One of the things that has ... I really don't care, I will say it: We need to do more for local businesses, especially when it comes to energy security, et cetera.

I am really happy to see a young business like this started from Cayman and has continued to do well but we need to do more to ensure that that business succeeds, because at the end of the day, the money that you make here stays here; and like any other country that is what we want, versus money being shipped elsewhere. That is just the reality of it and I make no apologies for that statement. So yes, I do play favouritism when it comes down to businesses, especially if they are Caymanian-owned businesses.

With that said, I would like for you to think it through, even if you have to discuss it with OfReg to see what else can be done for us to encourage greater Caymanian ownership of this market. I will say this much: I really want for your business to do well because the money stays here, the people you employ live here—not that others do not—but ultimately, the profit from this is staying here.

We will take a look at that fuel issue with the customs duty. I can say that the Member for North Side has a motion in to directly look at volume and cost when it comes down to fuel, et cetera, to see if there is any progress we can make in that regard.

My last question to you is actually going to be a little reversal, a little bit different. Do you have any questions for us with regards to things that you think we should be doing or could actually be doing better?

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: I believe the most beneficial point we touched on earlier and that would be the alignment of

all involved with the goals that you would like to accomplish.

You said some laudable things for the benefit of Cayman, whether that is being actually being acted on the ground is a different story.

The Chairman: Thank you very much, Mr. Travers and Mr. Alberga for coming. It was a very pleasant experience.

Thank you all very much.

Mr. Dow Travers, Chief Executive Officer, Refuel Cayman: Thank you.

The Chairman: We wish you well.

The Meeting is suspended until 3:00pm when the next witness arrives.

Proceedings suspended at 2:29pm

Proceedings resumed at 3:07pm

The Chairman: The Committee is called back to order. I invite the Deputy Serjeant-at-Arms to bring the witness in.

BROWN'S ESSO

ADMINISTRATION OF OATH OR AFFIRMATION

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): I swear by Almighty God, that the evidence I shall give to this honourable Legislative Assembly shall be the truth, the whole truth, and nothing but the truth.

I do solemnly, sincerely and truly declare and affirm that the evidence I shall give to this honourable Legislative Assembly shall be the truth, the whole truth, and nothing but the truth.

The Chairman: Good evening, Mr. Brown, and thank you for coming.

You would have been informed that we are doing a review of the Auditor General's report on the **Efficiency and Effectiveness of the Utility Regulation and Competition Office**, commonly known as OfReg, in a report done in 2020.

Last week we heard from the regulators and this week we are endeavouring to hear from the people who are being regulated. The purpose of this is to try to find out how you see the regulators, is it supporting your business, is it affecting your business, and what would be some of the things that you think they could do better, et cetera.

I will invite Mr. Saunders to lead off the questions. The first question you answer we ask you to say your full name and what you represent, for the Hansard purposes.

Mr. Christopher S. Saunders: Good afternoon, Mr. Johnny and thanks very much for coming.

Just to expand on the Chairman's opening remarks: We invited you specifically because even though you are not directly regulated by OfReg, you are also impacted by their decisions.

One of the things that we wanted to get from this PAC session is for it to be more educational and informational, as opposed to being confrontational or adversarial. We wanted your lens, in terms of being on the final end of the supply chain and directly dealing with the customers, et cetera.

What else can be done to improve because something that came out even earlier today, with the Rubis witness, is that based on prices that they gave us we realised that the normal times, landed price was about \$2.40 or \$2.45 or thereabouts. By the time you factor in transportation costs, port fees and government duty of .75 cents, and even doing the conversion from US gallons to Imperial gallons, we are trying to understand, if during normal times it is \$2.40 to \$2.45 landed, then what it is that drives it up to even \$5.00 that we have had in some situations?

Now, we recognise that the gas stations themselves make a certain margin between what you get from the wholesaler and yourselves as retailers. However, we are trying to understand what we can do or what needs to be done to free up more of those savings to pass on to the consumer, or if it is a case where the operational costs and fixed costs, are indeed too high, then do we need to start looking at the number of suppliers that we have.

One of the questions we specifically asked was if there are even too many gas stations in the market for the population that we have. From my own research, looking across the Caribbean and looking at some of the populations and the number of service stations that they have, I am still of the opinion that it is too many but we were corrected and told that is not the case. Nonetheless, we just wanted your independent view because you are not regulated by OfReg but naturally, you are a major player in the market and affected it. We are looking to gain knowledge and experience from you, in this regard to see what we can probably do to make this market better.

You have been in this business a long time, probably one of the longest operators that we have. It is a successful Caymanian-owned business and we are proud of what you have done individually as a business man also. So at a minimum, we would just like to have that frank conversation from your years of experience in the industry, to see what can be done to get some relief at the pumps. That is really the purpose of this; it is not to get into your commercial business or your secrets or anything, but just the industry as a whole and what it is that we can do.

After giving that preamble and framework, my first question is in terms of gas stations: Do you think we have the right number or that we have too many gas stations?

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): Johnny Brown from Brown's Esso.

Yes, I am of the opinion that for such a small population in Cayman we have too many gas stations. The volumes are split too much and that is what drives part of the cost.

If I had the two On-the-Run that I operate, on a half-decent street corner in the city of Miami, Florida, I would probably sell in one month with those two stations, what the 24 stations in Cayman sell. So my operating costs would be a lot less, therefore I believe my margins would be a lot less, and that would help to bring down the cost of fuel.

Mr. Christopher S. Saunders: With that said, Sol mentioned that their net profit is roughly 5 per cent of their income which caught me by surprise; of course I do not know what the income is. Nonetheless, from an efficiency standpoint, even the return on their investment or capital was around the 5 per cent mark which again, is also quite low. This had me thinking, in terms of the volume because it comes back to a volume-based business. The general rule is that if a market is not big enough to have multiple players, you may have one player but then you put in regulation to make sure that they do not basically take full control of the market.

What has really surprised me, just doing my analysis, is when I look at the volume of fuel imported into the country which is about 50 million to 51 million gallons across Diesel, gas and avgas, and I take around 36 million of that, because I think CUC runs around 3 million per month. So you are talking about 15 million and then by the time you take out the aviation fuel, and by the time you take out boats and then you take the number of cars and divide the balance, you are realistically making money from selling chips as opposed to making money from selling gas.

That is really what I am trying to understand here because if it is a situation now where every gas station has these costs they have to cover and the margin or volume is so low because the only way they can make up difference is either on volume or price. And in this case, where volume is not possible because of the number to be shared up amongst, then it means price is ultimately the one that is going to pay for it.

I say that to ask: Ideally, what do you think would be the optimum mix? I look at your stretch, even along the road and a stretch of gas stations literally within miles of each other, all serving people going on one road, in one direction or back and forth. What do you see as being the optimum mix or even

the optimum spacing between gas stations; one mile, two miles, what would it be?

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): I do not know what the optimum spacing would be, but the problem is they already have these stations so there is not much we can do about that; except I know I was in Barbados probably five years ago and was informed they have not built a new gas station in over thirty years—they had a moratorium. You can remodel your station, but there are no new gas stations being built in Barbados; you build a new road, tough—you get fuel there and get back on the next road.

Mr. Christopher S. Saunders: One of the things that came out of the testimony which really had me thinking, was that the dealers are competing but my understanding is... Going back to using the example of the \$2.45 landed cost which doubles to \$5.00 in normal times, of the remaining \$2.55, it is my understanding that the dealer margin on each is roughly .30 cents or thereabouts on each gallon.

Again, I do not need for you to get into your commercial business but then I beg the question: If the dealers are making even .30 to .50 cents of that \$2.55 margin, what else is really driving the other side of the \$2.00 which is basically going to the wholesaler? I mean, what cost is it that is being covered at the wholesaling level to justify that because I cannot find 100 per cent mark-up anywhere else within the Caribbean.

The next thing that came out of that was I noticed in some Caribbean islands the retailers form an association where they literally demand a certain margin from the wholesaler to make their business at least competitive. Is this something being looked at in Cayman or is this something you think would probably be better off? Either way, that margin needs to be shared differently or more importantly, significantly reduced, in order for the consumer to get something out of it.

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): I am not privy to the information whether they are doubling it from \$2.45; we just get a wholesale price.

We get an e-mail, it used to be maybe 24 hours' notice, these days we get it maybe 48 hours' notice, *there is going to be a price change up or down on this particular day at 4pm or 5 pm* and that is it and this is your new price. That is the way it works.

The Chairman: The evidence that the wholesalers gave us, they said that the retailers are the ones who set the price at the pump.

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso):

Yes, yes. That is correct, but we do not have anything to do with the wholesale price. How that is made up or how much the wholesaler makes. We just get a new price—the .89 octane is going to be \$3.00 a gallon effective the 23rd at 4pm.

Mr. Christopher S. Saunders: And that would be the price that you buy at?

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): Yes.

Mr. Christopher S. Saunders: So in essence, that becomes your floor. So, if they tell you it is \$3.00, then anything above that becomes pretty much your margin.

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): Margin, yes. That is where you will see, if the price changes .15 cents, you will see the price change .15 cents at the pump up or down.

What we endeavour our best to do is to consume the fuel that we have in our tank. I will have my guys note, *okay, we got fuel this morning, we had 3,000 gallons of regular that we paid \$2.90 for, but we just got fuel and I paid \$3.05 for it*. So, when we sell that 3,000 gallons, as close as possible, you know, sometimes we go over, sometimes we miss it a little bit, you won't get it exact, then we move the price up or down, whichever way it is supposed to go.

Sometimes if I have a hunch, because I pay pretty good attention to the fuel market prices, if I see that it looks like their price is going to go up, I will try to start loading my tanks up to get ahead of the game. That way, it is a longer time before we actually pass the cost on; so we can keep our price down.

Another note on the number of stations, as you all know I operate more than one station and what I have been doing and what I have learned is that by sharing the management overhead costs, I have actually been able to lower my cost.

One particular station I am operating right now I am .15 cents below most of the other stations because I do not have the higher operating cost. I do not have the owner to support or the manager to support. I try to split management, like maybe two stations managed by one person, just to supervise and move in between, so I can keep my costs down, which is my goal, which is the same problem we have in Cayman—which is the buying power.

I am also trying to accomplish that through my wholesalers here, for the inside of the store, to buy more in volume to get a better price so I can offer better price to the public. The main thing driving the cost of fuel in Cayman is we are nobody; we do not buy any fuel. What we buy in a year, some places buy in one day or a month.

The Chairman: Yes.

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): I was importing fuel at one point for one of my mobile companies and the wholesaler I was purchasing from out of Florida was selling I think half a million gallons a day so his margin was .07 cents a gallon.

The Chairman: Do you have gas stations from both wholesalers?

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): Both Rubis and Esso.

The Chairman: Do you find any difference? Is there any advantage of one over the other or . . .

[Inaudible interjection]

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): That is a loaded question.

They have plus in one and negative on the next one, and the prices are different, which they work out whatever their wholesale price is.

The Chairman: Do they offer you, as a retailer, any breaks on volume?

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): No.

The Chairman: Is it still a situation where you normally have to pay them before they deliver it and you are expected to give it out for 30 days' credit?

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): One company we have, when the truck leaves, it carries the cheque. The other company, if you maintain good credit, they give you seven days. Seven days.

The Chairman: As a retailer to offer to customers—people—on a 30-day credit.

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): Yes, we offer 30-day credit and then, speaking of credit, then you got the credit cards—if the gas is \$4.00 per gallon, then basically the bank is hitting you around 3 per cent, so you are talking about .12 cents going out of it straight to the bank. It all starts to add up.

We are regulated by OfReg; I deal with OfReg on a regular basis. Fuel inspector, pricing, other inspections, licensing we have to pay them. I think I have about five licenses at one gas station and then I

also heard a threat that we were going to get another one. We need a restaurant license or what?

Mr. Christopher S. Saunders: Hold on a second. You pay OfReg a license—

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): Of course, long time. I have to get a license every year from OfReg to operate. I have a retail license, an OfReg license, a tobacco license to sell cigarettes, I have a liquor license and I think there is something else.

It just keeps changing, it just keeps adding, and adding and adding. We are going through the process right now to renew our liquor license and every year they seem to add more. This year now, we even have to have our deep well inspected and certified—that costs money. I do not know what deep wells and exhaust hoods have to do with selling liquor but all these things we have to do. Your hood got to be clean. It just keeps adding and adding to the cost.

The Chairman: Your liquor license does not allow you to sell for consumption on site, right?

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): No, no consumption.

The Chairman: It is really ridiculous then, to be inspecting your bathroom, but anyway.

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): They inspect everything; the Department of Health (DEH) inspects the whole place. They have to get the hood certified that it has been clean, certified that the extinguishing system is serviced, the emergency exits, all the fire extinguishers. Now they added the deep well, and I think there was something else they added.

I was actually saying to my wife at the end of this I want to sit down and add up the cost and see does it really make sense? Are we making any money or are we just paying fees?

Mr. Christopher S. Saunders: If there were one or two things that you would like to see change within the industry, what would those really be? More important than anything else, things that you think would ultimately make a difference to consumers?

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): As we all know, everything that happens in Cayman is compared to Miami—I can get that in Miami, for \$2.00. So people look on the television and they see gas in Miami \$2.69, in Cayman is \$4.00. Why? There are three huge differences. It is self-serve; if you find full

service in Miami, it is about .50 cents a gallon more, if you find it. It has gotten so bad in the United States with the self-serve, that some of the States, and others States are following, making a law that you must offer full service because disabled people cannot get service.

I am sure most of you have seen that Shell station next to Miami International, I think it is 25th Street and LeJeune Road, it is \$1.50 a gallon more than anybody else and then it is another .50 cents gallon more for full service and the only person offering that full service is say, a supervisor working inside because no one is really using it. They may have 20 customers for the day that come for full service, so it is no added cost; he comes out, pumps it and the company makes .50 cents more, whereas here, at least half of the people use the full serve.

I actually introduced self-service to Cayman I think in 1988. I was told by the actual Esso country manager at the time—it took me months to convince him to get me a sign—he said, *I am going to keep these signs because they are going to have to put them back up*; and they stayed. Probably half of our business is self-serve but we are not allowed to advertise the self-serve price. We get asked all the time, *hey, it says \$4.00 here but the pump says \$3.95*. Yeah, we got self-serve, but we are not allowed to advertise the self-serve price.

Mr. Christopher S. Saunders: Listen, you are not allowed to advertise—who. . .

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): That is the fuel regulation.

The Chairman: By whom, OfReg or the wholesaler?

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): No, no, no, no, no; government.

The Chairman: By government?

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's ESSO): Yeah, yeah, yeah; from the time they changed the law, that we had to put the pricing up on the major ID signs, we are not allowed. The only way you can advertise self-serve is if that is all you have. Like my East End station, is self-serve only, that is the only price we have. We can advertise that, but if you have full service, you have to put the full price up, that makes it appear another 5 cents higher.

The other problem is the fuel you see advertised in Miami is the 87 octane, the lowest-grade gasoline fuel. Rubis and Esso do not sell that fuel. So you are talking .30 cents to .40 cents a gallon difference. We sell basically 89 and 93, so that makes it

higher. If you want to compare the cost of fuel at a RUBIS or Esso station, you have to look for the premium gas in the United States. The 89 or 90; that is the fuel you can compare to.

Then, the price that they are advertising, that you see in the news in Miami is a US gallon and I think 90 per cent of the people in Cayman do not even know that it is two different gallons. So you are getting a good 20 per cent more for the Imperial gallon and so, someone has to pay for that.

I have said it to the suppliers and to different people in government; in fact, I said it to the Premier, A recommendation to him, to change the measure of fuel to US gallons. That way you start comparing more an apple to an apple because you have the same volume of fuel.

Mr. Christopher S. Saunders: Just out of curiosity and this is for my own understanding, what is the primary difference, because we bring in a lot of cars from the US and if they are using 87 up there. . .

Like I said, this is not something that I am an expert on but just for my own curiosity, what is the difference between 87octane versus 90octane? The reason I ask is because with our earlier witness we looked at St. Kitts where I think they were US \$3.05 a gallon two days ago, versus Cayman, just comparing to the US, was \$5.14 average in terms of Cayman using global fuel prices so that \$2.14—

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): Well, Cayman is \$3 something now. They have been between \$3.80 - \$3.99 for a couple months now; in that area. You mean US?

Mr. Christopher S. Saunders: No, I am talking US. Just comparing US, sorry.

The difference he noticed was basically the octane now I am just curious from that standpoint.

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): You said St. Kitts?

Mr. Christopher S. Saunders: Yes, I think we were using St. Kitts because you say they use a lower octane.

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): Well one huge advantage the Eastern Caribbean has over Cayman is that they have a huge petroleum storage facility. It is one of those islands just to the north of St. Kitts, I think it is.

[Inaudible interjection]

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): No; Antigua had a refinery and everything but there is another island. I have been by it on a cruise ship, I just cannot remember the name of it now and there are super tankers just laying away there, waiting to offload and move fuel. It is huge storage tanks on the side of the mountains and stuff.

They have a huge transshipment business there, so a lot of fuel is there. If they are buying out of there, then the shipping cost is a lot less, so I think that gives them a big advantage over Cayman.

Mr. Christopher S. Saunders: Well, I am happy to hear you say that because we were told that, to get a lower octane and we were like . . .

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): That is possible too because we were saying the 87, the 89 and the 93.

Mr. Christopher S. Saunders: But from a car standpoint—

The Chairman: I think in the US that is protected by the size of the nozzle, right? If the manufacturer recommends that you put higher octane in your engine, the lower octane nozzle will not go into your tank.

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): I think it is only Diesel and gas that has two different size nozzles.

The Chairman: Oh, okay because it used to be that way.

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): Diesel is bigger, to try to cut down on people putting Diesel in the gas tank; but I think most cars can run off 87. Some cars perform better with 89 or the 93. Some of the BMWs, Benz, most horsepower engines require 93 and stuff like that.

The Chairman: I think it has to do more with the emission control and the catalytic converter; that the 87 will clog it up in a hurry because of the emission control in the States.

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): I think a part of the reason that Cayman has the 89 and the 93 is—the same thing, come back again to—size.

We are so small we do not have a dedicated tanker coming to Cayman because we cannot hold what the tanker can bring. So the tanker will leave Louisiana, go to Bermuda, Bahamas and Cayman and

drop off fuel. I think part of the issue is that Bermuda, by law, the minimum octane is 93.

The Chairman: We tried to solicit from the wholesalers in their delivery, if the milk run is coming from the South Coast of the United States, the Gulf Coast, Cayman is the closest point, why aren't they coming to Cayman first at all times?

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): I am sure it makes no difference on the cost. They probably split the cost of the tanker.

The Chairman: Well he kind of hinted that way but then he said it does not affect the cost so I am not sure because in the shipping business I am pretty sure charters are related to distance and size.

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): Yeah; that I am not sure of.

Mr. Christopher S. Saunders: The thing about it is, just going back to the US versus Cayman standpoint and even looking across the Caribbean, is that even in the smaller islands that they have far more competitive prices.

Again, using Rubis' example, going back to normal times and this is pre-COVID, where \$2.45 landed become \$5.00 at the pump. Now, at the end of the day that is more than 100 per cent mark-up in terms of between landed cost, commonly using Platts' Gulf Coast price and the price is more than double. We are trying to understand what is it that really drives the price being double. We do not see that.

I mean, barring countries like say, Barbados, where the duty is quite high. I mean .75 cents duty is not that far out compared to some of the other islands, in terms of what those governments charge down there and we are still trying to figure out what is it.

Going back to my days when I used to do bookkeeping for some gas stations, I think one gas station their margin was like .27 cents on average that that they were making on a gallon of gas. I do not know if that has changed now but the question is: If there is a \$2.50 to \$2.70 margin going on, on a gallon of gas and roughly .30 to .50 cents going to the dealer, it means at the end the day your ability to play is only within that .30 to .50 cents' price range. The real chunk of the issue, the other \$2.00 plus, is still at the wholesaler point. How do we deal with that? Because the most you can affect the market price is your margin and your margin is not that great compared to the overall. The question is: What do we need to do then, to deal with the larger part which is the wholesaler?

We also found out from previous testimony from Mr. Munroe at OfReg that the very invoices for the fuel that comes in comes from subsidiaries of the

very same companies that bring it in. So they are buying it from a subsidiary company; they are selling to themselves, and in some cases they also sell it to gas stations that they own, so when you look along the supply chain, the very same wholesalers are also "quasi" retailers to some extent and the margins are pretty much stepped up along the way.

I think from that standpoint it is a situation where yes, we do not expect the prices to be the same as Miami, and I do expect at least \$1.00 difference or whatever, especially when you have the ships stopping in different places; we also found out that the ship that stops here goes to Puerto Rico and elsewhere. If the ship is going from port to port, the cost really should not be that different between ports when it is the same ship; nonetheless, by the time it reaches the pump it becomes the difference. Bahamas, for example, sets a margin between what it retails in terms of gas and diesel and if you look at Bahamas' population in terms of their consumption and you look at Cayman's consumption, and you look at the margins, to some extent you find that Cayman is far more expensive.

Another reason we were given was Cayman's high cost of living. Yet between 2016 and 2018 fuel went up by 13 per cent in over a two-year period, but the cost of living index did not go above 13 per cent in the two year period so there definitely seems to be a disconnect; and those are things we can deal with from the regulator standpoint and we will have that because the big chunk is at the wholesaler's level. It is not really at your level as a retailer.

What can we do along the way because you have a business, you employ Caymanians, you employ people, we need your business to survive but at the same time, the consumers—everybody—basically need to survive but \$2.50 to \$2.70 margin, which is almost twice the price even if you compare it to Miami, is still a bit too high.

Like you said, yes, we are nobody in the grand scheme but the ship still stops here; it goes elsewhere and it is just dropping fuel off along the way. Look at Puerto Rico; it is under US\$3.00 right now for a gallon of gas, it's like \$2.00 and something at the pump.

You even mentioned the Miami prices, built into the Miami prices is 18.5 cents for Federal tax, which is not here but that would cover the cost of even our shipment which runs about .15 cents a gallon, so that in itself washes.

The only explanation we have been given is that Cayman is a high cost jurisdiction and that was pretty much it. If that is the case then businesses clearly are not making enough money, according to them, then it is a situation now where if the demand is set at a certain place, then we need to start looking at the supply but it cannot be a situation where prices are going up because we have too many gas stations,

we have too many players, and the consumers are suffering.

At some point a hard decision will have to be made to bring the prices down because it drives the cost. In my previous life in banking we basically needed to write \$10 million in loans just to pay our light bill and we were in a two-storey building and I would hate to see what the bigger banks had to do. You are talking about another \$40 million in loans just to pay the CIMA fees; so you have \$50 million right there just on light bill and CIMA fees. Then when you have six commercial banks, that is \$300 million but when you look at the total loan increase each year, it is about \$200 million. As a result, you find that banks charge all these crazy fees because you cannot write enough loans—which is primarily your source of making money—to cover your costs and for every employee you have is another million dollars' worth of loans you have to write.

Then you look at the overall market, it is not growing that much and you end up with crazy fees being charged for every single thing you go to the bank for because you cannot make the money on your loan book. Shareholders expect you to do 7 to 10 per cent return on capital, but if the loan percentage is only 3 to 5 per cent, where else do you think the money is going to be made? It is going to be made from the fees.

At some point, as you said with your wife, you have to make the decision, if you are going to spend this much money and this is what you get, sometimes you are better off putting your money in a mutual fund, putting in a bank account and call it a day and go on the beach. That is also a possibility too.

We need to find the balance between businesses surviving in Cayman, which is reasonable, and consumers surviving. I think that is the hard conversation we need to have with regards to the supply because it appears that the supply is really an issue. As you have just laid out, for you to have survived in this business you had to basically have multiple gas stations, to spread your cost across, in order for you to survive. For the other gas stations that do not have that well, God go with them.

Mr. Johnny Brown, Chief Executive Officer, Brown's Group of Companies (Brown's Esso): It's tough.

The Chairman: Mr. Brown, thank you very much for coming; it has been very enlightening. Thank you, sir.

The meeting is adjourned until 9 a.m. tomorrow morning. Mr. Austin, 9 a.m.; that is one hour before 10 a.m.

Thank you very much; see you all in the morning.

At 3:45pm Public Accounts Committee stood adjourned.

