



## CASE STUDY

### WIDER MARKETS

#### BACKGROUND

Built in the 1960s to NATO specification, and at the height of the Cold War, the Scottish Fuel Depots situated at Garelochhead (adjacent to the Clyde Naval Base), Loch Striven (near Dunoon), Loch Ewe (in Wester Ross) and Campbeltown provide a mainly maritime fuelling facility to visiting UK & NATO vessels.

Capacity of all 4 sites at the time of original build totalled 702M litres, capable of handling Gas Oil and Aviation fuel. This total has since reduced to 600M litres due to infrastructure reductions at Garelochhead. With the withdrawal particularly of the US Navy from the West Coast of Scotland, the UK-only requirements for fuelling have dropped to today's forecast prediction of approx 50M.

Periodic reviews have continued to confirm that from a military perspective the 4 depots and their location are nonetheless strategically required in spite of the considerable excess capacity held.

The challenge therefore was either to offset MOD's overheads and liabilities by reducing running costs of each site to a minimum care and maintenance basis or to find some means of exploiting the spare capacity whilst retaining the military capability.

The latter option was initially pursued and a 4 year storage contract was commercially let in 2002, covering capacity at Campbeltown. The contract pricing structure led to MOD being paid for storage space used but not when empty, even though contractually MOD had set aside the space for commercial rental; in financial and business terms the risk remained with MOD. World events and a downturn in oil production subsequently forced the Oil company into liquidation after 1 year of the contract period i.e. the contract was terminated.

#### CURRENT ARRANGEMENTS

Today's oil market trends drive brokers and companies to purchase vast quantities and to store long term, deriving greater financial return as the market price increases. Long term bulk storage is crucial to this strategy and in this regard the OFDs are ideally placed to satisfy this requirement. In July 05, a new deal was agreed with a Dutch trading company that ensures exclusive use of spare capacity whether space is used or not, albeit a different rate per day is applied depending on whether fuel is stored. The income generated of the from spare capacity at Campbeltown and Loch Ewe, which is estimated at between £3m to £5m over the contract period, now offsets the total running costs for all 4 sites and with profit to hand. The contract term runs until Mar 08 and already other companies are indicating strong interest in bidding for the storage space leading up to this date. Spare capacity has not been exploited, however, at Loch Striven and Garelochhead due to the higher levels of military activity at these sites which may have led to a conflict between military and commercial priorities.

#### CHALLENGES AND RISKS

Receipt and despatch of fuel is always by sea, which brings fresh challenges where OFD staff and operational processes have been used to handling Naval vessels that tend to be significantly smaller than commercial bulk oil shipping. In developing a partnership relationship with the oil company, MOD management have greatly assisted in guiding them through the logistical labyrinth of harbour operations (pilot, tugs, line handlers, clearances etc) particularly when operating in confined waters, such as Campbeltown and Loch Ewe. This has established a very healthy relationship between local authorities, vessel owners and the oil company, with the associated operational risks wholly and contractually transferred from the MOD.



**Contact :**

*Simon Mills, Assistant Director Logistics, HM Naval Base Clyde,  
Dunbartonshire G84 8HL Tel: 01436 674321 x 3427*