UK Petroleum Industry Association

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UKPIA Position Paper
Oil Stocks Directive (Directive 2009/119/EC)

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Summary
UKPIA would like to raise a number of considerations around the Compulsory Stocks Obligation Directive, after consulting with its member companies.

Directive 2009/119/CE imposes an obligation on European Union (EU) Member States (MS) to maintain minimum strategic reserves of crude oil and/or petroleum products (gasoline, diesel, jet fuel, etc.). The MS obligated reserves is based on the methodology of 90 days of average daily net imports or 61 days of average daily inland consumption, whichever of the two quantities is greater.

Oil and its products are an important element of the EU's energy mix, specifically energy security (mitigation of supply shocks) and energy equity (accessibility and affordability) to consumers. With revisions to enhance the system, the directive looks to align with the existing International Energy Agency (IEA) system and the optimisation of administrative obligations on Member States.

UKPIA raises the following concerns for consideration during the mid-term review;

Revision of the fixed 10% provision for unavailable stocks
To provide consistency with the IEA, the Directive considers 10% of stocks as "non-accessible". This provision for unavailable stocks calculation for is in addition to the "non-accessible stocks", *i.e. pipeline contents*. The 10% factor is based on old IEA studies that are now outdated, and are overestimated, according to studies performed by petroleum companies, which indicate unavailability factors of less than 3%.

The calculation methodology should be revised to remove the 10% level. If this is not possible, a technical study on current practices and techniques available should be launched in partnership with the IEA. This would assist the consideration of whether 10% is still an accurate figure or if it should be reduced given the reality of stock availability during a draw down situation.

Use of Non-Petrochemical Naphtha
The Directive currently treats Naphtha in an inconsistent manner. The description and calculation methodology is an area of concern for UKPIA, as the Directive stipulates;

- Naphtha stocks are explicitly excluded on the list of obligated stocks (Annex III, 2009/119/EC) due to lack of interpretation in use. Therefore, Naphtha used as feedstock for producing gasoline or used as a component in the gasoline blending (in contradiction to Annex III and Section 3.1 of Annex C to Regulation (EC) No1099/2008) cannot be used for compulsory coverage.
- A reduction of 4-7% of total product yields is to be allowed for the account for Naphtha yields. This reduction corresponds to the average Naphtha volumes used as feedstocks for petrochemical plants (Annex I, 2009/119/EC).

Naphtha should be defined clearly as it is used as a blending component for transport fuels in significant volumes and UKPIA considers it to be an important feedstock that should be counted as part of an obligated supplier's stock holding. The discrepancy of EU and IEA naphtha yield calculation methodologies should also be resolved as part of the review of the Directive. This would enable consistency between the aim of the EU Directive and bring the EU regulation in line with the IEA methodology.

Imposed limitations to extra-territory storage
The Directive clearly states that Member States may impose limitations on all emergency stocks if a Central Stocking Entity (CSE) is delegated to manage the obligation (partial or full). A CSE has the ability to pool CSO operating costs and therefore limit the cost impact of any limitations defined by a Member State.

In the UK, the obligation is met by Economic Operators (EO) i.e. individual oil supplying companies, who carry the burden of the UK CSO. This obligation has nothing to do with the companies commercial operations and increases the cost and complexity of their working capital requirements considerably. The availability and flexibility that the international ticket market provides is essential for all UK obligated companies in managing this process. Any reduction in this flexibility would significantly increase costs for all UK EOs in a very short timescale due to their limited options and storage availability. Furthermore, given UK's unique situation where its obligation is set to increase by almost 50% over the next decade as its derogation for indigenous North Sea crude production declines, costs of meeting the CSO are already expected to rise significantly, but even more so with imposed geographical limitations.

Article 8 (2) of the Directive ensures that private companies, acting as an EO, are given at least some delegation rights in meeting their obligations. This is an important measure that can ensure that stocks used to enhance security of supply for the EU are procured at the lowest possible cost.

UKPIA strongly object to the demand that 'a MS should be able to require an EO with an obligation to hold any proportion of stocks on national territory'. In effect, this would remove Article 8 (2) entirely, and any flexibility that the EO has meeting its obligation. UKPIA members advocate this requirement be removed and that full clarify on the definition of 'accessible stocks'is forthcoming.

List of eligible products
The Directive allows a wide list of products (Section 4, Annex B, 2008/1099/EC) to meet CSO obligations, which EOs facing an obligation to provide emergency stocks cover can deploy to enable building of their own stocks and/or to purchase CSO tickets. Some of these products are not eligible under the strategic stocking framework in case of a crisis for the transport sector and the chemicals industry, which are identified as two key sectors by the Directive.

The current requirements allow existing stocks to be initially released as required and be replenished by "any oil" type stocks such as crude oil, or atmospheric distillation residues. Increasing requirements for specific stocks are likely to increase costs whilst offering no material improvement in resilience.

UKPIA is of the opinion that the list of eligible products should be as wide as possible to allow greater flexibility in meeting obligations. In particular, the requirement of holding "specific stocks" such as gasoline, diesel or jet fuel should not be increased further from current requirements.

Biofuels definition
The Directive stipulates that biofuels can only be counted towards obligated stocks when blended with petroleum products. As biofuels are mandated as a blending component for transport fuels in

significant volumes UKPIA can see no rationale for biofuels not to be counted as as part of an obligated supplier's stock holding. Currently only under special circumstances can biofuels and additives be counted towards emergency stocks.

Treatment of refiners vs importers

In the United Kingdom CSO Legislation requires refiners to hold a higher obligation than importers, which provides a competitive advantage for importers with no justification.

UKPIA members are of the strong opinion that the directive should ensure a level playing field for all obligated EOs and avoid discrimination or provision that favours refiners or importers. UKPIA requests FE make clear that CSO should not be a business cost, and should not be a commercial requirement. CSO is a national and EU wide supply security requirement.

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UK Petroleum Industry Association, *Refining Britain's Fuels*

UKPIA represents the interests of eight member companies engaged in the UK downstream oil industry on a range of common issues relating to refining, distribution and marketing of oil products, in non-competitive areas.

UKPIA's role is to inform its members of proposed legislation and related developments, and to help form and advocate the industry's position.

UKPIA is also an authoritative source of information and reference on the UK downstream industry.

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