COMMISSION OF THE EUROPEAN COMMUNITIES

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Proposal for a Council Directive

amending Directive 68/414/EEC

"imposing an obligation on Member States of the EEC

to maintain minimum stocks of crude oil and/or petroleum products"

(presented by the Commission)

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EXPLANATORY MEMORANDUM

History & Context

1. The current compulsory stockholding systems in the European Union have evolved from Council Directive 68/414/EEC which required all Member States to maintain oil stocks for each of the three main product categories (gasolines, middle distillates, fuel oils) at a minimum level equivalent to 65 days inland consumption of the previous calendar year. In 1972, the minimum stock requirement was raised to 90 days consumption (Council Directive 72/425/EEC), a level which still prevails today. Individual Member States were left free to organise their own internal stockholding regimes as they wished in order to comply with the Directive.

2. The reasons for having adopted Directive 68/414/EEC can be summarised as follows:

   a) Oil supply disruptions threaten economic activity. It is therefore desirable that Member States have stocks available in order to cope with potential supply disruption difficulties and manage the crisis should it reach a critical stage.

   b) It may be desirable to intervene during the crisis, for, as physical deliveries begin to dry up, there is a risk of price speculation in the market. It therefore makes good economic sense for the authorities to be able to minimise, or prevent, the effects of a supply crisis by drawing on their security stocks.

   c) The mere fact that Member States have an important buffer at their disposal is a powerful deterrent which can in itself discourage those who might be tempted to create a supply crisis or speculate from it: the existence of stocks wards off the crisis.

3. The first stockholding provisions adopted by the Council were based on Article 103 (difficulties in supply of certain products) of the Treaty.

   In a broader context, the main objectives of the above Community legislation were shared by OECD countries when they adopted the International Energy Programme (IEP) in 1974 creating the International Energy Agency (IEA). Despite some technical differences, both Community and IEA provisions create a framework in which the same supply security principles apply in order to provide a credible and flexible response to an oil supply crisis should the need arise.

4. Since the seventies, the liberalisation of economies and the changing patterns in oil supply and demand and in industry structure, the introduction of the internal energy market and the expected enlargement of the European Union towards new Member States indicate that a review of Community compulsory oil stocks legislation is necessary.

5. Previous attempts to update and adapt parts of Directive 68/414 (72/425) were not successful. The most recent attempt[1] was overtaken by events such as the 1990 Gulf crisis. Interest shifted towards measures to mitigate the effects of an oil supply crisis and towards strengthening Community representation in the IEA. Subsequently, the Commission returned to a consideration of preventive measures - namely regarding oil stocks - with a view to adapting the above Directives to recent developments in supply security.

6. In parallel, in recent years, ten countries from Central and Eastern Europe[2] (CEEC) and Cyprus have applied for Community membership. One of the prerequisites for such membership is compliance with the Community "acquis". Most candidates have already initiated procedures to transpose the Community Directive on stocks into their national legislation. A recent Commission[3] workshop showed that the obligation to build security stocks equal to 90 days of the previous year's consumption is a difficult task which is creating a heavy financial burden for these countries. As oil consumption is expected to rise substantially in these countries, it is essential that they put in place efficient and transparent stockholding mechanisms. Today the task of the Community and its Member States is to lead the way by adopting and implementing efficient, transparent and consistent stockholding arrangements in order to create a coherent framework to be used by candidate Member States when building security stocks and setting up stockdraw mechanisms. Such a framework must be based on updated Community legislation for the benefit of all.

7. A review of issues concerning compulsory security oil stocks was recently undertaken under Commission co-ordination by the Oil Supply Group (OSG), a group of national experts from the fifteen Member States created by Council Directive 73/238/EEC[4].This work, parallel consultation with the industry and a specialised study carried out in 1997 demonstrate that it is desirable to improve the existing legislation (Council Directive 68/414/EEC as amended by Directive 72/425/EEC) in order to ensure:

   a) the existence of efficient, reliable and consistent stockholding regimes and mechanisms in all Member States so as to provide the appropriate co-ordinated response when needed;

   b) transparency in stockholding arrangements and the reinforcement of the level playing field in the internal oil market.

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[1] COM(90) 514 final of 22.11.90.

[2] Bulgaria, Estonia, Czech Republic, Hungary, Latvia, Lithuania, Poland, Slovenia, Slovak Republic and Romania.

[3] DG XVII & DG XV/TAIEX Workshop. Brussels, 1.07.97.

[4] OJ N° L 228, 16.08.1973, p. 1

8. Consequently, based on Article 103a of the Treaty, security of supply issues are considered in the present Directive Proposal in relation to the Internal Energy Market.

Supply Security

9. Security of supply remains a major issue for the Community. Since the Community will continue to depend heavily on imported oil and forecasts indicate high oil demand in other regions of the world as well, there is an ongoing need for vigilance in both the short and long term. More than three quarters of proven world oil reserves are located in potentially unstable areas and this highlights the continuing requirement for measures, adapted where necessary to changing market circumstances, to meet the possibility of sudden supply disruptions which would be highly damaging for the world and Community economies. The main justification for holding security stocks is the need to cover risks associated with potential supply disruptions, a principle also shared by the IEA.

10. The risk of a very serious threat to the Community's security of oil supply is considered to be of a different nature today than in the past. Conditions have changed from the crisis/sub-crisis situations which existed some twenty years ago when crude and product supply sources and markets were much less diversified, less transparent and less efficient than they are today[5].

11. Although the precise nature of the potential threat to oil supplies may change over time, the importance of stable and secure oil imports to the Community's economies means that security stocks will remain a crucial part of Government policy. The need for vigilance is more acute if consideration is given to the recent trends and developments in the geo-political and competitive environment in which global oil supply and demand is to be considered.

12. The confirmed trend observed since the end of the eighties in the oil industry towards cost reduction by holding the least possible oil stocks is expected to continue and intensify in the future. Since 1980, industry stocks have fallen by about 25 consumption days. Only the creation and maintenance of stocks under Government control has, to a certain extent, reversed the downward trend. However, the trend towards such stocks has slowed down in the nineties, as fewer and fewer Governments seem to be convinced of the need to maintain security stocks.

13. As the oil industry has developed in a more competitive environment, with a decreasing number of "national" companies as a result of extensive privatisation programmes, companies are increasingly adopting commercial attitudes towards how they do business. They are more and more reluctant to accept that they have a "strategic" responsibility for maintaining the flow of oil to end-users in the event of an international supply disruption. The cutback in company stocks has taken two forms: reductions in surplus capacity (such as refineries, storage and distribution depots, etc., thus improving the overall efficiency of operations) and cutbacks in "discretionary" stocks[6].

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[5] COM(96) 143: "Report on the situation of oil supply, refining and markets in the EC".

[6] "Discretionary" or "commercial" stocks: see annex for definitions.

14. The use by the industry, but also by certain stockholding entities, of the so-called "delegated"[7] stocks has been intensified in recent years mainly as a cheaper solution to cover the storage obligation both at national and Community level. Being mainly co-mingled operating stocks, "delegated" stocks are more difficult to identify and control. As a result, their potential availability to consumers in a supply disruption could be put into doubt. The "usability" of stocks in an oil disruption and Government powers to ensure control of stocks are interrelated issues which are addressed both at EU and IEA/OECD level [8].

15. In 1995, the Commission presented to the Council an integrated approach for action in the field of energy in the White Paper on an "Energy Policy for the European Union"[9]. This document reaffirmed the importance of energy supply security for the Community by placing security of supply alongside competitiveness and environmental protection as the three pillars of energy policy in the European Union. The Community's external oil dependence can be best managed through diversification of supply, development of international relations with oil producers and provisions concerning oil stocks and measures to mitigate difficulties arising from oil supply shortages. All measures and provisions envisaged regarding the above fields must be in line with the internal market in the Community.

16. By re-affirming the importance of oil supply security, the Council in the conclusions of its meeting of December 1996 recognised the fact "that the Community will continue to depend heavily on imported oil and that there is an ongoing need for vigilance in both the short and long term", as "more than three quarters of proven world oil reserves are located in potentially sensitive areas". In addition, the Council highlighted "the continuing requirement to maintain existing measures such as stockholding procedures and crisis management mechanisms, which may be adapted where necessary to changing market circumstances."[10].

17. Concerning the implementation of Community legislation, the Commission monitors the level of stocks in Member States on a regular and periodic basis through the reporting mechanism introduced by Directive 68/414/EEC, supported where possible by other statistical data. As a result of this process, the Commission concludes that, as far as the three main oil product categories are concerned, several Member States have not been able to maintain the minimum level of stocks according to their legal obligation for several months[11].

18. The IEA Ministerial Governing Board of May 1997 reaffirmed that despite the evolution of the oil markets towards greater competition, transparency and efficiency, oil security remains a serious concern, particularly given the prospect of increasing import dependence and the increasing concentration of remaining oil reserves in the Middle East. The Board concluded that there is no room for complacency but a need to enhance efforts to provide for flexible and credible responses to any emergency by keeping response mechanisms fully up to date, as well as to maintain and - in countries with weak stock positions - improve the level of stocks.

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[7] "Delegated", "ticket", or "consigned" stocks: see annex for definitions.

[8] "Future Strategies for IEA Emergency Reserves", IEA/SEQ(97)7/REV1 of 1.10.97, and "Report to the Governing Board on IEA Emergency Reserve Issues", n° IEA/SEQ(97)42 of 5.11.97.

[9] COM(95) 682 final of 13.12.95.

[10] Council Conclusions on the "Report on the situation of oil supply, refining and markets in the EC", PRES/96/356 - 03/12/96.

[11] Reference period: 1.01.95 - 1.07.97.

19. In the relevant Standing Group, as part of the IEA's monitoring of the level of stocks, several IEA countries have been pinpointed for not respecting their minimum stock obligation.

20. Based on the above context, as far as oil supply security is concerned, the Commission is proposing modifications to Directive 68/414/EEC. These modifications do not aim to change the fundamentals of the Community stockholding system. Their aim is to improve and adapt the modalities of this system mainly based on certain common basic stockholding criteria and requirements, clarify certain issues and simplify provisions where this is possible. The focal point of the proposed improvements is to ensure that security stocks are fully at the disposal of Member States in the event of supply difficulties and that Member States possess the legal and administrative powers to be in control of these stocks in order to draw on them when it is necessary.

Internal Energy Market

21. The entry into force of the internal market and the establishment of an area without internal frontiers implies that products can move from one Member State to another without legal, technical, administrative or fiscal obstacles. It also implies that, in a spirit of Community solidarity, the stockholding burden is shared by all Member States in an equitable, transparent and efficient way.

22. The process of the liberalisation of oil markets requires that national markets cannot operate with barriers. A level playing field based on market transparency and neutrality for all operators is therefore necessary and is a basic criterion for the proper functioning of the internal energy market. It is essential that this criterion is respected by all national stockholding regimes in the Community be they "centralised" ("entity / agency" or Government "strategic" stocks) or "de-centralised" ("company / industry" stocks)[12]. As a principle, stockholding arrangements must not be an obstacle to the entry to, or exit from, the market, or to the free movement of oil products within the Community.

23. A number of market operators claim that they are not being treated equally vis-à-vis their market competitors, as inequalities can be created by:

   a) the disproportionate application of the stockholding obligation to the various types of market operators;

   b) the disproportionate distribution of the stockholding costs amongst those with the obligation to maintain security stocks;

   c) the partial use of the industry operating stocks as "delegated" stock; some operators are able to do this and others, because of their different structure and activity, are not;

   d) unfair conditions imposed on importers and distributors in order to benefit from "delegated" stockholding by domestic refiners, such as the requirement to sign long-term purchase contracts with the latter.

[12] "Centralised" vs. "de-centralised" stockholding systems: details in the annex.

24. Under current provisions, inequalities can also be created between market operators established in a Member State allowing oil storage in another Member State through specific Governmental agreements (Article 6.2 of Directive 68/414/EEC), and operators in a Member State forbidding such a practice. These agreements, however, have always been considered to be a useful means for increasing the proper functioning of the internal market in the oil sector, at the same time allowing control by a Member State over stocks which are held outside its territory. Although Member State Governments decide whether or not to store oil in another Member State, in reaching a decision, they must take into account:

a) the economic reality of a frontierless internal market, where the movement of goods from one Member State to another should be unhindered; and

b) the need for oil companies to operate on a European level and therefore to reduce costs and optimise stockholding obligations.

25. Procedures aiming at establishing such agreements can impose a heavy administrative burden on Governments, depending on the internal administrative structures in each Member State. The aim of the proposed amendments to Directive 68/414/EEC is to cover the minimum Community-wide requirements. Member States complying with these requirements should be able to establish agreements without major difficulties provided they also develop internally more simple procedures to do so.

26. Having taken into account the above issues, the proposed modifications to Directive 68/414/EEC provide the necessary improvements to Community storage arrangements within the internal market, without hindering supply security considerations. As far as the internal market is concerned, the focal point of the proposed modifications is the existence of transparent stockholding arrangements in every Member State in order to strengthen the level playing field in the Community.

Areas of Improvement

Improvements to Community legislation are proposed along the following lines:[13]

27. Derogation to the stockholding obligation of Member States with indigenous oil production:

Member States producing oil indigenously have the right to deduct from their internal consumption the percentage corresponding to this indigenous production. Review of this issue took into account, amongst other issues, the legal and administrative powers of the Governments concerned to control the use of their stocks and their oil output if need arises in an oil crisis situation. Taking into account the fact that only the United Kingdom and Denmark benefit from an increase of such a derogation, the maximum derogation ceiling could be raised to 25%. Indeed, the indigenous oil production of these two main Community producers corresponds to 25% of the total EU-15 oil consumption of the last

[13] Order of appearance in the attached Directive Proposal.

three years[14]. In practice, since the derogation percentage is deducted from the "average daily internal consumption", the stockholding obligation remains equal to 90 days for all Member States.

28. Statistical reporting I: Calculation of internal consumption:

For the sake of coherence, the calculation and statistical reporting of stocks must obey basic common rules for all Member States. It is therefore necessary to adopt definitions and approaches already agreed in the past at Community[15] and international level (EUROSTAT, OECD/IEA, UN)[16] as far as oil consumption is concerned and, therefore, adopt fully the practice followed by a very large majority of Member States, namely to include international aviation bunkers in internal consumption. This measure will be accompanied by a separate reporting of "jet fuel of the kerosene type", the consumption of which is growing rapidly, without however imposing any specific obligation on this product.

29. Quality of stockholding mechanisms - Administrative supervision of stocks:

a) Oil supply security is improved if the quality of stockholding mechanisms is enhanced. It is important that security stocks are at the full disposal of Member States should difficulties arise. For this to happen, stocks must be - at all times - available and accessible. Such criteria are respected in a more efficient way in Member States which possess the legal and administrative powers to put security stocks and stockdraw procedures under their control in order to use stocks when and where they are mostly needed. Efficient accounting and control mechanisms are needed, together with an enforcement procedure including sanctions for those not respecting their legal stockholding obligation.

b) In general, stockholding arrangements should be fair and not creating discriminations. Transparency helps avoid discrimination and establish fair conditions in the market. Transparent arrangements give the possibility to operators to be aware of their rights and obligations as the cost of compulsory oil storage is identified and known. Therefore, such identification needs to be as precise as possible. In any case, the stockholding cost is part of the final product price in the market.

c) The abovementioned criteria apply equally to all stocks whether held on national or Community territory. Experience shows that compliance with these criteria can be achieved more efficiently and with fewer difficulties in Member States having set up stockholding arrangements where all, or a large part, of stocks are maintained under the auspices of, or directly under, Government control (eight Member States have "entity/agency stocks" and/or Government "strategic stocks"[17] - others are planning to set up similar systems[18]). In particular, in

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[14] 1994, 1995 and 1996.

[15] i.e.: "Energy - Glossarium", 1991, EUROSTAT.

[16] Oil Annual Questionnaire, QUEST/OIL/1/REV1, common questionnaire adopted by EUROSTAT, IEA and United Nations.

[17] See annexes for definitions.

[18] Italy is the most recent example: a new law establishing a stockholding agency was proposed for adoption in February 1998.

Member States where stocks are maintained by a stockholding body or entity owning all, or a large part, of the total stock obligation, there is no particular difficulty respecting the Community stock obligation; these Member States have a comfortable 90-day stock position, or above, in recent years. It has been observed that, following the establishment of such entities, total stocks increase. The main reason is that entity stocks are usually built <u>on top</u> of the operating stocks of the industry which exist anyway for industry operations.

Stockholding bodies/entities usually distribute the stockholding obligation to their members, refiners and non-refiners, through an identified fee or levy calculated on the obligation of each of these two groups of operators. This type of financing is preferred: although it is generally guaranteed by the Government, it does not depend on Government budget. The latter may be vulnerable to decisions based on situations other than oil disruptions. Stockholding bodies or entities can develop a close Government/industry partnership which is necessary for the maintenance and use of security stocks and essential for the proper and efficient functioning of the oil market.

30. <u>Statistical reporting II: Conversion methods and reporting time</u>

a) Flexibility implies that stocks can be maintained in the form of crude oil and intermediate products and/or in the form of finished products. Decisions on this issue can be better tackled at local level depending on the needs of the market and the strategic decisions of each Member State. In order to simplify the conversion of crude oil into product equivalent, it is proposed to abandon one conversion method and keep the other two which provide adequate flexibility of choice in maintaining stocks of crude oil and/or finished oil products.

b) Reporting time is aligned to that of the International Energy Agency. Member States will send to the Commission their statistical summary reports, showing stocks existing at the end of each month, at the latest by the 25th day of the second month after the month to be reported. The annual consumption, upon which stock levels are calculated, is proposed to change on 31 March every year.

31. <u>Stocks held in other Member States</u>:

a) A Member State Government has the right, if it so wishes, to maintain security stocks in the Community by establishing framework-agreements with the Government of another Member State and thus cover all, or part of its stockholding obligation. Decisions to establish such an agreement - giving therefore the green light for subsequent contracts between undertakings to hold their stocks elsewhere in the Community - should take into account the quality of stockholding mechanisms in the host Member State. In case of supply difficulties, the beneficiary Member State must be able to request and obtain repatriation of its stocks in order to draw upon them for consumer benefit.

Additional new clauses proposed define:

i) provisions on availability, control and repatriation of stocks.

ii) clauses concerning the reporting of stocks;

iii) a framework for "delegated" stocks held as a result of an agreement, focusing on:

a) the repatriation of stocks;
b) the delegation period;
c) the identification of stocks.

b) Efficient monitoring of the Community situation implies that stock movements between Member States will be reported to the Commission (the practice already followed today) and that the Commission is kept informed about the conditions of either the existence of an agreement between Governments, or the absence of it.

32. Sanctions:

A regime is introduced concerning sanctions imposed by Member States on undertakings not respecting legislation on security stocks. Implementation is left to Member State Governments. Sanctions must be effective, proportional and dissuasive.

Conclusion

In the light of the above, the Commission proposes to the Council for adoption a Directive with specific amendments to Council Directive 68/414/EEC.

The Commission will report to the Council regularly on the situation and developments concerning security oil stocks. This report will include statistical analyses of stock levels in the Community and their interpretation, details on individual agreements between Member States maintaining stocks in another Member State and other relevant information concerning the implementation of the Directive.

Proposal for a Council Directive amending Directive 68/414/EEC "imposing an obligation on Member States of the EEC to maintain minimum stocks of crude oil and/or petroleum products"

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 103a(1) thereof;

Having regard to the proposal from the Commission;

Having regard to the Opinion of the European Parliament;

Having regard to the Opinion of the Economic and Social Committee;

Whereas the Council has adopted the Directive of 20 December 1968[19] imposing an obligation on Member States of the European Economic Community to maintain minimum stocks of crude oil and/or petroleum products

Whereas imported crude oil and petroleum products continue to play an important role in the Community's energy supplies; whereas any difficulty, even temporary, having the effect of reducing supplies of such products, or significantly increasing the price thereof on international markets, could cause serious disturbances in the economic activity of the Community; whereas the Community must be in a position to offset or at least to diminish any harmful effects in such a case; whereas it is necessary to update Directive 68/414/EEC adapting it to the reality of the internal market of the Community and the evolution of the oil markets;

[19] OJ N° L 308, 23.12.1968, p. 14; Directive last amended by Directive 72/425/EEC (OJ N° L 291, 28.12.1972, p. 154)

Whereas in Directive 73/238/EEC of 24 July 1973 [20] the Council decided upon appropriate measures - including drawing on oil stocks - to be taken in the event of difficulties in the supply of crude oil and petroleum products to the Community; whereas Member States have undertaken similar obligations in the Agreement on an "International Energy Program"[21];

Whereas it is important that the security of oil supply is enhanced;

Whereas it is necessary that the organisational arrangements for oil stocks ensure the smooth running of the internal market;

Whereas the provisions of this Directive do not affect the full application of the Treaty, in particular the provisions concerning the internal market and competition;

Whereas, in accordance with the principle of subsidiarity and in accordance with the principle of proportionality such as stipulated in Article 3 B of the Treaty, the objective of maintaining a high level of security of oil supply in the Community through reliable and transparent mechanisms based on solidarity amongst Member States and, at the same time, complying with the rules of the internal market and competition, can be carried out more adequately at the level of the Community; whereas therefore this Directive is limited to the minimum requirements to achieve this objective and does not exceed what is necessary to this end;

Whereas it is necessary that stocks are at the disposal of Member States should difficulties in oil supply arise; whereas Member States must possess the powers and the capacity to control the use of stocks so that they can be made available promptly for the benefit of the areas which most need oil supplies;

Whereas organisational arrangements for the maintenance of stocks must ensure the stocks' availability and their accessibility to the consumer;

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[20] OJ N° L 228, 16.08.1973, p. 1.
[21] As last amended on 7th August 1992.

Whereas it is appropriate that organisational arrangements for the maintenance of stocks are transparent, ensuring a fair and non-discriminatory sharing of the burden of the stock-holding obligation; whereas, therefore, the cost of holding oil stocks should be identified in the final price of the oil products sold in the market concerned;

Whereas, in order to organise the maintenance of stocks as indicated above, Member States may have recourse to a system based on a stockholding body or entity which will hold all, or part, of the stocks making up their stockholding obligation; whereas the balance, if any, should be maintained by refiners and other market operators; whereas partnership between the Government and the industry is essential to operate efficient and reliable stockholding mechanisms;

Whereas high national production contributes in itself to security of supply; whereas the oil market evolution can justify a higher maximum derogation from the obligation to maintain oil stocks for Member States with indigenous oil production;

Whereas it is appropriate to adopt approaches which are already followed by the Community and the Member States within their international obligations and agreements; whereas, owing to changes in the pattern of oil consumption, international aviation bunkers have become an important component of this consumption; whereas these bunkers are part of inland consumption;

Whereas there is a need to adapt and simplify the Community statistical reporting mechanism concerning oil stocks;

Whereas oil stocks can, in principle, be held anywhere in the Community and, therefore, it is appropriate to facilitate the establishment of stocks outside national territory; whereas it is necessary that decisions for holding stocks outside national territory are taken by the Government of the Member State concerned according to its needs and supply security considerations; whereas in the case of "delegated" stocks, more detailed rules are needed to guarantee their availability and accessibility in the event of oil supply difficulties;

Whereas it is appropriate to strengthen the administrative supervision of stocks and establish efficient mechanisms for the control and verification of stocks; whereas a regime of sanctions is necessary to impose such a control;

Whereas Council Directive 72/425/EEC of 19 December 1972 raised from 65 to 90 days the reference period appearing at the first indent of Article 1 of Directive 68/414/EEC and foresaw the conditions to implement this increase; whereas the provisions of that Directive have become obsolete by this Directive; whereas Directive 72/425/EEC must therefore be repealed;

Whereas it is appropriate to inform the Council on a regular basis on the situation concerning security stocks in the Community;

HAS ADOPTED THIS DIRECTIVE :

Article 1

Directive 68/414/EEC is amended as follows:

1) Article 1 is replaced by the following text:

"Article 1

1. Member States shall adopt such laws, regulations or administrative provisions as may be appropriate in order to maintain within the territory of the European Community at all times, subject to the provisions of Article 7, their stocks of petroleum products at a level corresponding, for each of the categories of petroleum products listed in Article 2, to at least 90 days' average daily internal consumption in the preceding calendar year.

2. That part of internal consumption met by derivatives of petroleum produced indigenously by the Member State concerned may be deducted up to a maximum of 25 % of the said consumption."

2) Article 2 is deleted.

3) Article 3 becomes Article 2 and is supplemented by the following paragraph:

"Bunker supplies for sea-going vessels shall not be included in the calculation of internal consumption. Bunker supplies for international aviation shall be included in the calculation of internal consumption".

4) Article 3 hereafter is inserted:

"Article 3

1. Stocks maintained according to Article 1 shall be fully at the disposal of Member States should difficulties arise in obtaining oil supplies. Member States shall ensure they have the legal powers to control the use of stocks in such circumstances.

At all other times, Member States shall ensure the availability and accessibility of these stocks; they shall establish arrangements allowing for the identification, accounting and control of the stocks.

2. Member States shall ensure that fair and non-discriminatory conditions apply in their stockholding arrangements.

The cost burden resulting from the maintenance of stocks according to Article 1 shall be identified by transparent arrangements in the final product price of the oil products concerned. In case stocks are maintained solely by commercial undertakings, the stockholding cost burden may be indicative.

3. To fulfil the requirements of paragraphs 1 and 2, Member States may decide to have recourse to a stockholding body or entity which will be responsible for holding all or part of the stocks.

Two, or more Member States may decide to have recourse to a joint stockholding body or entity. In that case they shall be jointly responsible for the obligations deriving from this Directive."

5) Article 4 is replaced by the following text:

"Article 4:

Member States shall submit to the Commission a statistical summary showing stocks existing at the end of each month, drawn up in accordance with Articles 5 and 6 and specifying the number of days of average consumption in the preceding calendar year which those stocks represent. This summary must be submitted at the latest by the 25th day of the second month after the month to be reported.

The annual consumption, upon which the new stockholding obligation is calculated, shall change on 31 March every year.

In the statistical summary, stocks of jet fuel of the kerosene type shall be reported separately under category II."

6) Article 5 is replaced by the following text:

"Article 5

Stocks required to be maintained by Article 1 may be maintained in the form of crude oil and intermediate products, as well as in the form of finished products.

In the statistical summary of stocks provided for in Article 4, finished products shall be accounted for according to their actual tonnage; crude oil and intermediate products shall be accounted for:

- in the proportions of the quantities for each category of product obtained during the preceding calendar year from the refineries of the State concerned; or

- on the basis of the ratio between the total quantity manufactured during the preceding calendar year in the State concerned of products covered by the obligation to maintain stocks and the total amount of crude oil used during that year; the foregoing shall apply to not more than 40% of the total obligation for the first and second categories (petrol and gas oils), and to not more than 50% for the third category (fuel oils).

Blending components, when intended for processing into the finished products listed in Article 2, may be substituted for the products for which they are intended."

7) Article 6 is amended as follows:

a) Paragraph 1 is replaced by the following text:

"1. When calculating the level of minimum stocks provided for in Article 1, only those quantities which would be held in accordance with Article 3 shall be included in the statistical summary".

b) Paragraph 2 is replaced by the following text:

"2. For the purposes of implementing this Directive, stocks may be established, under individual agreements between Governments, within the territory of a Member State for the account of undertakings established in another Member State.

In such cases, the Member State on whose territory the stocks are held under the framework of such an agreement shall not oppose the transfer of these stocks to the other Member States for the account of which stocks are held under that agreement; it shall keep a check on such stocks in accordance with the procedures specified in that agreement but shall not include them in its statistical summary. The Member State on whose behalf the stocks are held may include them in its statistical summary.

Together with the statistical summary provided for by Article 4, each Member State shall send a report to the Commission concerning the stocks maintained within its own territory for the benefit of another Member State, as well as the stocks held in other Member States for its own benefit. In both cases, the storage locations, quantities and product category - or crude oil - stored will be indicated in the report.

Drafts of the agreements mentioned in the first subparagraph shall be sent to the Commission, which may make its comments known to the Governments concerned. The agreements, once concluded, shall be notified to the Commission, which shall make them known to the other Member States.

Any Member State which decides not to maintain stocks in another Member State within the framework of such agreements shall inform the Commission about the reasons for such a decision.

Agreements shall satisfy the following conditions:

-they must relate to crude oil and to all petroleum products covered by this Directive;

-they must lay down conditions and arrangements for the maintenance of stocks with the aim of safeguarding control and availability of these stocks;

-they must specify the procedures for checking and identifying the stocks provided for;

-they must as a general rule be concluded for an unlimited period;

-they must state that, where provision is made for unilateral termination, the latter shall not operate in the event of a supply crisis and that, in any event, the Commission shall receive prior information of any termination.

When stocks established under such agreements are not owned by the undertaking, or body/entity, which has an obligation to hold stocks, but are delegated to this undertaking, or body/entity, by another undertaking, or body/entity, the following conditions shall be met:

-the beneficiary undertaking, or body/entity, must have the contractual right to acquire these stocks during the delegation period; the methodology for establishing the price of such acquisition must be agreed between the parties concerned;

-the minimum delegation period must be 90 days;

-storage location, quantity and category of product, or crude oil, stored in that location must be specified."

c) Paragraph 3, second indent, is replaced by the following text:

"Consequently the following shall, in particular, be excluded from the statistical summary: indigenous crude oil not yet extracted; supplies intended for the bunkers of sea-going vessels; supplies in direct transit apart from the stocks referred to in paragraph 2; supplies in pipelines, in road tankers and rail tank-wagons, in the storage tanks of retail outlets, and those held by small consumers. Quantities held by the armed forces and those held for them by the oil companies shall also be excluded from the statistical summary."

8) Article 6a hereafter is inserted:

"Article 6a

Member States shall adopt all the necessary provisions and take all the necessary measures to ensure control and supervision of stocks. They shall put in place mechanisms to verify the stocks according to the provisions of this Directive."

9) Article 6b hereafter is inserted:

"Article 6b

Member States shall determine the sanctions applicable to the violation of the national provisions made pursuant to this Directive, and shall take any measure necessary to ensure the implementation of these provisions. Sanctions must be effective, proportional and dissuasive. Member States shall notify these provisions to the Commission at the latest on 31 December 1999, as well as any later modification concerning them, as soon as possible."

Article 2:

Directive 72/425/EEC is hereby repealed as from 31 December 1999.

Article 3:

1. Member States shall adopt and publish the necessary measures to comply with this Directive before 31 December 1999. They shall inform the Commission immediately thereof. They apply these provisions as from 1 January 2000.

2. When Member States adopt these provisions, they shall contain a reference to this Directive or shall be accompanied by such a reference on the occasion of their official publication. The methods of making such reference shall be laid down by Member States.

Article 4:

The Commission shall submit regularly to the Council a report on the situation concerning stocks in the Community, as required by Directive 68/414/EEC. The first report shall be submitted to the Council during the second year following the date stipulated in Article 3(1).

Article 5:

This Directive is addressed to the Member States.

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DEFINITIONS

1 Clear definitions establish consistency and common understanding. The definitions below aim to serve as a reference to discussions on stocks and stockholding issues.

2 In general, since stocks are normally held for security purposes, it is understood that the term "security stocks" will be used to broadly describe all oil stocks held for potential use in an oil supply crisis.

3 The term "compulsory stocks" is used when reference is made to the minimum security stock obligations of 90 days' consumption imposed by Community regulations.

4 Security stocks can also be divided into:

4.1 "Strategic stocks", which are stocks held separately under control of Governments with central budget finance (i.e. Strategic Petroleum Reserve in USA, Government-owned stockpiles in Germany and Japan);

4.2 "Entity/agency stocks" which are held under the management and control of official stockholding entities or agencies (sometimes held separately by an independent entity, sometimes held by oil companies under central entity/agency responsibility), financed by a fee or levy divided amongst member market operators (i.e. ELG in Austria, FDO in Denmark, NESA in Finland, CPSSP/SAGESS in France, EBV in Germany, NORA in Ireland, COVA in the Netherlands, CORES in Spain). In the Member States with entity/agency stocks, these are part of the compulsory stocks held as a result of the Community obligation;

4.3 "Company/industry stocks" are stocks held directly by the oil industry.

5 In addition, definitions of a more technical character can be used to clarify different types of stocks:

5.1 "Technical Minimum Operating Stocks/Requirement" (T-MOS or T-MOR) are stocks necessary to keep oil industry facilities technically operable (i.e. oil inside refining networks, pipelines, etc.), without which operations would have to shut down - even if these volumes could actually be physically removed, which is open to considerable doubt.

5.2 "Normal Minimum Operating Stocks/Requirement" (N-MOS or N-MOR) are stocks required in addition to T-MOS by the oil industry to conduct normal operations which can be described as operations which can be conducted without signs of shortages ("tightness") developing in supply/distribution systems. N-MOS are the level of stocks at (or below) which the first signs of problems in maintaining the normal supply operations are encountered. This level is determined to a large extent by the overall efficiency of the supplying system.

5.3 "Commercial" (or "discretionary") stocks are stocks held by the oil industry above "normal" minimum operating stocks for use in day-to-day activities and for trading purposes, which can vary according to market conditions (companies' financial position and stockholding policies, perceptions of supply security, expectations of price developments, etc.).

5.4 "Delegated" (or "consigned", or "ticket") stocks are stocks held technically by an operator/entity, in exchange of a certificate (ticket), for the account of another operator/entity in order for the latter to cover his legal stock obligation, or part of it.

6 For the purposes of this paper the broad definition "operating" stocks defines those stocks which are MOS/MOR (both technical and normal) and potentially "commercial" stock as described above. Every other stock will be defined as "non-operating", i.e. held in excess as a result of legal obligations, its existence is dictated by supply security considerations and is not the result of decisions guided by commercial considerations.

ISSUES ADDRESSED DURING THE CONSULTATIONS CARRIED OUT BY THE COMMISSION

Oil Supply Group

7 The Oil Supply Group (OSG), a national expert group created by Council Directive 73/238/EEC concerning measures in the field of oil supply security, has reviewed over the last two years most of the issues concerning compulsory security stocks.

8 Each Member State presented its views on the implementation of the different provisions of Directive 68/414 (72/425), focusing on legal, technical or administrative problems and on possible solutions envisaged. The Group considered also the consequences of completion of the internal market upon oil supply security, and of developments in oil markets.

9 OSG work has established a better mutual understanding between Member States themselves and between Member States and the Commission, and has achieved consensus or common ground on how to proceed further in all the issues reviewed. The outcome of the review can be summarised as follows:

9.1 Member States must be able to control the use the stocks in a supply crisis. It is essential, therefore, to possess the legal and administrative powers to control compulsory stocks and check their levels and quality. Administrative supervision varies quite substantially from one Member State to another depending on the administrative structure set up to supervise, control or manage security stocks. In general, all Member States possess legal powers to proceed to verifications. However, the means of verification of the quantities and quality of stocks, and the sanctions imposed, vary from one Member State to another; several Member States give priority to spot-checks, others prefer auditing, fiscal measures, statistical cross-reference or combinations of the above measures. It is important that controllers are able, if required, to verify the physical existence, availability and quality of stocks, as they are reported on paper.

9.2 Evidence of stocks at levels below obligation must generate infringement procedures which lead to sanctions of an economic nature against undertakings which do not respect their obligation. Penalties imposed by Member States must be effective, proportional and dissuasive.

9.3 The OSG felt that administrative supervision and control of stocks are key issues which need to be included in future Community legislation.

9.4 Government agreements for holding compulsory oil stocks in other Member States (Art. 6 of Directive 68/414/EEC) - otherwise called "bilateral" agreements - are, according to the OSG, a useful means for establishing a legal framework of storage contracts between undertakings of Member States in the internal market. Thus, there is a minimum guarantee that, in the case of supply difficulties, the beneficiary Member State is able to request repatriation of its stocks in order to draw upon them for consumer benefit. Such agreements can also be of multilateral character.

9.5 Procedures for establishing such agreements, however, can impose a heavy administrative burden on Member States. The OSG has suggested that the Commission spell out minimum Community-wide requirements which would contribute to limiting the present administrative procedures and clarify or strengthen certain aspects of bilateral agreements.

9.6 Agreements must take into account:

- the need of Member States to retain the right of decision as to the need, feasibility and possibility to store oil in another Member State and, if so, in what proportion;
- the economic reality of the Community internal market, where the movement of goods from one Member State to another should be unhindered;
- the need for oil companies to operate in a competitive environment.

9.7 According to the OSG experts, agreements must include provisions which - in addition to those stipulated in Directive 68/414 - would define:

- the validity period of an agreement;
- a framework for "delegated" stocks;
- clauses concerning repatriation, verification and reporting of relevant stocks;
- provisions on control and availability of stocks.

9.8 The United Kingdom, one of the two net oil exporters in the EU, has asked for the right of the country to have a higher derogation from the obligation to maintain security stocks. A reduced obligation for a Member State with indigenous oil production to hold security stocks is a controversial issue. Possibilities and conditions which could justify this reduction (15% maximum reduction is allowed by Directive 68/414) were discussed in the OSG, including available spare crude oil production capacity of the two oil producers mentioned above. OSG experts considered that the issue is of a political nature and as such, it should be resolved at political level.

9.9 Directive 68/414/EEC excludes from the (90-day) compulsory stocks certain categories of operating stock, or stock which cannot be technically accounted (Article 6, § 3). The review of the relationship between compulsory security stocks and operating stock revealed different approaches to the issue in Member States. The place of operating stock in total security stocks, in a segregated or co-mingled way, is directly or indirectly connected to the availability and accessibility of stocks in a supply crisis and, in certain Member States, is becoming a "grey" area with regard to the internal market and competition provisions of the Treaty. According to the OSG experts, a decision to segregate stocks must take into account the costs involved for the benefit obtained regarding the stockholding obligation. Stocks are held for local oil shortages but also for major oil disruptions and each Member State has designed its stockholding system according to its priorities. The essential is that a Member State is able to have stocks at the disposal of the consumer when needed.

Certain experts of the OSG considered that stocks held in the operating system of the industry and its distribution channels can be made rapidly available for consumption; in addition their maintenance costs are low. Others supported the view that a large proportion of stocks within industry operating systems cannot be made available since these stocks are needed for industry operations which cease, or are "tight", if such stocks diminish or disappear. The exclusion therefore of as much operating stock as possible from compulsory stocks would improve availability of stocks. It would also facilitate their control through spot-checks. These OSG members proposed that non-operating stocks are maintained by a non-commercial stockholding entity, or by the Government itself.

An alternative solution, proposed by certain experts, is to specify only those stocks in excess of operating stocks, without necessarily calculating operating stocks precisely. This specific quantity would not be used by the owner for his own operational purposes and therefore it would be always available for release in an oil supply crisis.

9.10 The treatment of international marine and international aviation bunkers in Directive 68/414 is in line with international statistical rules and conventions (EUROSTAT, IEA and UN). In reviewing the issue, the large majority of Member States agreed to maintain the status quo, that is to exclude international marine bunkers from the previous year's consumption and to include international aviation bunkers in the previous year's consumption. Two Member States indicated that, because of an intense seasonal tourism activity, they normally register a higher level of aviation bunker consumption for which they are obliged to maintain stocks.

9.11 Aviation kerosene (jet fuel) is a product of increasing importance world-wide. Consumption of this product has been rapidly increasing in recent years. Currently it is included in the "middle distillates". The Commission had asked the OSG to review the situation, in particular to consider once more the inclusion of jet kerosene in a separate category on which to impose an obligation[1]. Discussions concluded that jet kerosene could be reported separately within product category II for reasons of better statistical information; most Member States considered that an imposition of an obligation on jet kerosene did not seem to be necessary for the time being.

9.12 Concerning the calculation and reporting of stocks to the Commission, the OSG has suggested simplification of the second and third methods used to convert crude oil to oil product equivalent. OSG experts did not have major problems to agree with the abolition of the outdated second method, as proposed by the Commission. Certain experts asked for the maintenance of the third method, favouring stocks in the form of finished products. The Commission had suggested to abolish the third method as well.

Contacts with the Industry

10 The Commission has had regular consultations on stock issues with the two main industry associations operating at Community level: EUROPIA, the "European Petroleum Industry Association", representing companies with refining capability, and UPEI, "Union Pétrolière Européenne Indépendante", representing operators, traders, marketers, importers and distributors without refining capability.

11 EUROPIA supports the view that security stocks are the responsibility of Society/Government at large and that their cost should be borne by Society/Government[2]. EUROPIA does not support the building of additional storage facilities, but the use of existing ones. Flexibility is a key issue for the industry which should be taken more into consideration in revising Community legislation. Bilateral agreements should be encouraged and applied in the whole of the Community, since stocks must be able to be maintained anywhere in the internal market. Stockholding costs must be identified in a transparent manner.

12 UPEI supports strongly the segregation of compulsory stocks held exclusively for security purposes[3]. UPEI strongly supports the establishment of a central entity, body or agency in each Member State which would own all, or a large part, of the stock obligation, be responsible for the organisation and administration of the national stockholding system of the Member State concerned and ensure transparency of costs and a level playing field for all operators in the market.

Study "Compulsory Oil Stocks in the European Union"

13 A study was commissioned to EMC (Energy Market Consultants, UK) in co-operation with OPAL (Oil Price Assessments, UK) by the Commission in 1996/97 in order to review the main issues regarding compulsory stocks with respect to existing Community legislation, practices followed by Member States, market changes and the

[1] See also the original proposal of the Commission of 1964: II/COM(64) 406 final of 28.10.64

[2] EUROPIA's Document "Compulsory Stocks Obligations (CSO) for Oil and Petroleum Products Principles".

[3] Memorandum on Stock-holding Issues, 1997.

consequences of the strengthening of the internal market on stockholding arrangements. Areas needing clarification, possible or potential deficiencies, and significant inconsistencies which could have a bearing on the effectiveness of drawdown capabilities in the event of a supply emergency were identified and studied.

14 The study focused on the comparative analysis of the different stockholding regimes and practices adopted by and followed in the 15 Member States, the review of the minimum operating requirement (MOR) with regard to the availability of stocks and the trends in oil consumption and in stockholding arrangements during the period 1970-1996.

15 The study confirmed the trend observed since the end of the eighties in the oil industry to cut costs by holding the least possible oil stocks and forecast this trend to continue and intensify in the future. Since 1980, industry stocks in OECD countries have fallen by about 25 consumption days. In particular, between 1992 and end-1996 these stocks fell by six days. Total company stocks (excluding both strategic and entity stocks) in Europe have fallen from 68 days total consumption at the end of 1994 to about 64 days total consumption at the end of 1995 and in 1996. Oil companies are increasingly adopting commercial attitudes to where and how they do business. They are, thus, reluctant to accept that they have a "strategic" responsibility for maintaining the flow of oil to end-users in the event of an international supply disruption. The cutback in company stocks has taken two forms: reductions in surplus capacity (such as refineries, storage and distribution depots, etc., thus improving the overall efficiency of operations) and cutbacks in "discretionary" stocks.

16 The apparently changing attitude by Governments towards security stocks is reflected in the increased willingness to utilise such stocks in "pre-crisis" situations. The IEA used part of the security stocks during the Gulf Crisis in January 1991, even though there was no recognisable shortage of supplies officially. Co-ordinated stockdraw before an oil supply crisis, or at an early stage of it, is a trend which could become a rule in the years to come. High stock levels are therefore indispensable in order for a country to participate in such a co-ordinated stockdraw.

17 More particularly, the study identified seven issues:

17.1 Regarding the uniformity of stockholding obligations, most Member States do not currently differentiate between types of downstream operators in applying compulsory minimum stockholding requirements. Since, however, minimum operating stocks (MOS) vary considerably between operators (particularly between refiners and distributors), a uniform 90 days minimum stock requirement appears, on the face of it, to impose a higher additional stockholding requirement on those operators who have a low "own use" stock requirement than on those who have a high "own use" requirement. According to the study, this issue is likely to be more prominent in the future.

17.2 Regarding stocks held for the account of a Member State in other Member States through Government agreements, there is at present a lack of uniformity in the approach adopted by individual Member States - in six countries, there are no such stocks, while others place limits on volumes held in other Member States. According to the study, this issue is likely to become more prominent as time goes on, since some aspects of the current restrictions on such stockholding do not appear to be in line with provisions of the Treaty regarding the internal market. It is important that a consensus is reached on the regime governing such agreements, while ensuring that such stocks are physically verifiable. The study proposed the setting up by the Commission of a "clearing house" to monitor the situation concerning stocks held under Governmental agreements.

17.3 The study made a distinction amongst minimum operating stocks (MOS) of the industry, between: "technical" MOS, i.e. stocks needed in order for industry facilities not to shut down, and "normal" MOS, i.e. stocks which could be ultimately available in a crisis after "commercial" stocks have been used up. For the whole of the Community, the study estimated "normal" MOS to lie on average in a range equivalent to 25-30 days of consumption, but varying by country/company. No figure was given for "technical" MOS which, however, were estimated to be higher than the 10% "unavailable" stocks defined by the IEA.

17.4 The study found that there is a potential inconsistency in that several Member States do not count all sales of international jet fuel in their previous year's consumption. Consequently, it is desirable to harmonise the method used for the treatment of international aviation bunkers according to the approach followed by the majority of Member States, namely the inclusion of these bunkers in internal consumption.

17.5 The substantial rise in indigenous oil production in the Community since 1970 (now representing 27% of total Community consumption) gives some grounds - according to the study - for arguing that the current 15% maximum derogation should be raised for Member States which are self-sufficient, but it is difficult to determine a specific new ratio.

17.6 One more suggestion of the study concerned the tightening, in some Member States, of control and supervision of compulsory stocks, by introducing - for example - inspection measures such as more frequent spot-checks. There appears to be a correlation between strong control and supervision and satisfactory stock levels; and poor or weak control and supervision and low and unsatisfactory stock levels. Countries with less strict rules (often, also, those with de-centralised systems) tend to have more difficulties in respecting their stock obligation.

MAIN ISSUES FOR CONSIDERATION SUPPORTING THE SUGGESTED AMENDMENTS TO DIRECTIVE 68/414/EEC

Operating stocks and security stockholding arrangements

1 In theory, compulsory security stocks should not be co-mingled with or contain operating stocks (i.e. technical minimum operating stock + normal minimum operating stock + stocks aimed at commercial operations), since the latter are aimed at working and commercial operations. The argument saying that operating stocks can be, at the same time, the security buffer needed in an oil supply disruption can raise considerable doubt. In an oil supply crisis, not only would the authorities like to obtain this oil for the consumers of their country, but also the industry would be inclined to build more stocks. Operating stock co-mingled with security stock can potentially weaken security of oil supply and jeopardise the efficiency of a stock drawdown. There is no guarantee that stocks can be made available and at the disposal of Member State authorities when needed in a crisis.

The IEA addressed the issue once more in 1997 examining the level of "usable" stocks in an oil supply crisis after excluding MORs[4]. According to the IEA analysis, the bulk of stocks of the industry (companies) is necessary for operating purposes and the amount of security stocks available in a crisis appears to be lower than commonly expected, although it cannot be measured with a high degree of precision. Wide disparities, however, exist amongst OECD countries reflecting local operating conditions and legislation. The IEA document concludes that all Government and entity/agency stocks are available with a high degree of certainty. Oil companies might be reluctant, for commercial reasons, to release even the usable part of their stocks if they expected the crisis to deteriorate and oil prices to increase.

2 Co-mingled stocks for all functions - working operations and supply security - render security storage costs more difficult to identify and therefore less transparent. It is very difficult, sometimes impossible, for refiners (who generally hold large quantities of such stocks) to distinguish between costs of stocks held exclusively for supply security purposes and costs of stocks aimed at normal operations (working and commercial). Therefore it becomes difficult and sometimes impossible to clearly identify the costs of security stocks and divide it respectively amongst the operators who have the obligation to hold such stocks.

Generally in order to operate commercially in a market, an operator must give evidence of stocks maintained directly by himself, or indirectly through delegation of the stock obligation to another operator who holds the stocks for the account of the beneficiary operator in return for ticket certificates proving the existence of such delegated stocks. A rental fee is paid in exchange. Non-refiners who have small, or no depots, since their operating needs are lower (generally 10 to 15 days of "normal" minimum operating stock) than refiners (generally more than 40 days of "normal" minimum operating stock) rent additional storage capacity from the latter paying a fee against ticket certificates. This process, under certain conditions which depend also on the structure

[4] Document IEA/GB(97)52: "IEA Emergency Reserve Issues" of 2 December 1997.

of each market, may put non-refiners at a competitive disadvantage since refinery stocks are largely co-mingled in the same basket. One argument says that, under certain conditions, this fee could also be considered as a partial backing of refinery operating stocks by other operators who, normally, are in competition with the refiners in the same market. Another argument, however, says that the ticket system described above can help non-refiners to cover the stockholding obligation and thus enter or remain in the market from which they could have been otherwise excluded. It can be argued that, generally, in markets favouring co-mingled stocks in which security stocks are not clearly identified as they are mixed with stock for operating purposes, problems between refiners and non-refiners are more frequent. The solution would be, as stated above, to identify and distribute evenly the stock-holding costs amongst operators - according to objective criteria -, creating a level playing field which is necessary for the proper functioning of the internal market.

3 Consultations with the industry have shown that operators with refinery capacity in the Community seem more and more unhappy to assume the costs of a stockholding obligation which is larger than their operating needs. They would prefer to see this additional burden transferred to the "Society or Government"[5]. Since competitiveness in global markets is their main objective, oil companies tend to lower their operating stocks in order to cut and rationalise costs. They also ask for higher flexibility which would allow them to maintain stocks wherever they can obtain economies of scale in the internal market and, thus, be able to reduce costs. These are legitimate requests by market operators nowadays and a solution to accommodate them is needed without weakening the supply security of the Community against oil disruptions.

4 Mainly for economic reasons, most Member States rotate their stocks allowing, sooner or later, the use of part of their compulsory security stock in trade and commercial operations. The extent of doing so depends on the organisational stockholding arrangements in place. These arrangements are set up to adapt the characteristics and needs of individual Member States, provided that Member State Governments have the legal and administrative powers to put compulsory stocks and stockdraw procedures under their control when needed and send the stocks to where they are mostly needed. At all times stockholding mechanisms must ensure that stocks are available and accessible to consumers; that they are maintained under transparent arrangements where the stockholding costs are identified and known to market operators.

5 An appropriate solution for Member States and the industry (both refiners and non-refiners) is therefore to base stockholding arrangements on a real partnership and co-operation through transparent and efficient mechanisms ensuring that all stocks are really at the disposal of the Governments in the event of supply difficulties. At all other times, a regular control of stocks can ensure their availability and accessibility. Transparency would imply that, as a first step, security stockholding cost is identified in each Member State where this has not yet been the case.

6 Experience to date shows that, in general, the above conditions can be more easily met in countries having set up stockholding bodies of the agency/entity type to hold and own all, or a large part, of the stock obligation. It has been perceived that when Member States set up such an entity to own a significant part of the stock obligation, the total number of stocks expressed in days has <u>increased</u>. This is partially due to the fact that oil companies continue to hold operating stocks for their own needs. In

[5] EUROPIA's Document mentioned in an earlier chapter.

addition to those stocks, entity stocks increase the total stock quantities, enhancing supply security. Stockholding entities are usually non-profit organisations and maintain generally most of their stocks outside the operating/commercial cycle. It is evident that the need to refresh oil products does not exclude that non-operating stocks would have to be renewed through the processing facilities used normally for operating stocks.

Administrative Supervision and Control

7 Administrative supervision and control are issues closely linked to the relationship between operating and security stocks. Since Directive 68/414/EEC puts compulsory stocks at full Member State disposal in an oil supply emergency, national legislation must allow Member State Governments to put stocks under their control in such a case. A number of Member States have the power to proceed to the requisition of stocks as a last resort. Other Member States do not possess such powers and base control of stocks and stockdraw procedures on the voluntary co-operation of Government with companies, operators, agencies or other entities, which are the actual stockholders.

It is important to achieve comparable levels of administrative supervision and control of stocks in all Member States and thus ensure that stocks are really available to the consumer at all times. The latter is particularly important in cases where a Member State holds part of its stock obligation in other Member States and when stocks are "delegated" to other operators.

8 A regular verification of stock quantities and quality can guarantee disposability and control of stocks in oil supply disruptions. For various reasons (technical, administrative or economic) it is not always easy for the authorities to proceed to regular verifications of stocks and it is even more difficult to proceed to on-the-spot inspections. In addition there is no legal basis at Community level concerning control of stocks. It is necessary therefore to introduce an Article in the revised Community legislation, explicitly referring to control of stocks and sanctions for those not respecting their obligation.

Centralised / De-centralised Stockholding Systems

9 Compulsory security stocks are held in Member States in many different ways and in particular by:

- companies, refiners, operators, traders, marketers and other profit-making undertakings; (de-centralised systems)
- the Government; (centralised systems)
- joint agencies or similar entities established for this purpose; (centralised systems).

It is essential that Member States, in implementing their compulsory stockholding arrangements, respect certain basic stockholding criteria. The best way to do so is to set up mechanisms ensuring a <u>partnership</u> between the public authorities and the private industry. The more favourable conditions for such a partnership are created in stockholding regimes of mixed character, i.e. with combined stockholding systems of centralised and de-centralised character. Some of the advantages and disadvantages of the different systems existing today are outlined below.

Stocks held exclusively by the Government

10 Advantages:

- stocks under immediate Member State control;
- stocks segregated and held apart from operating systems;
- location, quality and quantity of stocks easy to identify/verify through inspection at any moment;
- stockdraw is 100% controlled by Government.

11 Disadvantages:

- costs assumed exclusively by the public budget;
- potential problems of excessive bureaucracy;
- potential lack of technical expertise;
- understanding of (rapid) market changes potentially questionable;
- stocks held outside normal distribution channels or not linked with the latter;
- product specifications difficult to meet;
- stockdraw possible for public revenue purposes, even outside an oil supply crisis.

Stocks held exclusively by the Industry

12 Advantages:

- stocks more in tune with operational needs of the market;
- more efficient and less costly organisation of stocks;
- easier to maintain the right product specifications;
- stocks in or near distribution channels.

13 Disadvantages:

- availability and existence of stocks difficult to guarantee, ensure or verify;
- quality of stocks difficult to guarantee, ensure or verify;
- inspections on-the-spot are difficult, in particular in the case of co-mingled stocks;
- danger of discrimination against non-refiners, particularly those with limited or non-existent storage facilities;
- risk of unfair cost sharing between market operators;
- stockdraw difficult to initiate and control by the Government;
- danger of high numbers of delegated stocks, which are difficult or impossible to identify and their availability in a supply crisis is neither sure, nor guaranteed.

Stocks held by an Entity/Agency

14 Advantages:

- location, quality and quantity of stocks can be easily identified;
- availability of stocks can be easily verified through spot-check inspections;
- stockdraw initiated, controlled and implemented under the auspices and control of the Government with the collaboration and partnership of the operating companies;
- potential discrimination against smaller operators can be more easily avoided;
- costs and financing arrangements are transparent (fee or levy is known in advance to operators);
- easy to ensure equitable allocation of costs;
- difficulties encountered in implementing bilateral stockholding arrangements can be overcome more effectively;
- future changes in regulations can be more effectively applied.

15 Disadvantages:

- danger of bureaucracy in operations, unless structure remains small;
- potential lack of technical expertise, unless experts from the industry participate in the structure;

- danger of stocks not adequately linked to existing supplying structures, unless partnership with the industry exists;

- administrative and operating costs of Agencies high, especially when initiating operations (purchase of oil, new tankage, etc.),

The latter, however, can be partially offset through cost cover by bank loans of a mortgage type, the payment of which is normally covered by a special fee, or levy, passed on to the entity members.

Financing

16 The financing of the compulsory stocks is borne by the end consumer and included in the final product price of the products concerned. This principle is based on the fact that the end consumer is the beneficiary of these stocks in a supply crisis. Depending on the stockholding arrangements adopted, financing of compulsory stocks is either included in the final product price directly by the oil company, or included in a fee or levy, easily identified.

Reporting and stock calculations

17 Reporting of compulsory stocks is made through a statistical table summary sent regularly by the Member State authorities to the Commission. Directive 68/414 explicitly stipulates technical details for calculating and reporting stocks for each of the three product categories.

18 Statistical data show that, on the one hand, consumption has been falling for certain products in the Community in recent years - notably in category III products. On the other hand, consumption has been increasing for other products, notably gasolines, diesel fuel and jet kerosene, reflecting changes in the market in recent years. In addition other products have grown in importance (LPG, naphtha) and their consumption will be important in the future[6].

19 The different approaches adopted in several Member States create inconsistency which renders statistical comparison more difficult. The importance of valid stock data is evident and steps to improve them are necessary. These steps aim to:

- obtain more uniform and consistent information from Member States and achieve, therefore, higher comparability in data reporting;

- underline the importance of certain oil products with forecast high consumption for the future: the three categories of oil products of Directive 68/414 reflected the need of the market at that period of time.

[6] "Compulsory Oil Stocks in the European Union", main report, pp.45 to 51.

20 The following lines are therefore suggested:

- To leave Directive 68/414 as it stands and exclude international marine bunkers ("for sea-going vessels") from the calculation of consumption of all Member States.

- To explicitly mention in Directive 68/414 today's practice[7] and include bunkers for international aviation in internal consumption of all Member States.

- To show the quantity (and corresponding days) of jet fuel kerosene separately within category II, without imposing an obligation.

- To abolish method II for conversion of crude oil into products.

- To change the annual consumption (upon which the level of stocks is calculated) on a specific date every year - for instance at the end of March - for all Member States.

- To calculate consumption on the basis of the previous year in a uniform way in all Member States.

- To send to the Commission, within a shorter period, the summary with the statistical data of Member States at the end of each month.

- To always use the same reporting form which may be updated.

- To monitor market developments, in particular the consumption of the different oil products in Europe and world-wide, in order to test the coverage of the product categories as stipulated in the Council Directive.

Indigenous Oil Production

21 The implications of a percentage reduction in the stockholding obligation of an oil-producer Member State are not always easy to identify. Both OSG experts and a recent study on compulsory stocks have given certain parameters which may lead to solutions.

22 For the sake of consistency, and as already stipulated in Directive 68/414 and followed by a vast majority of Member States, it is appropriate that the reduction percentage is calculated on the basis of internal consumption as expressed in tonnes and not in days.

23 In the 1968 proposal no technical analysis supported the 15% maximum derogation. Therefore, since technical backing is not likely to be sufficient for the establishment of a new derogation percentage, the issue may be better resolved at a political level. Consideration can be also given to the fact that indigenous oil production of the two main Community producers, UK and Denmark, corresponds to 25% of the total EU-15

[7] Practice followed by the Statistical Office of the European Community and the OECD/IEA.

oil consumption of the last three years. Total EU-15 indigenous oil production corresponds to 27% of total EU oil consumption.

BASIC STOCKHOLDING CRITERIA

24 Efficiency, transparency and consistency as far as security stockholding mechanisms are concerned can be enhanced in Member States through compliance with certain basic stockholding criteria.

25 Compulsory oil stocks in the Community must at all times be at the level of 90 days' average daily internal consumption based on the preceding year for each of the three categories of petroleum products. These stocks must be in line with the following criteria:

- to be fully at the disposal of Member States for use should difficulties arise in obtaining oil supplies;
- to be available and accessible for consumption;
- to be maintained in such a way so that they can be identified, accounted and controlled at all times, on a continuous basis;
- to allow for an identification of their costs in a transparent way in the final product price of the oil products concerned;
- to be fully in line with the principle of a level playing field between all market operators as resulting from the rules of the Treaty;
- to take into account the free movement of goods as a reality of the frontierless Internal Market.

TABLES & GRAPHS

Summary of Compulsory Stockholding Legislation/Systems in the Community

	Structure	Ownership	Agency Share	Companies Covered	Number of Companies	Specific for new entrants	Minimum Vols/Stocks	Minimum Obligation	Products Covered	Cost Recovery
Austria	Cent. (ELG)	Companies	300,000 tons (14 days, 15%)	Importers	all importers (main comps = 6)	Yes (3 months)	No	27.5% (100 days)	EU 3	Fee (ELG)
Belgium	De-cent.	NA	NA	Refiners + Importers	c60	No	No (6-7,000 tons stock until 3/97)	25% (91 days)	EU 3	None (price allowance)
Denmark	Cent. (FDO)	Companies	62 days (80%) (1.3 m tons)	Producers + Refiners + Imps.	c35	No	No	90 days	EU 3	Fee (FDO, but zero now)
Finland	Cent. (NESA)	Government	1 million tons (50 days, 55%)	Importers	4	Yes (50% of obligation)	Yes (vols of 5-20,000 t pa)	3 months (ie 91 days)	EU 3+crude	Levy
France	Cent.(CPSSP/ SAGESS)	Govt./Comps.	54% (51 days) (9 million tons)	Importers	c100	No	Yes (capacity 400-1,000 m3)	26% (91 days))	EU 3+jet	Fee (CPSSP)
Germany	Cent. (EBV + gov. strategic)	Corporation under public law	80 days (84%) (21.6 m tons)	Refiners + Products Imps.	c120	No	No	95 days	EU 3	Fee (EBV)
Greece	De-cent.	NA	NA	Product Mktrs. + Importers	c25	Yes (3 months)	No? (tankage in country)	90 days	EU 3	None
Ireland	Cent. (NORA)	Government	70 days (78%) (270,000 tons)	Importers + Large Consumers	c25	No	No	90 days	EU 3	Levy
Italy	De-cent. (prop. for Cent.)	NA	NA	Electric Utilities, Refiners, Mktrs.	c150	Yes (25% of imports)	No	90 days	EU 3	None
Lux.	De-cent.	NA	NA	Importers	17	Yes	No	90 days	EU 3	None (price allowance)
Neth.	Cent. (COVA)	Govt.-controlled Foundation	3 million tons (82 days, 79%)	Refiners + Importers	10	No	Yes (vols of 500 litres)	90 days+	EU 3	Levy
Portugal	De-cent.	NA	NA	Importers	c15	No	No	120 days (90 days jet)	EU 3 + jet	No
Spain	Cent. (CORES)	Public Corporation	33 days (37%, 3 million tons)	Marketers + Large Consumers	c30	Yes	No	90 days	EU 3	Fee (CORES)
Sweden	De-cent (NUTEK responsible)	NA (govt. authority)	NA	Refiners + Imps. + Consumers	c90	No	Yes (vols of 50,000 m^3 pa)	25% (91 days)	EU 3+LPG	None
UK	De-Cent.	NA	NA	Refiners + Marketers	c50	No	Yes (vols of 50,000 tons pa)	76.5 days (ie 15% offset)	EU 3	None

NA - not applicable

table 1

Comparison of Compulsory Stock-holding Practices in the Community

	Date effective	Coverage	Full Jet Fuel Coverage	Derogation for Output	Allocation of Crude	Location Requirements	Bilateral Agreements	Percentage Abroad	Spot-checks	Penalties
Austria	1st April	Calendar	No (not for min. stocks)	10%	1st option (<20%)	No	No	zero	Yes	Yes
Belgium	1st April	Calendar	No	None	1st option	No	Yes (<30% abroad)	20%	Yes	No
Denmark	1st July	Calendar	Yes	15% (maximum)	3rd option	No	Yes	1%	No	Yes
Finland	1st July	Calendar	No	None	1st option	No	Yes		Yes	Yes
France	Rolling	12-month	Yes	3%	1st option	Yes (CPSSP by region)	Yes (<10% abroad)	2%	Yes	Yes
Germany	1st April	Calendar	Yes	3%	1st option	Yes (15 days EBV by region)	Yes	6%	Yes	Yes
Greece	1st April	Calendar	Yes	3%	1st option	No	No	zero	Yes	Yes
Ireland	1st July	Calendar	Yes	None	2nd option	No	Yes	30%	Yes	Yes
Italy	1st April/May	Calendar	Yes? (some not counted?)	6%	1st option	Yes (stocks set by site)	Yes (<10% abroad)	1%	Yes	Yes
Lux.	1st Jan	Calendar	No? (plans to include)	None	no crude	No	Yes (<50% abroad)	50%	Yes	Yes?
Neth.	1st April	Calendar	Yes	14%	1st option	No	Yes (COVA)	20%	Yes	Yes
Portugal	Rolling	12-month	Yes	None	2nd option	No	No	zero	Yes	Yes?
Spain	Rolling	12-month	Yes	1%	3rd option	Yes (part near consumers)	No	zero	Yes	Yes
Sweden	1st July	Calendar	Yes	None	3rd option	No	Yes		Yes	Yes
UK	1st July	Calendar	Yes	15% (maximum)	2nd option	No	Yes (<30% abroad)	11%	No	Yes

table 2

COMPARISON OF STOCKHOLDING BODIES / ENTITIES IN THE COMMUNITY

	Entity/Agency	Management Control	Stock Volumes Owned/Held	Share of Total Compulsory	Crude/Products Composition	Fee/Levy (for gasoline)
Austria	ELG	OMV plus 5 other major companies (reports to Ministry of Economic Affairs)	0.3 million tons	14% (13 days)	All crude	6.5 ECU/m3 ELG storage fee
Belgium	None					
Denmark	FDO	Representatives from 5 major companies, also from other smaller companies, plus one government rep. from DEA	1.3 million tons	80% (62 days)	8% crude	None (suspended)
Finland	NESA	Ministry of Trade & Industry	1.0 million tons	55% (50 days)	30% crude	6.9 ECU/m3 Levy on sales
France	CPSSP/SAGESS	CPSSP - 9 oil industry representatives, 2 independent experts, 2 gov reps SAGESS - reps from 7 refining companies and 4 non-refiners, plus 3 gov rep	(5 mill tons MAD) 3.9 million tons	30% (29 days) 24% (23 days)	All products All products	3.9 ECU/m3, CPSSP full fee
Germany	EBV	3 government representatives, 3 reps from refining industry and 3 reps from importing/trading companies	21.6 million tons product equivalent	84% (80 days)	31% crude	4.5 ECU/m3 Fee to EBV
Greece	None					
Ireland	NORA	Subsidiary of INPC on armslength basis currently, one of 4 Directors is government representative	0.3 million tons	78% (70 days)	76% crude	5.1 ECU/m3 Levy on sales
Italy	None (Proposed)					
Lux.	None					
Neth.	COVA	5-9 board members, appointed by Minister of Economic Affairs and Minister of Finance	2.9 million tons	All effectively, as IEA minimum	51% crude	5.7 ECU/m3 Levy on sales
Portugal	None					
Spain	CORES	Chairman and 2 Directors appointed by Ministry of Industry & Energy, plus 3 representatives from refiners and 2 reps from non-refiners	3.0 million tons	33% (30 days)	All products	5.8 ECU/m3 Full CORES fee
Sweden	None					
UK	None					

table 3

Position: 02/98

Oil stocks - Bilateral Agreements concluded between the Member States of the European Union

EUR - 15	BE	DK	DE	EL	ES	FR	IRL	IT	LUX	NL	PO	UK	OS	SV	SF
Belgique/België			1			1	1		1	1		3 & 4			
Danmark							1			3		3 & 4		1	
Deutschland	1					3		1	2 Lux	1					
Ellas															
España															
France	1		3				2 Irl		2 Lux	4		3 & 4			
Ireland	1	1				2 Irl				3 & 4		1			
Italia			1							4					
Luxembourg	1		2 Lux			2 Lux				1					
Nederland	1	3	1			4	3 & 4	4	1			3 & 4			
Portugal															
United Kingdom	3 & 4	3 & 4				3 & 4	1			3 & 4				4	
Österreich															
Sverige		1										4			1
Suomi/Finland														1	

N.B. : This table can be read either way.

Caption

1. Reciprocal agreement pursuant to Article 6 of the Council Directive 68/414/EEC.
2. Asymmetrical agreement with indication of the beneficiary country of the stocks established on the territory of another Member State pursuant to Article 6 of the Council Directive 68/414/EEC .
3. Informal short term ad hoc arrangements (gentleman's agreements).
4. Reciprocal agreement under consideration or in the process of being agreed.

table 4

MONTHLY REPORT ON OIL STOCKS CONFORMING TO ARTICLE 4 OF COUNCIL DIRECTIVE 68/414/EEC OF 20.12.1968

Country: FINAL
Reporting date: '000 tonnes

		Col 1	Col 2	Col 3	Col 4	Col 5=Col 2+3	Col 6	Col 7=Col5/Col 6
CATEGORIE	PRODUCTS	STOCKS OF CRUDE OIL & FEEDSTOCKS (X)	CONTRIBUTION FROM CRUDE OIL AND FEEDSTOCKS (XX)	STOCKS OF FINISHED PRODUCTS (A)	BILATERAL STOCKS HELD IN OTHER MEMBER STATES FOR YOUR OWN ACCOUNT (B)	TOTAL OF FINISHED PRODUCTS	AVERAGE DAILY CONSUMPTION OF PREVIOUS YEAR	STOCK POSITION IN NUMBER OF DAYS OF PREVIOUS YEAR'S CONSUMPTION
	CRUDE OIL & FEEDSTOCKS							
I.	MOTOR GASOLINE & AVIATION FUELS							
	KEROSENE AND KEROSENE TYPE FUELS							
II.	GAS/DIESEL OILS							
III.	FUEL OILS							
	TOTAL							

(X) The stocks of crude oil and feedstocks held in other Member States for your own account have to be included. The stocks of crude oil and feedstocks held in your country for the benefit of other Member States have to be excluded.
(XX) Indicate which of the three formulae mentioned in article 5 of the Council Directive has been chosen to convert crude oil and feedstocks into petroleum product equivalents: FORMULA Nr....
(A) The stocks of finished products held in other Member States for your own account have to be included. The stocks of finished products held in your country for the benefit of other Member States have to be excluded.
(B) Figures reported are already included in columns 1 and 3.

table 5

STOCKS HELD UNDER BILATERAL AGREEMENTS
(form used by Member States conforming to Directive 68/414/EEC)

Country: Reporting date:

A) STOCKS HELD ON NATIONAL TERRITORY FOR THE BENEFIT OF ANOTHER COUNTRY

'000 Tonnes

		Category I	Category II		Category III
Beneficiary country	Crude and Feedstocks	Motor Spirit and Aviation Fuels	Kerosene	Gas/Diesel Oil	Fuel Oils
TOTAL					

B) STOCKS ABROAD CREDITED TO NATIONAL OBLIGATION

'000 Tonnes

		Category I	Category II		Category III
Crediting Country	Crude and Feedstocks	Motor Spirit and Aviation Fuels	Kerosene	Gas/Diesel Oil	Fuel Oils
TOTAL					

table 5a

TOTAL EU-15														Source: EMC, based on EC/IEA/national data					
Trends in Oil Stocks (including government strategic stocks), held on national territory																			
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Stocks (m tons, average level, early years partly estimated by EMC)																			
Crude, et	62.1	63.4	73.6	73.9	68.5	60.6	58.4	53.6	57.1	59.0	57.3	58.3	61.0	58.6	58.7	59.9	58.8	57.6	56.3
Motor Ga	14.0	14.7	16.9	16.6	16.5	16.5	16.9	15.9	16.3	17.4	17.2	18.0	18.1	19.1	19.6	19.7	20.2	20.1	19.9
Gas/diese	39.3	39.2	47.7	43.7	37.7	34.8	33.4	30.3	31.9	32.6	33.1	32.4	33.2	34.6	36.0	35.2	36.9	36.8	34.8
Residual	35.0	38.3	40.0	38.3	34.9	29.8	27.8	25.6	25.4	27.0	26.2	24.6	26.5	25.9	24.6	25.1	23.2	24.3	22.2
Total Pro	102.9	106.7	121.7	115.0	103.7	97.7	93.4	86.3	88.4	91.3	90.1	88.4	91.7	93.0	93.9	93.7	94.0	96.7	90.7
Total Stoc	164.9	170.1	195.3	188.9	172.2	158.3	151.8	139.9	145.5	150.3	147.4	146.7	152.7	151.6	152.6	153.6	152.7	154.3	147.0
Stocks in days supply (against total oil consumption in previous year, including bunker sales)																			
Crude, etc		34	39	42	42	39	39	36	39	39	37	37	39	37	36	36	36	35	33
Motor Gasoline		55	62	61	61	61	62	57	59	60	58	58	58	59	60	59	61	62	61
Gas/diesel Oil		67	80	81	74	71	68	61	62	60	62	60	63	64	63	61	63	62	57
Residual Fuel Oil		59	60	63	66	64	70	66	75	80	81	77	83	82	76	78	75	80	73
Total Products		57	64	66	64	63	63	58	60	60	59	57	58	58	57	56	57	58	54
Total Days		91.1	102.4	108.4	106.4	102.5	102.2	93.4	98.6	98.4	96.2	93.9	97.2	95.2	93.0	92.2	92.4	92.6	86.8
% of total stocks																			
Crude sto	37.6%	37.3%	37.7%	39.1%	39.8%	38.3%	38.5%	38.3%	39.3%	39.2%	38.9%	39.7%	39.9%	38.6%	38.5%	39.0%	38.5%	37.3%	38.3%
Products	62.4%	62.7%	62.3%	60.9%	60.2%	61.7%	61.5%	61.7%	60.7%	60.8%	61.1%	60.3%	60.1%	61.4%	61.5%	61.0%	61.5%	62.7%	61.7%

table 6

TOTAL EU-15

Source: EC/ IEA

Oil Products Consumption Trends

000 tons	1970	1975	1980	1985	1990	1995
Motor Gasoline	70088	85102	100010	101045	118044	118250
Road Diesel	29516	36008	50718	60818	86748	108512
Other GDO	137482	147535	143289	120816	103871	101435
Total GDO	166998	183543	194007	181634	190619	209947
Jet Fuel	12094	16869	17851	19327	26367	31927
Kerosene	8126	6825	4167	3628	3746	4477
Total Middle Distillates	187218	207237	216025	204589	220732	246351
Residual Fuel Oil	212073	212020	199349	104679	89481	88550
Total EU 3 Categories	469379	504359	515384	410313	428257	453151
TOTAL INLAND	580400	611900	623599	520269	549523	586430
Gas/Diesel Oil Bunkers	6572	6116	6263	6943	7765	8383
Resid Fuel Oil Bunkers	30381	30968	24846	20564	27018	27007
Total Bunkers	36953	37084	31109	27507	34783	35390
Indigenous Oil Output	17007	16205	95893	150607	118449	157730
Output as % of inland	2.9%	2.6%	15.4%	28.9%	21.6%	26.9%
Share of middle distillates						
Diesel	15.8%	17.4%	23.5%	29.7%	39.3%	44.0%
Other GDO	73.4%	71.2%	66.3%	59.1%	47.1%	41.2%
Jet Fuel	6.5%	8.1%	8.3%	9.4%	11.9%	13.0%
Kerosene	4.3%	3.3%	1.9%	1.8%	1.7%	1.8%
Cat I as % of EU 3 Cats	14.9%	16.9%	19.4%	24.6%	27.6%	26.1%
Cat II as % of EU 3 Cats	39.9%	41.1%	41.9%	49.9%	51.5%	54.4%
Cat III % of EU 3 Cats	45.2%	42.0%	38.7%	25.5%	20.9%	19.5%
EU 3 Cats as % of total	80.9%	82.4%	82.6%	78.9%	77.9%	77.3%
Bunkers as % of total	6.4%	6.1%	5.0%	5.3%	6.3%	6.0%
Mogas % annual growth-rate		4.0	3.3	0.2	3.2	0.0
Diesel % annual growth-rate		4.1	7.1	3.7	7.4	4.6
Other GDO % annual growth-rate		1.4	-0.6	-3.4	-3.0	-0.5
Total GDO % annual growth-rate		1.9	1.1	-1.3	1.0	2.0
Jet fuel % annual growth-rate		6.9	1.1	1.6	6.4	3.9
Kerosene % annual growth-rate		-3.4	-9.4	-2.7	0.6	3.6
Mid dists % annual growth-rate		2.1	0.8	-1.1	1.5	2.2
Resid fuel % annual growth-rate		0.0	-1.2	-12.1	-3.1	-0.2
EU 3 Cats % annual growth-rate		1.4	0.4	-4.5	0.9	1.1
Inland % annual growth-rate		1.1	0.4	-3.6	1.1	1.3
Bunkers % annual growth-rate		0.1	-3.5	-2.4	4.8	0.3

table 7

EUR 15 - OIL STOCK SITUATION

at : 1/10/1997

	CATEGORY I		CATEGORY II		CATEGORY III		TOTAL	
	Days of consumption	1000 t	Days of consumption	1000 t	Days of consumption	1000 t	Days of consumption	1000 t
Belgique/België	99	705	91	2661	163	857	101	4223
Denmark	114	513	112	1317	545	1172	163	3002
Deutschland	123	9868	110	20699	186	3449	119	34016
Ellas	92	729	82	1509	107	802	90	3040
España	105	2600	91	5562	182	3019	109	11181
France	103	4499	108	12102	149	1764	110	18365
Ireland	91	273	87	717	185	634	111	1624
Italia	78	3763	87	6151	89	6526	86	16440
Luxembourg	89	124	82	261	76	17	83	402
Nederland	176	2033	215	4287	5213	2033	262	8353
Portugal *(x)*	112	596	100	1087	131	1047	113	2730
United Kingdom *	78	4807	59	5367	217	3542	81	13716
Österreich	138	688	95	1231	251	1002	133	2921
Sverige	95	1095	122	2094	314	2535	156	5724
Suomi/Finland	125	631	124	1393	193	917	140	2941
EUR-15	106	32924	102	66438	165	29316	113	128678

(x) At :1.9.1997
* Obligation of M.S.: 90 days. (U.K.: -15%).

CATEGORY I - Motor spirit and aviation fuel of gasoline type.
CATEGORY II - Gasoil, diesel oil, kerosene and jet-fuel.
CATEGORY III - Fuel oils.

table 8

European Union: Indigenous Oil Output 1995

Million Tons | **Source: EC/IEA**

	Total Output (a)	Total Inland Consumption	Output/Consumption
Austria	1.1	11.4	9.7%
Belgium	-	20.2	-
Denmark	9.2	9.4	97.7%
Finland	-	10.0	-
France	2.9	89.7	3.3%
Germany	3.9	136.4	2.9%
Greece	0.5	13.8	3.3%
Ireland	-	5.6	-
Italy	5.4	94.4	5.7%
Luxembourg	-	1.7	-
Netherlands	3.5	25.7	13.6%
Portugal	-	13.2	-
Spain	0.8	55.2	1.4%
Sweden	-	17.0	-
UK	130.5	82.8	157.6%
TOTAL	157.7	586.4	26.9%

(a) Crude oil, condensates, NGL

table 9

UK - Oil Supply/Demand Developments 1970-95

Million Tons **Sources: EC/IEA**

	1970	1975	1980	1985	1990	1995
Total Oil Output	0.2	1.8	80.5	127.7	91.6	130.5
Inland Consumption	95.9	86.7	79.7	77.4	81.0	82.8
Output/Consumption	--	2%	101%	165%	113%	158%
Crude Oil Imports	100.4	89.0	46.7	35.6	52.7	48.0
of which: Norway	-	-	-	0.6	20.0	24.7
Others	100.4	89.0	46.7	35.0	32.5	23.3
Imports/Consumption	105%	103%	59%	46%	65%	58%
Crude Oil Exports	-	--	40.2	83.0	57.0	81.2
of which: USA/Canada	-	-	9.2	16.6	19.0	30.6

table 10

Denmark - Oil Supply/Demand Developments 1970-95

Million Tons **Sources: EC/IEA**

	1970	1975	1980	1985	1990	1995
Total Oil Output	-	0.1	0.3	2.9	6.0	9.2
Inland Consumption	17.7	14.9	13.5	10.6	8.3	9.4
Output/Consumption	-	1%	2%	27%	72%	98%
Crude Oil Imports	10.0	7.9	6.8	5.1	4.8	6.7
of which: Norway	-	-	-	-	1.4	4.0
FSU	-	0.4	1.2	0.7	0.6	1.8
Middle East	6.2	6.1	1.7	1.1	1.7	-
Imports/Consumption	35%	41%	50%	48%	58%	71%

table 10a

UK & DANISH INDIGENOUS OIL PRODUCTION AND GROSS INLAND CONSUMPTION OF EUR-15

Million metric tons

	1992	1993	1994	1995	1996
Crude and LNG production					
UK	94,2	99,4	126,4	130,2	131,6
DK	7,8	8,3	9,1	9,2	10,3
UK + DK	102,0	107,7	135,5	139,4	141,9
Gross Inland Consumption of EUR - 15	540,2	534,8	537,2	547,7	553,6
Share of UK + DK oil production in Gross Inland Consumption of EUR-15	18,9 %	20,1 %	**25,2 %**	**25,5 %**	**25,6 %**

Sources : Eurostat and OECD/IEA Statistics

table 11

European Union: Jet Fuel Sales 1994

Million Tons **Source: IEA**

	Domestic	International	Total	% growth pa 1990-95
Austria	0.2	0.2	0.4	+6.8%
Belgium	0.1	0.8	0.9	-0.7%
Denmark	0.1	0.6	0.7	+2.1%
Finland	0.1	0.2	0.3	-8.9%
France	0.8	3.6	4.4	+4.1%
Germany	0.6	5.2	5.8	+2.4%
Greece	0.5	0.8	1.3	-3.1%
Ireland	- -	0.4	0.4	+9.1%
Italy	N/A	N/A	2.8	+6.8%
Luxembourg	-	0.2	0.2	+5.8%
Netherlands	0.1	2.1	2.2	+10.6%
Portugal	0.1	0.5	0.6	+0.9%
Spain	0.9	1.9	2.8	+7.1%
Sweden	0.4	0.4	0.8	+8.1%
UK	2.2	5.1	7.3	+3.1%
TOTAL	N/A	N/A	30.9	+3.9%

N/A - not available/applicable   - - Less than 100,000 tons

Note: Split of jet fuel sales betwen international/domestic has some definitional uncertainties.

table 12

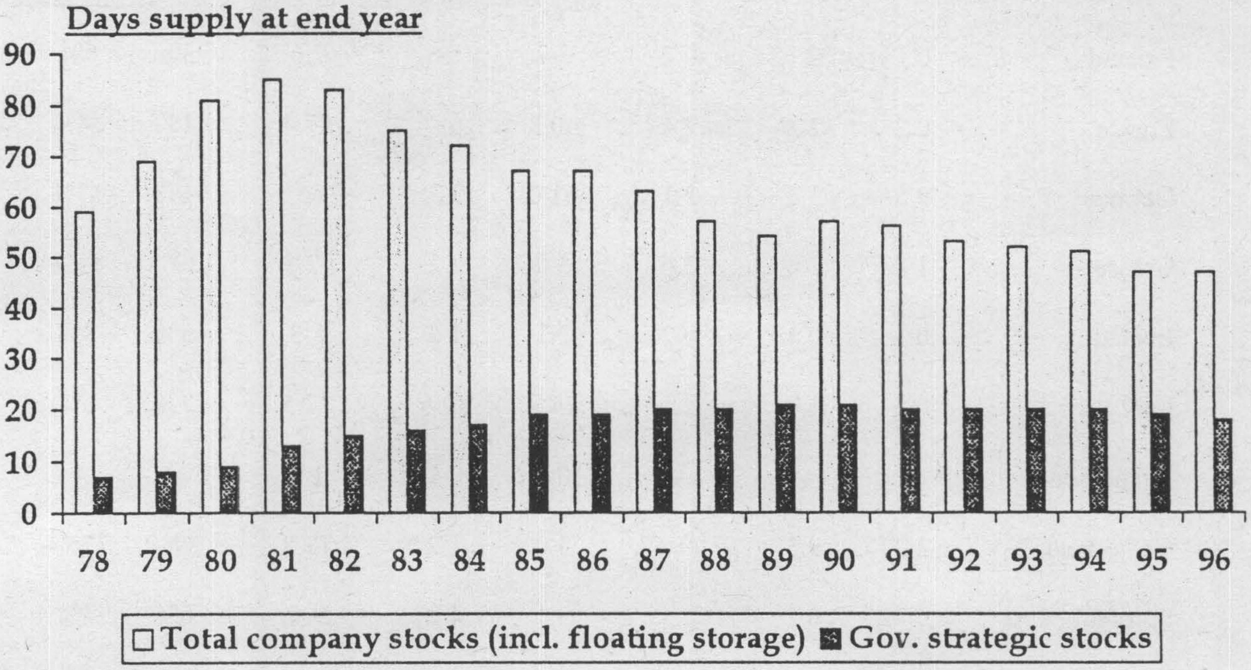
European Union: International Marine Bunker Sales 1995

Million Tons **Sources: EC/IEA**

	Marine Bunkers			Total Inland Consumption			Bunkers/Inland EU-3 Ratio		
	GDO	RFO	TOTAL	GDO	RFO	TOTAL EU-3	GDO	RFO	TOTAL
Austria	-	-	-	4.2	2.0	9.1	-	-	-
Belgium	0.7	3.2	3.9	9.5	2.5	15.9	7%	128%	25%
Denmark	0.6	1.0	1.6	4.1	0.9	7.7	15%	111%	21%
Finland	0.1	0.1	0.2	3.7	1.6	7.6	3%	6%	3%
France	0.2	2.2	2.4	40.8	6.4	67.4	1%	34%	4%
Germany	0.5	1.6	2.1	61.0	9.5	106.5	1%	17%	2%
Greece	1.0	2.6	3.6	5.0	3.2	12.1	20%	81%	30%
Ireland	0.1	0.1	0.2	2.1	1.3	5.3	5%	8%	4%
Italy	0.6	1.9	2.5	24.7	30.9	77.5	2%	6%	3%
Luxembourg	-	-	-	0.9	0.1	1.7	-	-	-
Netherlands	2.3	9.3	11.6	5.9	1.2	13.8	39%	775%	84%
Portugal	0.2	0.3	0.5	3.1	4.0	9.6	6%	7%	5%
Spain	0.8	2.5	3.3	18.2	10.9	41.1	4%	23%	8%
Sweden	0.2	0.9	1.1	5.3	2.9	13.2	4%	31%	8%
UK	1.1	1.4	2.5	21.3	11.1	64.6	5%	13%	4%
TOTAL	8.4	27.0	35.4	209.9	88.5	453.1	4%	31%	8%

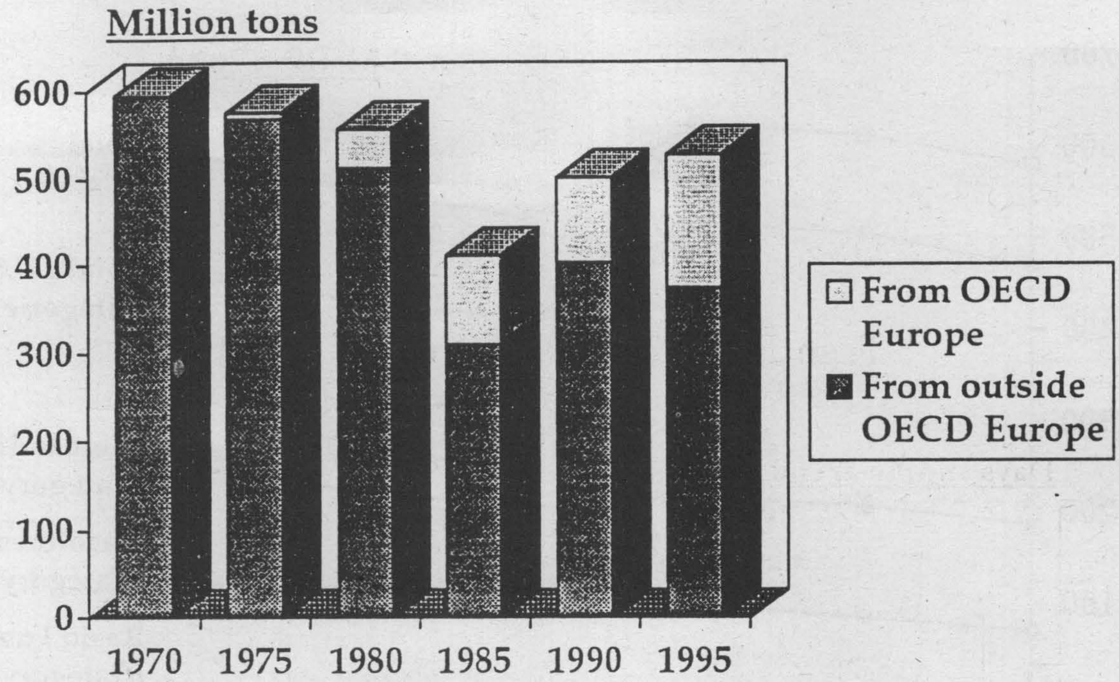
table 13

Trends in World Oil Stocks/Inventories

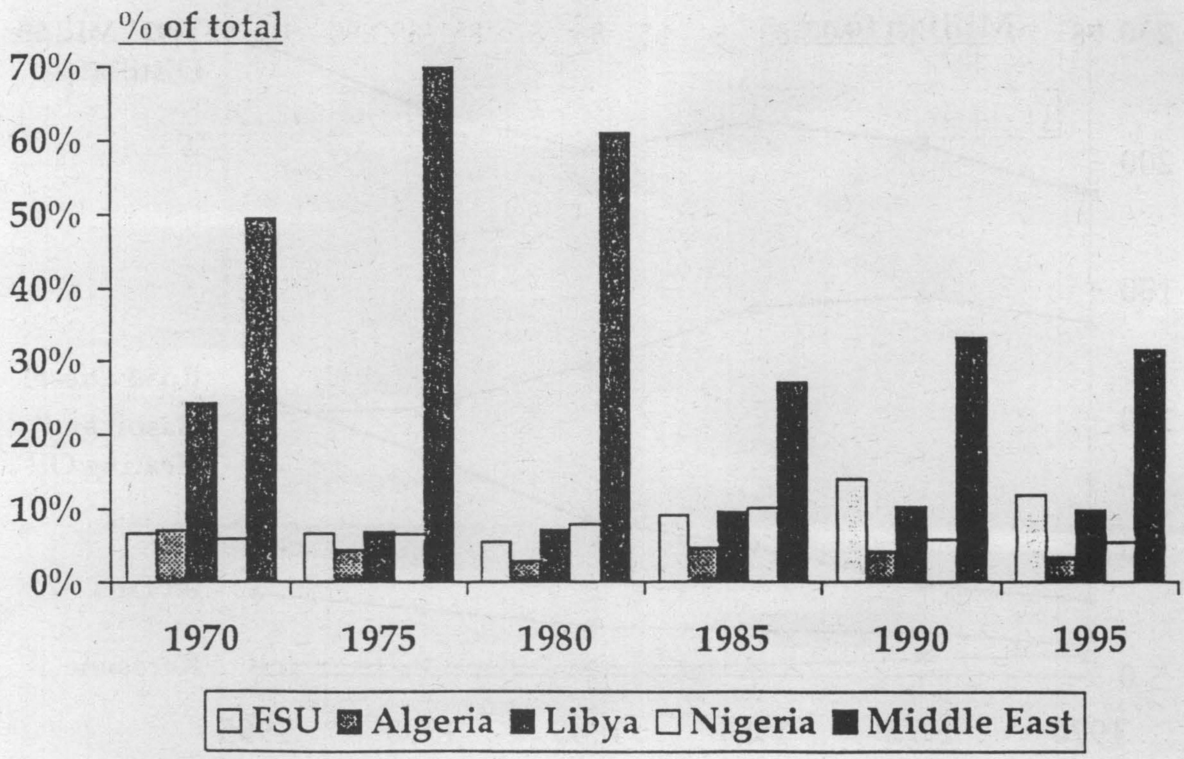


graph 1

EU 15: Total Crude Oil Imports

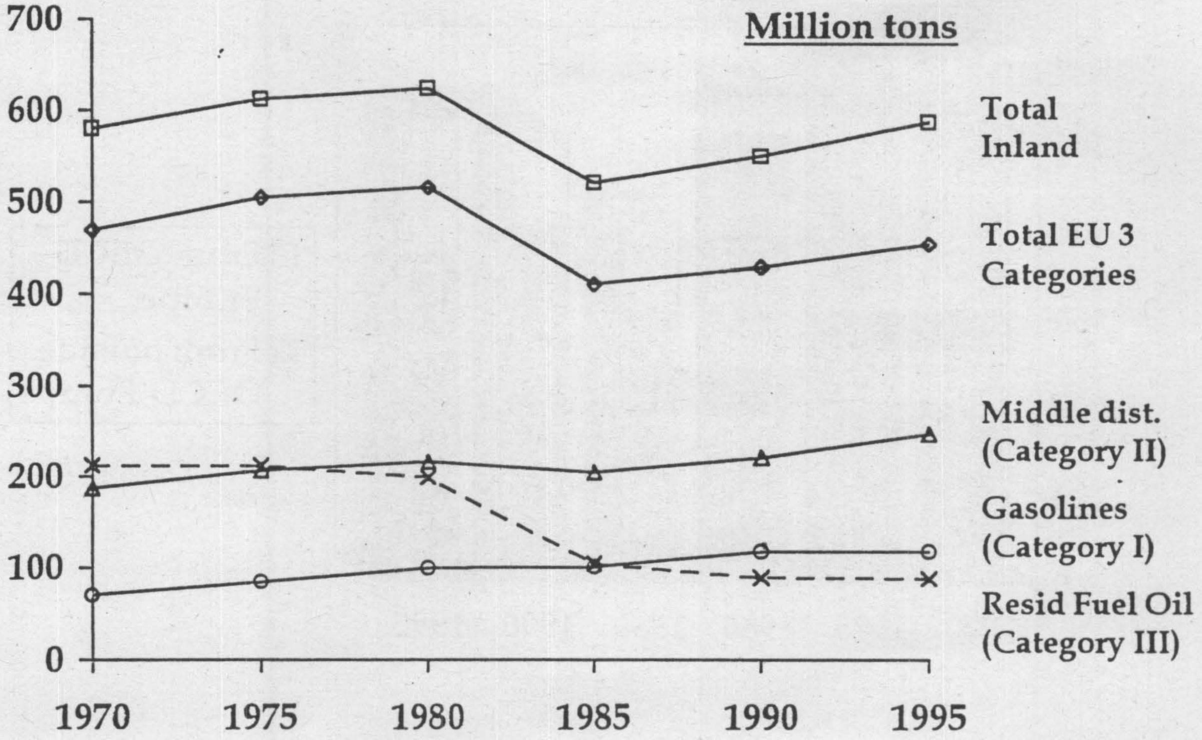


EU 15: Crude Oil Imports by Source

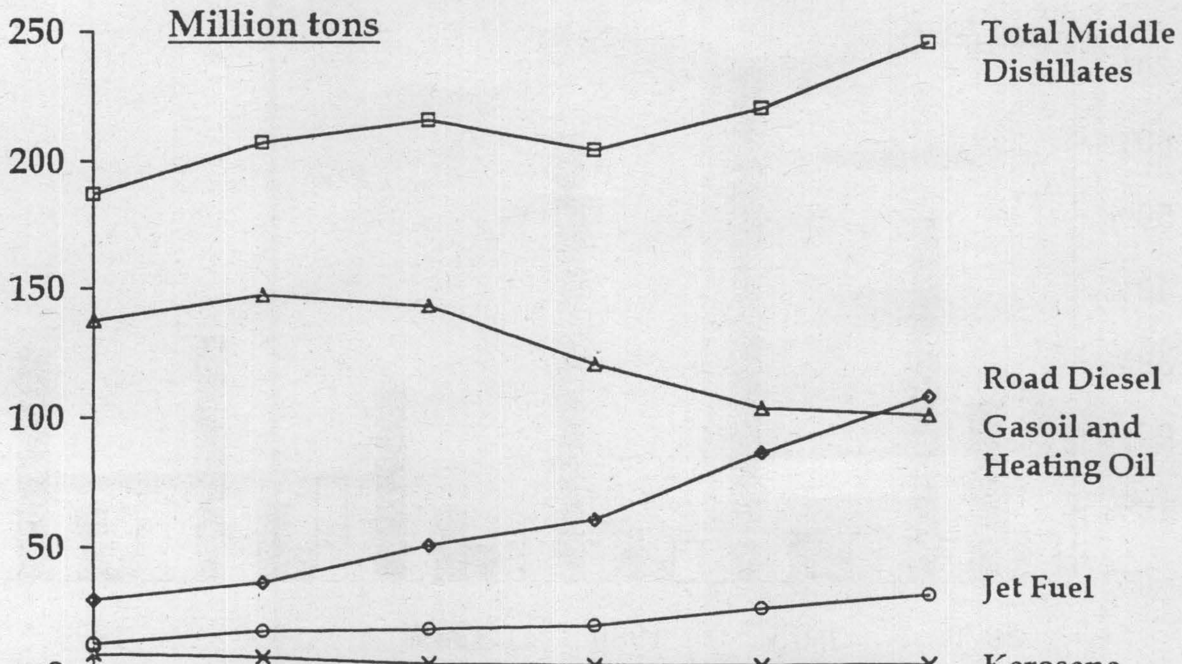


graph 2

Trends in EU-15 Oil Products Consumption

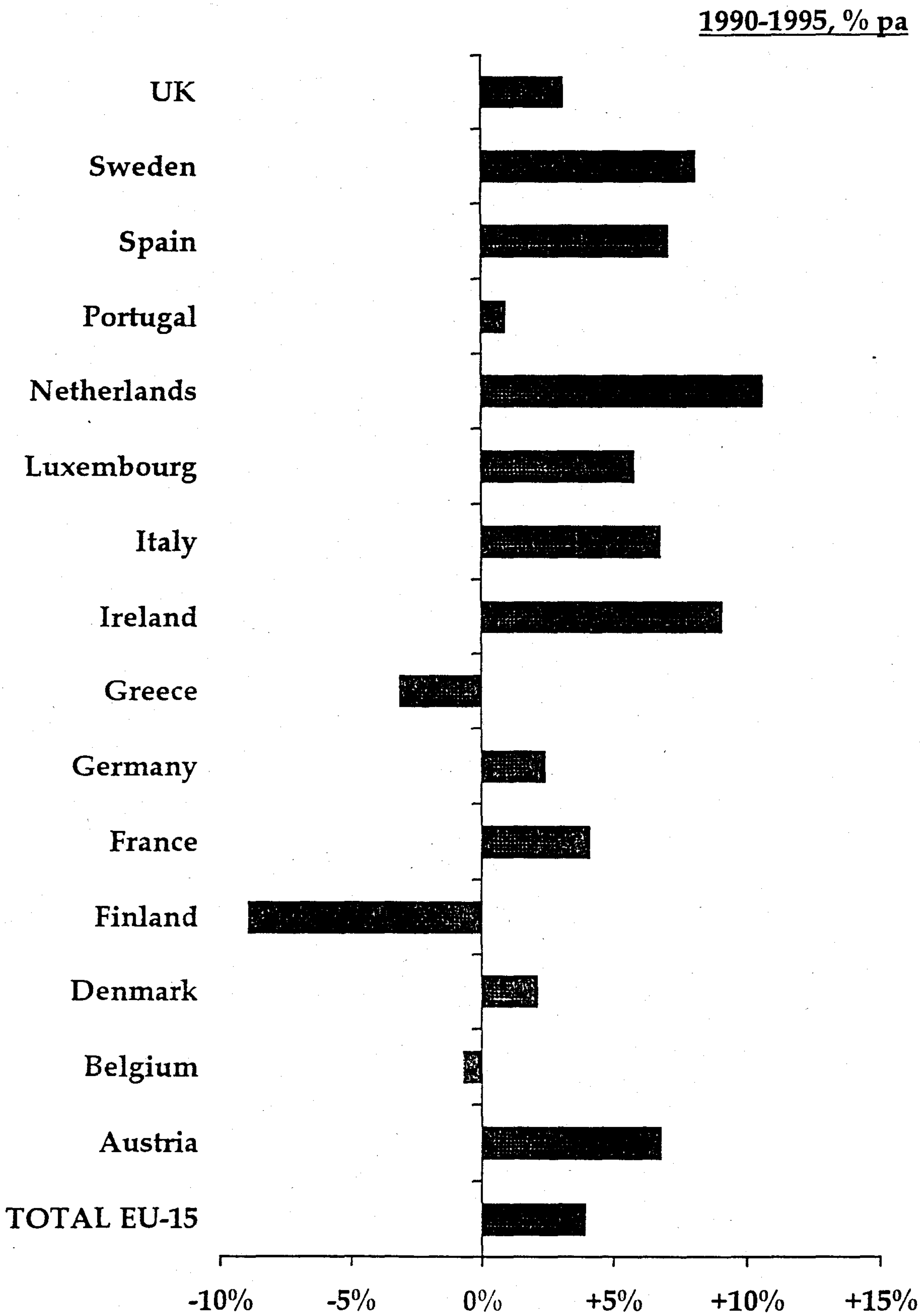


Trends in EU-15 Consumption of Middle Distillates



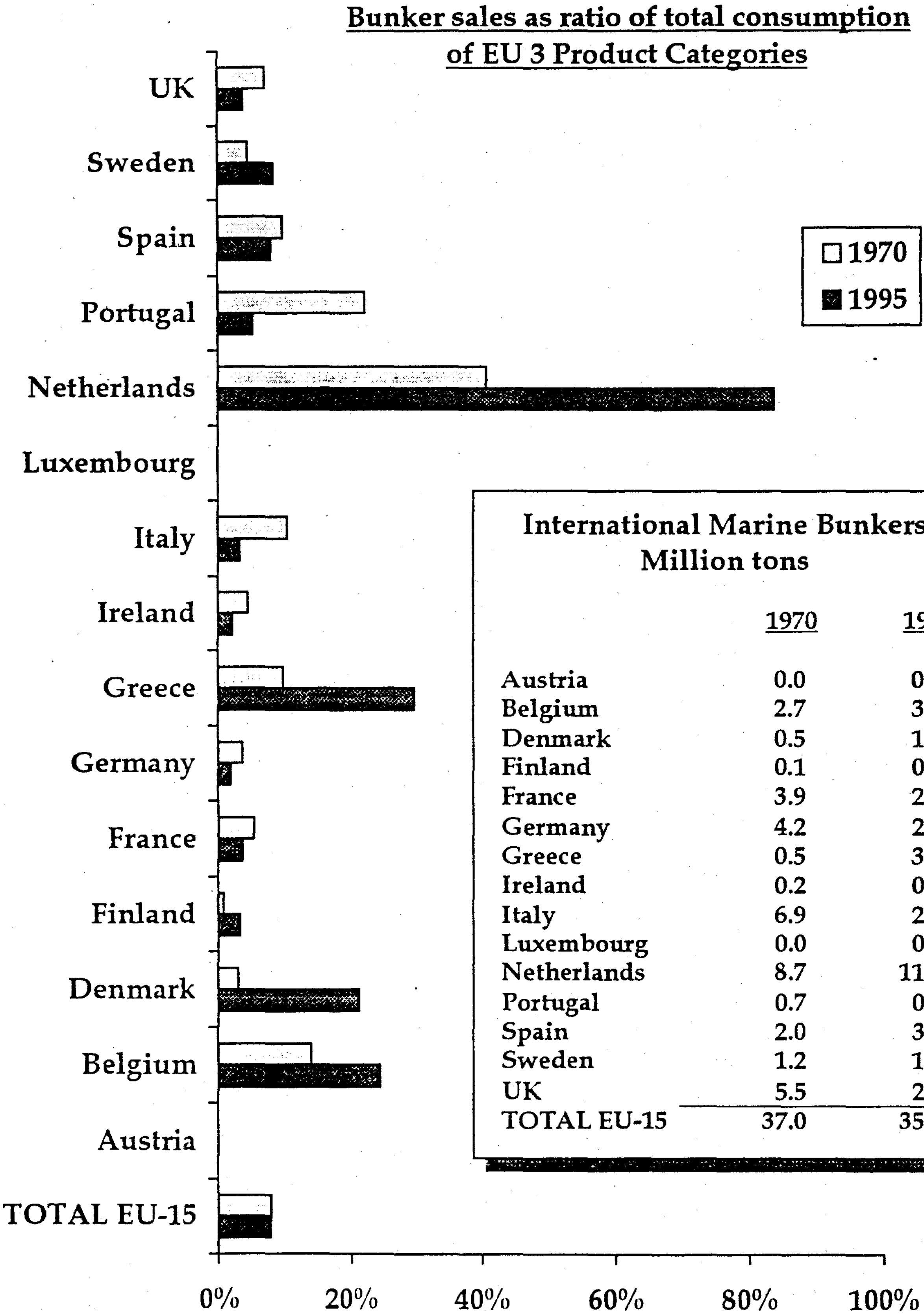
graph 3

Annual Growth in EU-15 Jet Fuel Consumption by Country



graph 4

Comparison by Country of EU-15 International Marine Bunker Sales

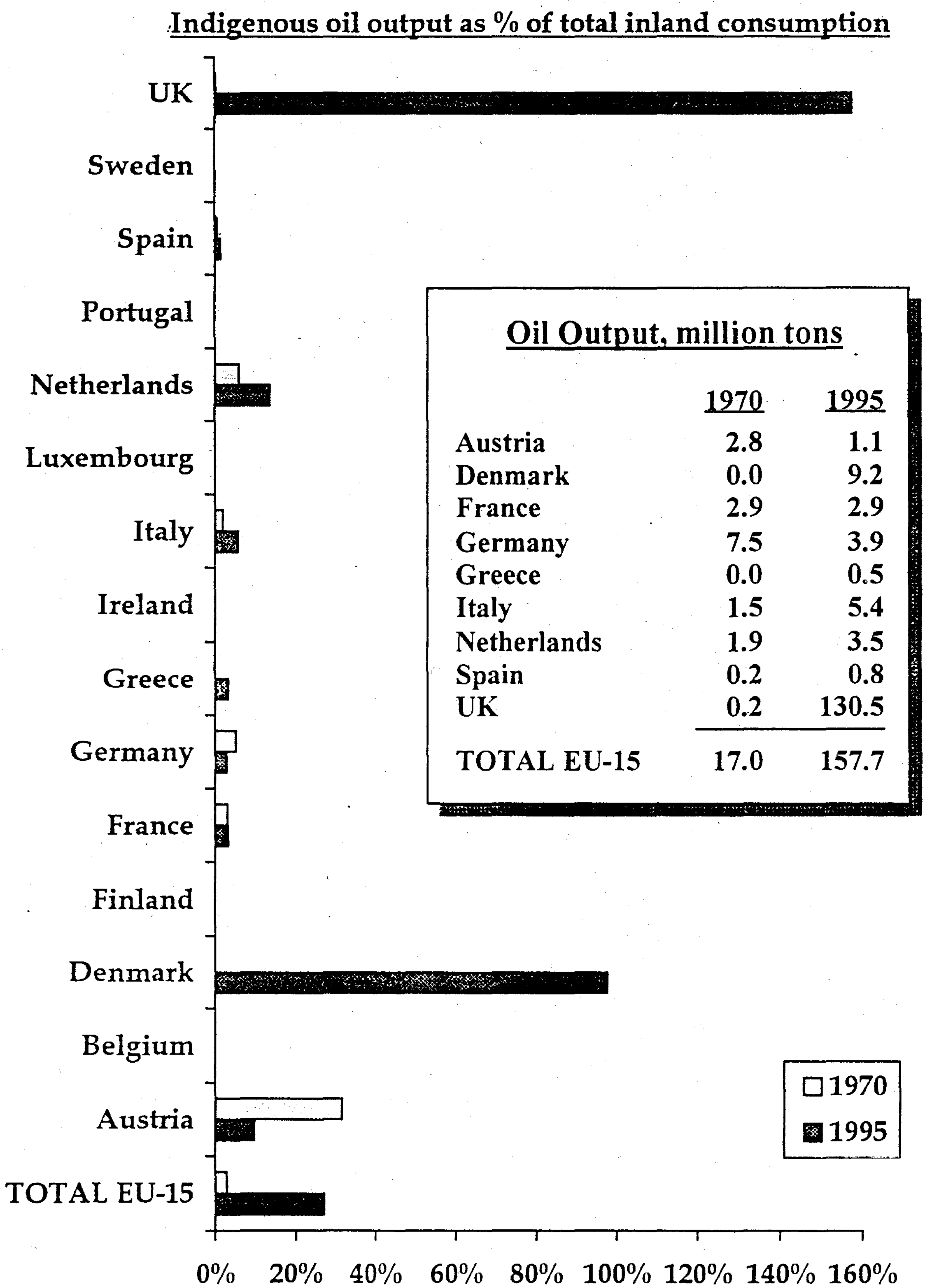


International Marine Bunkers
Million tons

	1970	1995
Austria	0.0	0.0
Belgium	2.7	3.9
Denmark	0.5	1.6
Finland	0.1	0.2
France	3.9	2.4
Germany	4.2	2.1
Greece	0.5	3.6
Ireland	0.2	0.1
Italy	6.9	2.5
Luxembourg	0.0	0.0
Netherlands	8.7	11.6
Portugal	0.7	0.5
Spain	2.0	3.2
Sweden	1.2	1.1
UK	5.5	2.5
TOTAL EU-15	37.0	35.4

graph 5

Comparison by Country of EU-15 Indigenous Oil Output



Oil Output, million tons

	1970	1995
Austria	2.8	1.1
Denmark	0.0	9.2
France	2.9	2.9
Germany	7.5	3.9
Greece	0.0	0.5
Italy	1.5	5.4
Netherlands	1.9	3.5
Spain	0.2	0.8
UK	0.2	130.5
TOTAL EU-15	17.0	157.7

graph 6

ANSWERS TO THE SMEs IMPACT ASSESSMENT FORM

1. The Community dimension is evident in the sense that, in today's global economy, the Community must be able to protect the economic interests of its Member States when they are threatened by oil disruptions. Stockholding mechanisms are organised at Community level in order to be more coherent, efficient and transparent and be in line with Community solidarity.

2. The proposal will affect refiners, importers and distributors of crude oil and oil products in the Community. Refineries today cover the bulk of stockholding obligation. Independent storage operators, importers and distributors have an ever increasing stake in oil product sales and therefore in the stockholding obligation associated with these sales. SMEs involved include importers, distributors and tank storage operators. Their number and size differ from one Member State to another.

3. Enterprises trading oil products must comply with national provisions implementing the Community Directive. In general, in Member States with stocks held solely by the companies (industry stocks), it is the market operators who ensure the maintenance of stocks of 90 days based on the previous year's oil consumption. In Member States with stocks held solely - or largely - by a stockholding body or entity, the stockholding obligation is usually distributed evenly across the operators-members of this entity.

4. The implementing details which will be adopted by each Member State internally can largely influence economic effects on enterprises. Employment will not normally be affected. The creation of new businesses may be affected: this Directive Proposal makes sure that stockholding arrangements are transparent and that market players operate on a level playing field in the Community avoiding any discrimination. Such arrangements are expected to increase enterprise competitiveness.

5. The specific situations of SME enterprises has been fully considered. The aim is to have efficient stockholding arrangements organised with transparency. The option of establishing special stockholding bodies (existing already in many Member States) and the identification of stockholding costs aim to provide more transparency and neutrality in the market. These concepts are in favour of SME oil trading/storage enterprises. Subsidiarity would suggest that implementation of these concepts is left to Member States.

6. UPEI: Union Pétrolière Européenne Independante.(non-refiners).
   EUROPIA: European Petroleum Industry Association (refiners).

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