FuelsEurope's recommendations on the review of the Compulsory Stocks Obligation Directive

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Directive 2009/119/CE deals with strategic stock obligations. It foresees that Members States have to maintain minimum stock of crude oil, unfinished and/or finished products (gasoline, diesel, jet fuel, etc.) representing about 90 days of average daily net imports or 61 days of average daily inland consumption, whichever of the two quantities is greater.

FuelsEurope would like to raise a number of challenges that the refining industry is experiencing with this Directive and to recommend addressing during the review, which is due prior to December 2015.

LIST OF ELIGIBLE PRODUCTS TO MEET THE COMPULSORY STOCKS OBLIGATION (CSO)

To meet the CSO obligations, economic operators, to whom the management of emergency stocks can be delegated, build their own stocks and/or buy CSO tickets. The Directive allows a wide list of products[1], but among these some are not strategic in case of a crisis for the transport sector and the chemicals industry, which are identified as two key sectors by the CSO Directive. FuelsEurope believes that in order to meet the energy security goal targeted by stocks obligation, the list of allowed products should consider only strategic products in case of a crisis and therefore eliminate products such as Petcoke, Sulfur, Paraffin and waxes.

Restricting this list only to relevant products would present the following advantages:

- Improve security of supply in case of crisis;
- Preserve the image of the petroleum industry by making sure that supply of products needed for transport and chemicals industry is secured in case of crisis;

USE OF NON-PETROCHEMICAL NAPHTHA FOR STRATEGIC STOCKS

In the present EU Directive Naphtha is not treated consistently:

- To calculate the obligation, a reduction of 4-7% of total product yields is allowed to account for Naphtha yields. This reduction corresponds to the average Naphtha volumes used as feedstocks for petrochemical plants (Annex I, 2009/119/EC);
- When describing the products which can be used to cover the obligation (Annex III, 2009/119/EC), all Naphtha stocks are explicitly excluded indifferent of its use. Therefore, also the Naphtha used as feedstock for producing gasoline or used as a component in the gasoline blending (in contradiction with Annex III and Section 3.1 of Annex C to Regulation (EC) No1099/2008) cannot be used for compulsory coverage.

Fuels Europe therefore believes that obligated parties should be allowed to use Naphtha stocks for compulsory coverage when used for gasoline production (transport use). This is consistent with the aim of the EU Directive to bring the EU regulation in line with IEA methodology.

[1] See section 4 annex B regulation EC n°1099/2008

COMPLEXITY AND INCONSISTENCY OF PRODUCTS ALLOWED PER CATEGORY AND PER COUNTRY

There is a discrepancy across Europe with regards to the eligibility of certain feedstocks/products to cover the various CSO categories: Some feedstocks/products are eligible for CSO coverage in one country but not in another. This is in contradiction with the objective of the Directive, which is to create a transparent market leading to a more level playing field across Europe for CSO costs.

To avoid inconsistency, FuelsEurope believes that the directive ought to:

- Ensure a level playing field by harmonising among Member States;
- Comprise an EU-wide unified table, linking custom codes (CN codes) of the various feedstocks/products with their eligibility for CSO coverage (several categories could be possible for one product).

BILATERAL AGREEMENTS AND THE LIMITATIONS SET BY CERTAIN COUNTRIES ON STOCKS ABROAD

The application and use of bilateral agreements between Member States results in unnecessary bureaucracy and barriers. This severely limits the overall intention to create one European system and a unified EU--wide response to a supply disruption.

Furthermore, the quantity, location, ownership status and specification of stocks held in some Member States are subject to extensive conditions or restrictions. On the one hand, these limitations increase the cost for obligation coverage and on the other hand, the stocks should remain easily accessible.

To limit these barriers and create a single, unified European system, the following revisions should be made:

- Enforce the abolishment of the need for bilateral agreements;
- Restrictions imposed by Member States for stocks being held abroad should not be stricter than for stocks being held on their territory.

FIXED 10% PROVISION FOR UNAVAILABLE STOCKS

In the Directive, for reasons of consistency with IEA, 10% of the stocks are considered as “non-accessible”. This figure is used independently and additionally to the “non-accessible stocks”, specifically mentioned in Annex III, such as the pipeline contents. The 10% unavailability factor is based on relatively old studies of IEA which are probably out-of-date, or which are not publicly available, contrary to EU legislation practices.

This figure could be overestimated, according to studies performed by petroleum companies, which indicate unavailability factors of less than 3%.This issue had already been discussed in the previous revision of the Directive but has not been retained due to IEA’s adoption of 10%.

Therefore, while we believe that the EU Directive should remain consistent with IEA an updated technical study backed by IEA should be launched, based on both current practices and recent techniques available.

BIOFUELS DEFINITION

There is a difference in the biofuels definition between the CSO Directive and Directive 2009/28. In order to remain consistent there should be a single definition, allowing for maximum flexibility.

TREATMENT OF REFINERS VERSUS IMPORTERS

In certain Member States the CSO Legislation requires refiners to hold a higher obligation than importers (e.g. Netherlands, UK, Greece), thus providing a competitive advantage for importers.

Member States should therefore ensure a more level-playing field, including justification and transparency of any exemptions or partial exemptions granted to some market participants.

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FuelsEurope, the voice of the European petroleum refining industry

FuelsEurope represents with the EU institutions the interest of 42 companies operating refineries in the EU. Members account for almost 100% of EU petroleum refining capacity and more than 75% of EU motor fuel retail sales.
FuelsEurope aims to promote economically and environmentally sustainable refining, supply and use of petroleum products in the EU, by providing input and expert advice to the EU institutions, Member State Governments and the wider community and thus contributing in a constructive and pro-active way to the development and implementation of EU policies and regulations.

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