



UK Emergency Oil Stocks

A guide to the measures the UK adopts to meet its international obligations to maintain emergency oil stocks

May 2009

Contents

1. INTRODUCTION.....	3
2. OIL STOCKING OBLIGATIONS – EUROPEAN UNION	3
3. OIL STOCKING OBLIGATIONS – INTERNATIONAL ENERGY AGENCY	3
4. UK LEGISLATION	4
5. COLLECTION OF INFORMATION.....	4
6. CALCULATING OBLIGATIONS	4
7. STOCKS HELD IN THE UK BY ANOTHER COMPANY.....	6
9. STOCKS HELD IN THE UK FOR OVERSEAS COMPANIES.....	7
10. STOCKS INCLUDED AND EXCLUDED FROM QUALIFYING	8
11. INCLUSION OF BLENDING MATERIALS	8
12. INCLUSION OF CRUDE OIL AND REFINERY FEEDSTOCK	9
13. MONITORING	9
14. ENFORCEMENT	9
15. FURTHER INFORMATION.....	10
ANNEX A – TEMPLATE FOR DIRECTION TO HOLD STOCKS	11
ANNEX B – IMPORTERS’ DATA COLLECTION FORM	14

1. Introduction

1.1 These notes are a guide to the measures the UK adopts to meet its international obligations to maintain emergency oil stocks. They are not a detailed guide to the law, or a substitute for legal advice.

2. Oil stocking obligations – European Union

2.1 EU member states are required by Directive 2006/67/EC (codifying previous Directives 68/414/EEC and Directive 98/93/EC), to hold oil stocks equal to 90 days' average daily national consumption during the preceding calendar year.

2.2 As well as meeting this obligation, member states must meet the obligation in each of three separate categories:

- 1 - motor spirit and gasoline-based aviation fuels;
- 2 - gas oil, diesel oil, kerosene and kerosene-based aviation fuels;
- 3 - fuel oils.

2.3 As a crude oil producer the UK has a derogation which reduces our obligation by 25% to 67.5 days' consumption. As UK crude oil production declines, the derogation will be phased out and the obligation will gradually increase to 90 days. We expect the increase to start from about 2014, and to be complete when UK production ends.

2.4 The 2007 March European Council highlighted the need to review EU oil stocks mechanism, with special reference to the availability of oil in the event of a crisis, stressing complementarity with the crisis mechanism of the International Energy Agency (IEA). The European Council is currently working on a new legislation that aims to strengthen the system while optimising the administrative obligations on Member States.

3. Oil stocking obligations – International Energy Agency

3.1 The IEA was formed after the 1973/74 oil crises with energy security as its core activity. The International Energy Program (IEP) contained in the IEA's governing treaty commits member countries:

- to maintain emergency oil reserves equivalent to at least 90 days of net oil imports;
- to provide programmes of demand restraint measures to reduce national oil consumption;
- to participate in oil allocation among IEA countries in the event of a severe supply disruption.

The text of the IEP is at:

<http://www.iea.org/Textbase/about/IEP.PDF>

3.2 The UK became a net importer of oil in 2006. This means that in future we will have an obligation to hold stocks as a member of the International Energy Agency as well as a member of the EU. Stocks can qualify towards both obligations and as EU obligations are based on consumption and IEA obligations on net imports the IEA obligation will not at first involve a net increase in the UK obligation.

3.3 However, the IEA obligation will lead to a net increase in the UK obligation from about 2016, and will then increase more rapidly than the EU obligation and become the main focus of UK compliance. IEA rules, in particular its exclusion of 10% of the stocks held as "tank bottoms" from qualifying towards the national obligation, mean that the total UK obligation will eventually increase to about 100 days' net imports.

4. UK Legislation

4.1 The UK has always met these international obligations by directing companies to hold stocks. Section 6 of the Energy Act 1976 allows the Secretary of State for Energy and Climate Change to give directions to businesses producing, supplying or using petroleum products within the UK market, requiring them to hold minimum levels of oil stocks.

4.2 In the event of an emergency, the Secretary of State for Energy and Climate Change has the power to force obligated companies to release part or all of their obligated stocks to the market.

5. Collection of information

5.1 Information on refinery activity is collected by DECC for a range of purposes using the Downstream Oil Reporting System (DORS). This information is used to set and monitor individual company stocking obligations and provides much of the data needed to calculate the national stocking obligation.

5.2 A new simplified system closely linked to DORS has been developed and introduced to collect information from non-refiner importers of oil products. An example of the form used is attached at Annex B.

6. Calculating obligations

6.1 The UK's national obligation is primarily based on information collected through DORS with additional data from obligation holders and imports data. This EU obligation is calculated as:

deliveries to final consumption less deliveries for non-energy use, bunker supplies for sea-going vessels and military consumption

6.2 Company obligations will be based on the information collected either through DORS for refiners or the simplified return for importers. The information provided will be cross-referenced and checked with other information where appropriate to ensure consistency.

6.3 Within DORS, refiners provide information on their refinery production, imports and exports. A DORS return will cover all UK downstream activities by the company and its group affiliates. Refiners' obligation will be based on their "supplies to market" where:

$$\text{Supplies to Market} = \text{Own refinery production} + \text{Imports} - \text{Exports},$$

less their exclusions mentioned in 6.1 above.

6.4 Refiners' obligations will be calculated for each of the three categories of product mentioned in 2.2 as follows:

$$\text{Supplies to Market less authorised exclusions (tonnes)} \div 365 \times 67.5$$

6.5 Non-refiner importers provide information on their stock levels and imports. For the purposes of obligation setting, non-refiners' supplies to market will effectively be their imports.

6.6 Non-refiner importers' obligations will be calculated for each of the three categories of product mentioned in 2.2 as follows:

$$\text{Imports (tonnes)} \div 365 \times (67.5 - d)$$

where "d" is the differential between refiners and non-refiner importers.

6.7 A current differential factor "d" of 9.5 days has been arrived at, which recognizes the greater level of working stocks held as part of their normal business by refiners than by non-refiner importers. The text of the independent report which formed the basis of this decision is available at the following link:

<http://www.DECC.gov.uk/whatwedo/energy/international/oil-stocking/page28385.html>

6.8 With offshore stocks declining the logic in the medium to longer term is that there should eventually be no differential at all, and we will be keeping the level under review.

6.9 Company obligations will be set to ensure that the UK meets its international stocking obligations.

6.10 The minimum stockholding requirement specified for each category of product will be rounded to the nearest multiple of 100 tonnes.

6.11 Obligations will be calculated separately for each category. Companies will only have obligations for the categories where they supply product.

6.12 DECC will ask companies to check the draft obligation and the information used to calculate it, and to identify any product which can be legitimately excluded from the obligation.

6.13 DECC will then prepare an oil stocking Direction in accordance with Section 6 of Energy Act 1976 stating the amount of oil product stocks each company is required to hold in each of the three categories.

6.14 In some instances imported oil is held in storage for a period before onward sale into consumption or re-exports. Obligations for such cargoes relate solely to the part that is delivered into the UK domestic market.

7. Stocks held in the UK by another company

7.1 A company may arrange for some or all of the stocks held in compliance with a Direction to be held on its behalf by another company in the UK. The company owning the stocks must give a guarantee to the company whose obligation they are intended to meet, either partially or wholly, that they will be available at all times.

7.2 Such an arrangement must be notified to DECC in advance and in writing, preferably by e-mail. Notifications will be accepted unless there is reason to doubt that the stocks exist and will be available for release if necessary. Notification may be made by either or both of the companies concerned, but it is the company with the obligation which is responsible for ensuring that the stocks are held and available at all times.

7.3 Preferably, any arrangement should be for a calendar quarter or quarters, although arrangements of one or two months will be considered.

7.4 The notification should include:

- the name and address of the company holding the stocks;
- the name and address of the company whose obligation the stocks are intended to meet;
- the location of the stocks;
- the category and quantity of stocks;
- the period during which the stocks are to be held

8. Stocks held in other EU Member States

8.1 Companies may arrange for some or all of the stocks held in compliance with a Direction to be held in other EU Member States, either by themselves or on their behalf by others. Likewise, UK companies may hold compulsory stocks on behalf of companies from other EU countries. In all these cases, such arrangements can only be made if the UK has entered into a bilateral stocking agreement with the country concerned and the approval of both Governments has been obtained for the particular stocks to be held under the terms of that bilateral agreement.

8.2 The UK has formal bilateral agreements with Ireland, Sweden and the Netherlands. It has an informal agreement and is arranging signature of a formal agreement with Denmark. It has informal agreements with France and Belgium and has opened negotiations for formal agreements with Belgium, Finland and Germany.

8.3 Thus countries with which it is currently possible to enter into bilateral arrangements are Ireland, Sweden, the Netherlands, Denmark, France and Belgium.

8.4 The UK also has an agreement with New Zealand, negotiated under the International Energy Program, under which UK companies may hold stocks on behalf of the New Zealand Government, subject to the agreement of the UK Government. Category 2 product is excluded from the terms of this agreement.

8.5 Companies wishing to have stocks held for them overseas must notify DECC in writing, preferably by e-mail. These stock cover requests must be for a minimum period of a quarter or multiple quarters, in accordance with EC requirements, and should be received by DECC as follows:

- by 1 March for the quarter April – June,
- by 1 June for the quarter July – September,
- by 1 September for the quarter October – December,
- by 1 December for the quarter January – March.

8.6 The notification must include:

- the name and address of the UK company;
- the name and address of the overseas company;
- the location of the stocks;
- the type and quantity of stocks;
- the period for which the stocks are to be held;

8.7 Companies holding stocks abroad must have arrangements in place to repatriate those stocks if required and should ensure that those stocks would be available in the UK as soon as reasonably possible. DECC may ask to see a copy of any such arrangements.

8.8 Following receipt of a request for a stock holding arrangement DECC will seek approval from the relevant Government as they will seek our approval for any notifications they receive. Such arrangements are subject to the approval of both Governments; in particular, Governments of other countries might decline to agree requests which extend for more than a quarter in length or involve companies unknown to them. On receipt of their response we will inform the UK company by e-mail.

9. Stocks held in the UK for overseas companies

9.1 The same procedure applies for UK companies wishing to hold stocks for overseas companies.

10. Stocks included and excluded from qualifying

10.1 Under EU legislation the following types of stocks qualify for inclusion in stocks held in compliance with an oil stocking direction:

- supplies on board tankers in port for the purpose of discharging, once formalities have been completed;
- supplies held in ports of discharge;
- supplies held at wholesale terminals;
- supplies held in refinery tanks, excluding those supplies in pipes and refining plant;
- supplies held in barges and coasting vessels engaged in transport within national frontiers¹.

10.2 The following types of stocks do not qualify for inclusion in stocks held in compliance with an oil stocking direction:

- crude oil not yet extracted - *not produced so not available*;
- supplies in direct transit apart from those covered by bilateral agreements between member states;
- supplies in road tankers or rail tank wagons – *deemed already delivered into inland consumption*;
- supplies in pipelines, refinery pipes and plant – *only available by disrupting production*;
- supplies in storage tanks at retail filling stations (including airports)– *deemed already delivered to inland consumption*;
- supplies held on behalf of the armed forces – *only used for the defence of the realm*;
- supplies of bunker fuel for sea going vessels – *deemed already consumed*.

10.3 Supplies held at offshore facilities do not count towards individual company obligations, but are counted by DECC towards the UK's national obligation. Offshore stocks include stocks in partially filled cargo still linked to the oil field.

11. Inclusion of blending materials

11.1 When intended for processing into finished products within one of the three categories, stocks of blending materials may be counted towards fulfilment of a stocking obligation in their intended final product category. For example, when used as a blending material, one tonne of middle distillate feedstock can be counted as the equivalent of one tonne of Category 2 product. Such blending materials can only be counted towards one such conversion.

¹ This includes only supplies that have left a UKCS pipeline terminal and/or UKCS offshore loading point and are bound for a UK refinery. Stocks held in partially loaded tankers at UK fields do not count towards CSO.

12. Inclusion of crude oil and refinery feedstock

12.1 Article 5 of the EU Directive allows Member States to include crude oil and feedstock as part of their emergency stocks on the basis of three options. As Member States are not allowed to apply different options to different refineries the UK has decided, in agreement with UKPIA, to account for UK crude oil stocks using the second option in the Directive.

12.2 The second option requires refineries to estimate the relevant processing losses and product yield factors applicable to their refinery in a current year. Refineries must therefore provide DECC in advance, using the refinery yield factors return attached to the oil stocking direction (Annex A) with information regarding the refinery processing losses and the product yield factors which would apply to their refinery in an emergency.

12.3 These yield factors allow DECC to determine the potential volumes of final product that could be produced from a company's stock of crude oil and feedstock. These potential stocks may count towards a company's stock holding obligation.

12.4 Should a company's refinery configuration change the company must notify DECC immediately and agree with DECC a revised set of yield factors.

13. Monitoring

13.1 All companies subject to an oil stocking obligation and not part of the DORS reporting system are required to complete and send to DECC a monthly return – these are issued with the oil stocking direction attached at Annex A.

13.2 Where companies arrange for stocks to be held on their behalf by another company for a minimum period of one quarter DECC will consider requests to be allowed to submit a quarterly return. Companies submitting a quarterly return must notify DECC if they change their stockholding arrangements during the course of the quarter and provide a revised return showing the new arrangements. Unless otherwise agreed by DECC, such companies must also thereafter revert to providing a monthly return as specified in the oil stocking direction.

14. Enforcement

14.1 The Secretary of State may from time to time wish to verify the existence of oil stocks which are being held in the UK.

14.2 Schedule 2 of the Energy Act 1976 allows persons authorised by or on behalf of the Secretary of State to enter a company's premises (after giving advance notice of their intentions) to make such inspections and enquiries as may be reasonably necessary to satisfy the Secretary of State that the Company is complying with the terms of any relevant Direction. Where appropriate such inspections and enquiries may include the conduct of any reasonable tests, measurement and sampling, as well as the investigation of related records. The Act also allows the Secretary of State to seek a warrant authorising persons to enter premises for such purposes, either where entry has been

refused or where advance notice of the entry would defeat the purpose of the inspection.

14.3 Section 18 of the Energy Act 1976 makes it an offence to fail to comply with a Direction made under section 6. Section 19 (1) and (2) of the Energy Act provides that a person guilty of such an offence is liable to a fine on summary conviction in the Magistrates Court, or a fine on conviction on indictment in the Crown Court.

14.4 The fines would apply to each offence of each company. Section 18(4) provides that where an offence by a company is committed with the consent or connivance of or attributable to neglect by any director, manager, secretary or similar officer or any person purporting to act in such a capacity the person as well as the company is guilty of that offence and liable to be proceeded against and punished accordingly.

15. Further information

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Downstream Oil Data Collection and Analysis Team
DECC May 2009

Annex A – Template for direction to hold stocks

To: [name, company]

DIRECTION TO HOLD EMERGENCY STOCKS OF OIL

1. I attach a formal direction, which sets out the minimum quantity of oil stocks which your company is required to hold with effect from [Date].
2. Please continue to notify me in advance of any agreement with another company in the UK to hold stocks on that company's behalf.
3. Please continue to notify me of any agreement with a company or entity in another member state of the European Union, either to hold stocks on that company or entity's behalf, or to have stocks held by them on your company's behalf. In the case of such EU bilateral arrangements, these requests should be received on a quarterly timetable - by 1 March for the quarter April – June, by 1 June for the quarter July – September, by 1 September for the quarter October – December, and by 1 December for the quarter January – March.
4. Please continue to notify me if the unscheduled late arrival of a tanker, or any other unavoidable or unforeseen event, causes stocks to fall below the minimum quantities stipulated in the direction.

Laurent Ortman
Department of Energy and Climate Change
1 Victoria Street
London SW1H 0ET

[Date]

ENERGY ACT 1976

Directions under section 6 of, and paragraph 1(1)(b) of Schedule 2 to, the Energy Act 1976 as to stocks of petroleum products and furnishing of returns.

To: [name, company]
[Email address]

The Secretary of State for Energy and Climate Change (“the Secretary of State”), having notified you of the substance of this direction and having afforded you a reasonable opportunity to make representations, in exercise of the powers conferred on him by section 6 of, and paragraph 1(1)(b) of Schedule 2 to, the Energy Act 1976, hereby gives you the following direction-

1. As a person who in the course of an undertaking carried on by you produces, supplies or uses petroleum products, you shall make such arrangements with respect to your United Kingdom stocks of petroleum products as will:-

(a) enable those stocks to be brought within the period of one month beginning on the date of the giving of this direction to, and thereafter maintained at the level of:-

- (i) [...] tonnes of Category 1 product (motor spirit and gasoline based aviation fuels);
- (ii) [...] tonnes of Category 2 product (gas oil, diesel oil, kerosene and kerosene based aviation fuels);
- (iii) [...] tonnes of Category 3 product (fuel oils);

(b) ensure that they do not fall below those levels, except as may be permitted by paragraph 2 or 3 below or by the authority of the Secretary of State.

2. Where you have a United Kingdom stock of naphtha or other blending component intended for use in the production of a product in one of the above Categories, your United Kingdom stocks of products of that kind or products within the same category may fall below the level specified for such products in paragraph 1 (a) above by an amount equal to the quantity by weight of that stock of naphtha or other blending component.

3. (1) Where you have a United Kingdom stock of a substance of a kind specified in column 1 of Annex 1 of this direction your United Kingdom stocks of petroleum products may fall below the levels specified in paragraph 1(a) above, in each case, by an amount equal to the quantity by weight of the stock of the substance so specified multiplied by the relevant current nominated percentage determined in accordance with sub-paragraph (2) below.

(2) In relation to each of the above Categories, a percentage is the current nominated percentage for the purposes of sub-paragraph (1) above if you have nominated it in writing to the Secretary of State for these purposes as the percentage applicable to the substance in question for that category of products and each such percentage has been agreed in writing by the Secretary of State, provided that in each case if more than one such percentage has been so nominated the current nominated percentage shall be the last percentage to have been nominated and agreed in writing by the Secretary of State.

(3) For the purposes of sub-paragraph (2) above, the percentages specified in columns 2, 3 and 4 of Annex 1 to this direction shall be deemed to have been nominated by you on the coming into force of this direction in respect of the kind of substance specified opposite thereto in column 1 of that Annex.

(4) A nomination for the purposes of this paragraph shall be served on the Secretary of State by delivery to the Department of Energy and Climate Change. This should preferably be sent to Laurent Ortman by e-mail (laurent.ortmans@decc.gsi.gov.uk), or alternatively at 1 Victoria Street, London SW1H 0ET.

4. You shall in the form attached to this direction furnish the Secretary of State, before the 15th day of every month with returns of the amounts of your United Kingdom stocks of crude liquid petroleum and petroleum products on the last day of the preceding month together with estimates of the amounts of petroleum which will be produced by you or on your behalf from the stocks of crude liquid petroleum and the other substances specified in Column 1 of Annex 1 to this direction.

5. The Secretary of State for Energy and Climate Change, pursuant to section 6 of, and paragraph 1 of Schedule 2 to, the Energy Act 1976, hereby revokes the directions dated [Date] given by him to your company pursuant to those provisions.

6. This direction shall come into force on [Date].

Michael Rutter

An official of the Department of Energy and Climate Change authorised to act on behalf of the Secretary of State

[Date]

ANNEX 1

COUNTING OF OTHER UK STOCKS

Column (1)	Column (2)	Column (3)	Column (4)
Substances	Percentage of stocks, which may count against the level, specified in paragraph 1(a) for Category 1 products.	Percentage of stocks, which may count against the level, specified in paragraph 1(a) for Category 2 products.	Percentage of stocks, which may count against the level, specified in paragraph 1(a) for Category 3 products.
Crude liquid petroleum			
Gasoline feedstock			
Other refinery feedstock			

