Mid-Term Evaluation of Emergency Oil Stocks Directive (2009/119/EC)

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Overview of the presentation

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1. Introduction

» The why, what and how of the evaluation

2. Evaluation findings

» Effectiveness
» Efficiency
» (Relevance & coherence)
» (EU value added)

3. Recommendations

» What can be done to further improve the functioning of the Directive?

Introduction

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- What did we do in the evaluation?
  - Mainly analyse the functioning of the EOS Directive compared to the predecessor:
    1. Did the Directive improving the **availability of stocks**?
    2. Did the Directive **increase transparency of stocks**?
    3. Did the Directive improve efficiency due to **harmonising with the IEA**?
    4. Did the Directive reduce **administrative burden**?
- Why did we do the evaluation?
  - Assist the EC improving the functioning of the Directive through an objective and independent analysis and suggest areas for small revisions (*not* a major overhaul)
- How did we do the evaluation?
  - Data analysis, literature review, stakeholder survey (200), interviews (40)

Evaluation findings

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Effectiveness

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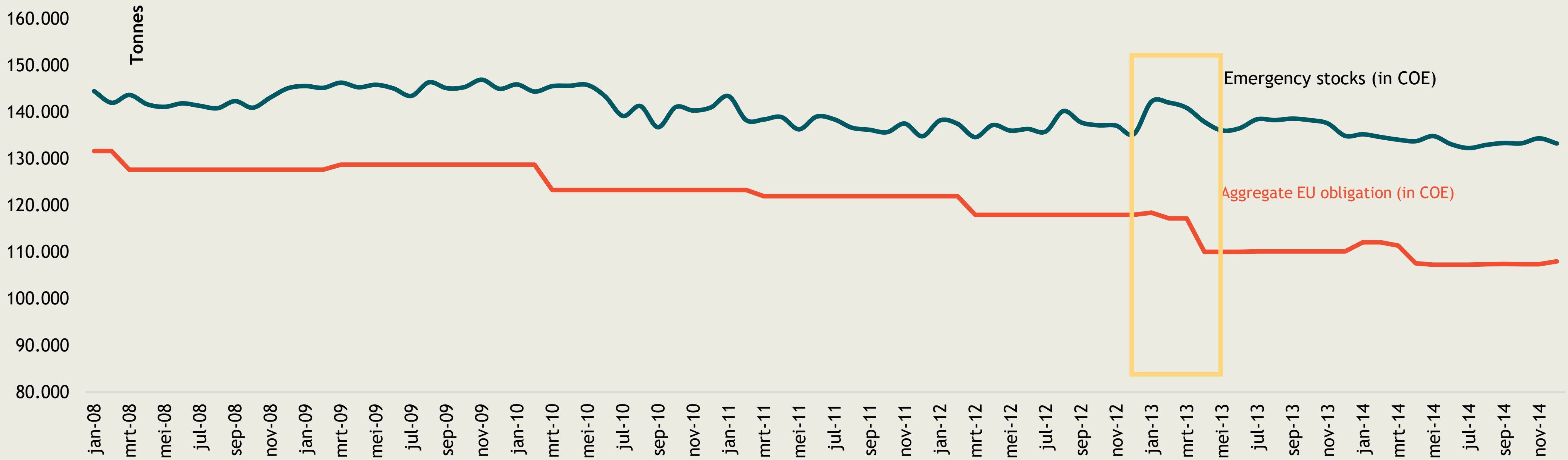
Did the Directive improve the availability of stocks?

- **Levels of stocks** *positive impact on effectiveness*
  - Moderate increase in the levels of EOS, most likely largely due to 10% deduction



Effectiveness

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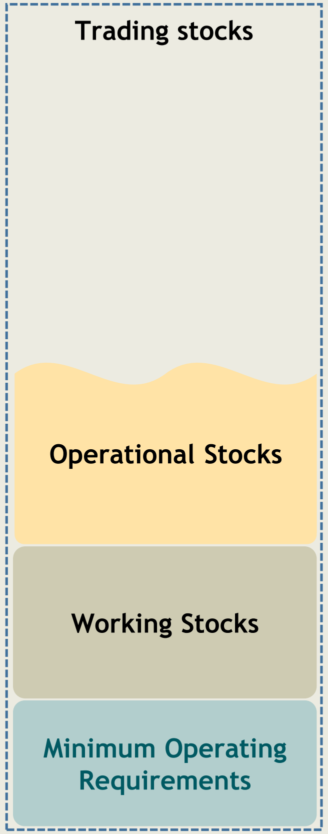
Did the Directive improve the availability of stocks?

- **Levels of stocks** *positive impact on effectiveness*
  - Moderate increase in the levels of EOS, most likely largely due to 10% deduction
- **Share of product stocks** *positive impact on effectiveness*
  - Remained fairly stable at around 54% from 2008-2014, but the change in Directive to better reflect aggregate demand in a country has a positive impact on availability of stocks
- **Share of commingled stocks** *no impact on effectiveness*
  - Share of commingled stocks increased slightly and are not believed to impact the availability of EOS (83% of survey respondents); there might be even a positive impact on the quality of stocks.
- **Specific stocks** *negative impact on effectiveness*
  - Are not popular (2/28 MS) as they do not present additional advantages over the alternative

Effectiveness

Did the Directive improve the availability of stocks?

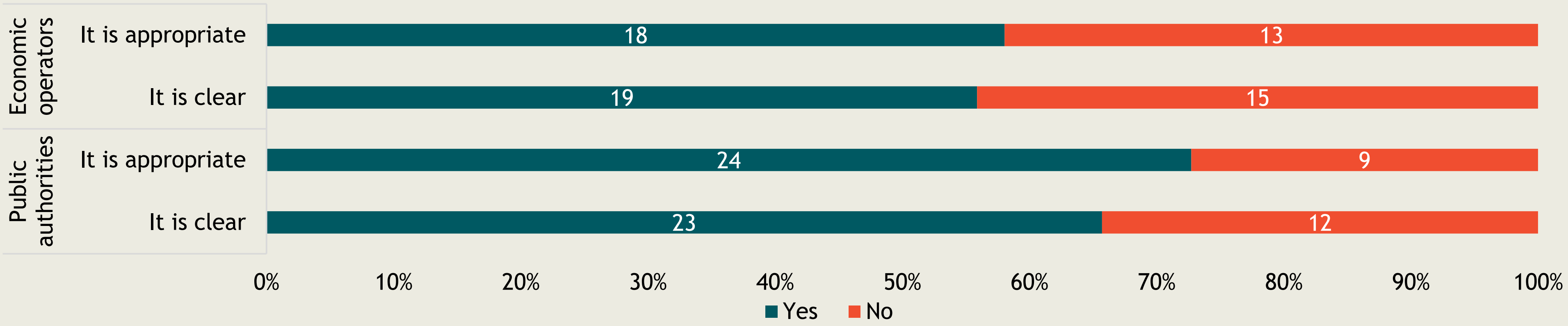
- The de-facto availability of EOS is believed to differ across stockholding systems depending on the presence of stocks held by industry
  - Difference between emergency stocks and commercial stocks
  - Annex III specifies eligibility: from ‘*dedicated stocks’* to ‘*working stocks’* and ‘*stocks in storage tank bottoms’*
  - ‘*Minimum Operating Requirements*’ and ‘*Working Stocks*’ not defined in Directive
- Therefore availability depends on:
  1. Extent to which ‘working stocks’ are used as emergency stocks
  2. Extent to which MORs are part of ‘working stocks’ (2 to 94 days?)
- Unclear whether 10% deduction is sufficient to compensate



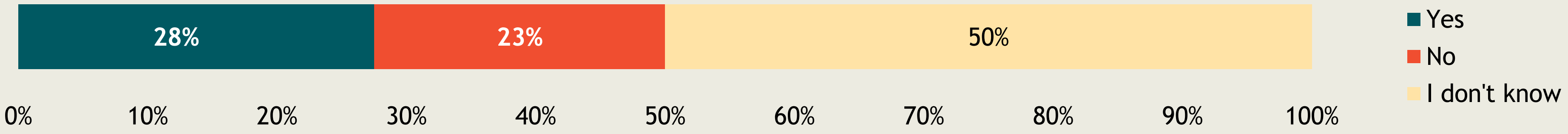
Effectiveness

Did the Directive improve the transparency of stocks?

- Did the introduced distinction between *emergency* and *commercial* stocks help?



- Are figures on emergency, commercial and working stocks comparable?



Effectiveness

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Did the Directive improve the transparency of stocks?

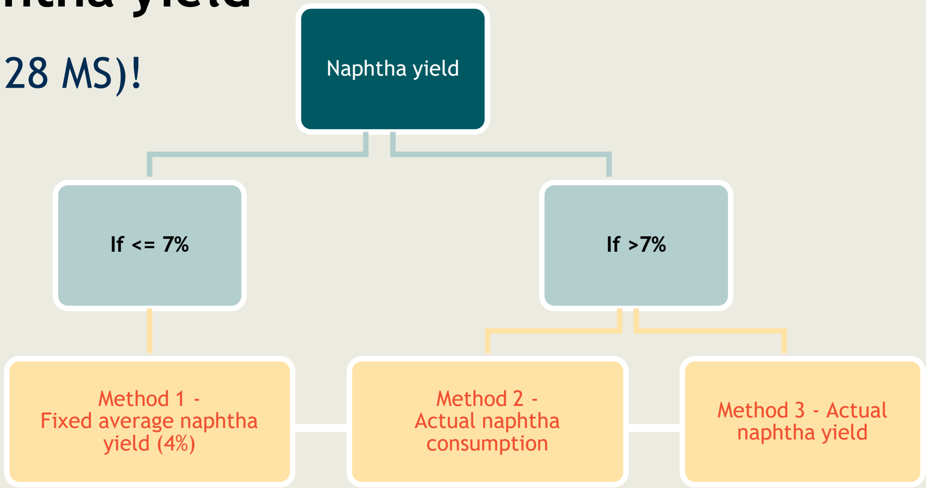
- **Transparency of cross-border stocks and cross-border tickets has increased**
  - Overall improvement in transparancy due to requirement to keep register and sub-delegation of tickets is explicitly forbidden
  - Concerns from stakeholders remain with respect to:
    1. Reduced ability to physically monitor the volume and quality of stocks (no more bilateral agreements?);
    2. Potential for double-counting and discrepancies in reporting (4 to 5 % of total reported volumes);
    3. The absence of a regulatory framework to govern cross-border stocks in the EU
- **Calculation method of IEA and EU emergency stock obligations harmonised**
  - Though underlying differences between both systems remain due to differences in eligiblity of stocks etc

Efficiency

Did the Directive become more efficient due to harmonization with the IEA?

Methodology for calculation stockholding obligation and eligible stocks harmonised - Together with integrated reporting tool led to administrative burden relief for EU IEA members, but came with (unintended) side effects

1. **Methodology for calculating stockholding obligation [Annex I] changed to net imports for some and introduced correction with naphtha yield**
   - Introduction of **naphtha trigger** causes fluctuations obligations (6/28 MS)!



Efficiency

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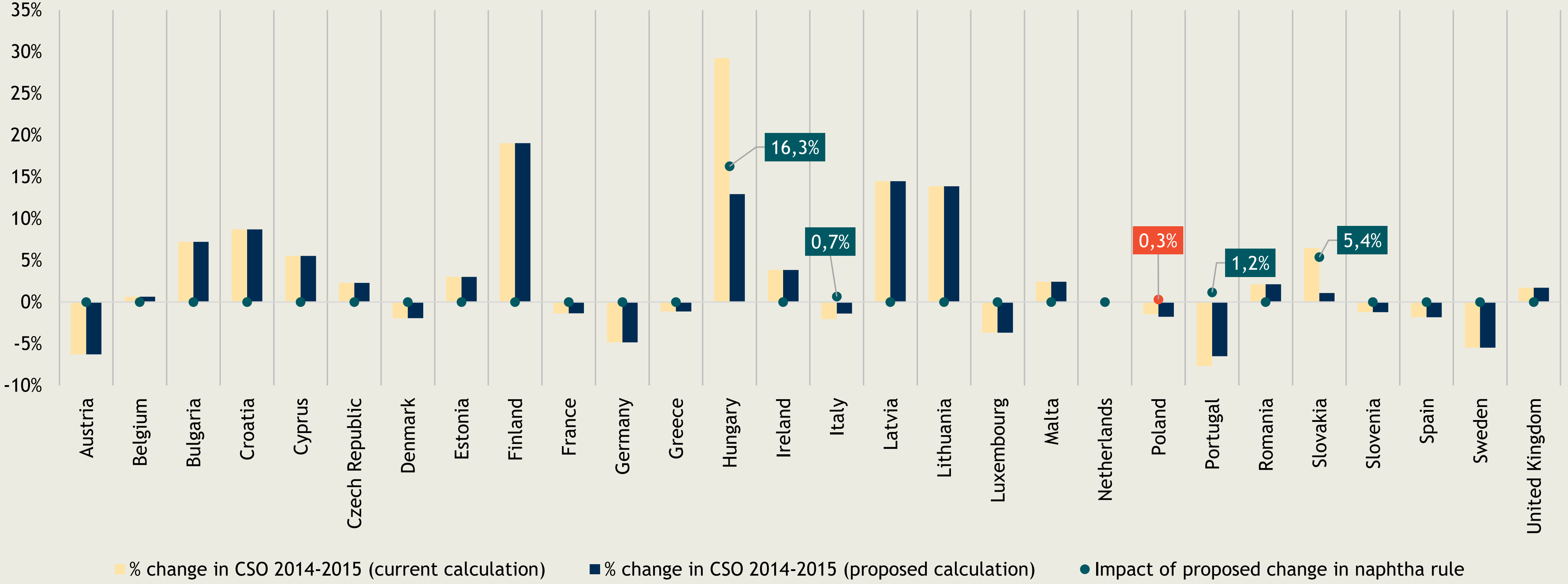
Removing the trigger level of 7% leads to **less fluctuation** in the national obligation (**2.9% vs. 2.2%**)!



Efficiency

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Did the Directive become more efficient due to harmonization with the IEA?

2. Methodology for calculation of eligible emergency stocks changed significantly

- Introduction of a **10% deduction** to account for potentially technically unavailable stocks viewed as somewhat of a 'double punishment' compared to the IEA system

- Member States should now comply not later than the 1st of April (before 31st of July)
  - Data for calculations are received late (approximately February)
  - Leaves little time for adjustments in the emergency stocks
  - Could lead to expensive interventions

Efficiency

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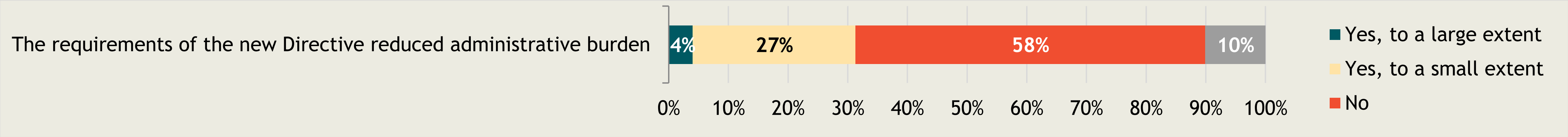
Did the Directive become more efficient due to simplification of reporting?

- **Impact on administrative burden from additional reporting obligations**
  - Introduction of a number of additional reporting obligations
    - **Article 6** – Continually updated and detailed register of all EOS (excluding specific stocks),
    - **Article 7.4** - [For CSEs] Publish information on stock volumes that it can undertake to maintain for others and the conditions subject to which
    - **Article 9.5** – Annual report on measures taken to ensure availability of EOS;
    - **Article 12** – Monthly statistical summaries of emergency stocks through the MOS;
    - **Article 13** – [If specific stocks are held] Monthly statistical summaries for specific stocks;
    - **Article 14** – Monthly summary of commercial stocks held within national territory through the MOS.



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Recommendations

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Recommendations

1. **Review the naphtha rule (exclude the trigger)**
   - Small changes in yield lead to large changes in the obligation
   - This is costly and not needed (IEA cooperation needed)
2. **Move the 1st of April compliance date to 1st of July**
   - In mixed systems, there needs to be enough time for dividing the obligation across CSEs and industry.
   - More time leads to cost savings and could stimulate adoption of CSEs
3. **Review the 10% deduction rule**
   - Unless a deliberate political choice to 'increase the cushion' three options could be considered:

Recommendations

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1. 10% deduction does not apply to CSE-owned stocks
2. 10% deduction does not apply to all emergency stocks
   - As the Directive already requires all EOS to be fully available and accessible
3. 10% deduction would no longer apply under condition that in addition to EOS at least 10 days of commercial stocks are present at all times
   - Though not possible for all countries without posing obligation
4. **Harmonised conditions for cross-border stocks**
   - Develop EU-wide model agreement for holding stocks/tickets abroad
   - Develop binding conditions at EU level (Directive) for rights and obligation
5. **Review reporting requirements**

Thank you for your attention, please contact us for more information

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