



8th Oil Forum – Energy Community

Delegation of Compulsory Oil Stocks

Overview of the EU market and insights from an exchange platform perspective

Belgrade, 28th September 2016

1. Overview of CSO Tickets

2. The CSO Ticket Market

3. OTX

The EU CSO directive provides different options to comply with stockholding obligations

The EU regulatory framework for Compulsory Stockholding Obligations (CSO)

- The EU Directive 2009/119/EC (the “CSO Directive”) requires Member States to hold **emergency reserves of oil products**
- Member States can meet these obligations by
 - Requiring **economic operators** that supply/ import certain petroleum products within their borders to hold minimum levels of oil stocks
 - Assigning such obligations to **governments** or Central Stockholding Entities (**CSEs**)
- **Different models have been implemented** in the EU (obligation entirely held by operators vs entirely held by governments/ CSEs vs mixed systems)
- Aim to facilitate **international co-operation** among EU Countries

Available options for obligated entities to meet CSO

1 Physical stock

- Acquiring crude oil or petroleum products along with necessary storage capacity

2 Delegation

- **Arranging leasing agreements with other governments, CSEs and economic operators**

A What are the parties involved and how are stockholding obligations delegated?

B Why could delegation be relevant for Energy Community Contracting Parties?

A What are the parties involved?

Obligated entities

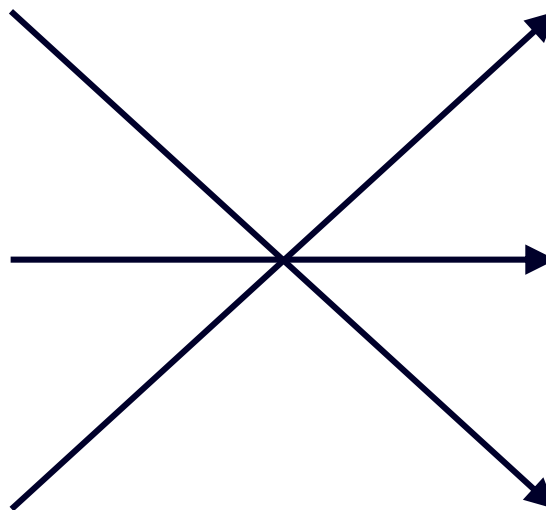
Governments

CSEs

Economic operators

(in most cases operators who supply oil products into the internal market or importers)

...can delegate to...



Stockholders

Governments

CSEs

Economic operators

(operators holding stocks in excess of their obligation, e.g. refiners, traders, power plants...)

The contract through which obligated entities can delegate their obligations to stockholders is referred to as “CSO ticket”

A Key elements defining CSO tickets

A

Reservation component

- **Stock is reserved by the CSO ticket seller** for the benefit of the CSO ticket buyer during the reservation period
- **Stock must be physically accessible and available at all times**

B

Option component

- The CSO ticket buyer has the right to buy and take delivery of the reserved stock in the event of a stock draw direction issued by competent authorities
- **Purchase price and delivery terms can be agreed in advance**

Product

Product used to discharge the obligation:

- List of accepted products defined by the EU CSO Directive, even if Countries may impose restrictions

Reservation period

The period during which the obligation is delegated by the buyer to the seller

- Restrictions on minimum reservation period may be imposed at a country-specific level

Location of stock

The location at which the stocks used to discharge the obligation will be held:

- Depending on country-specific regulation, both domestic and cross-border tickets may be accepted

B Why could delegation be relevant for Energy Community Contracting Parties?

General considerations

- **Cost-effective way to cover obligations**, as it allows to exploit **third-party operating stock** that is not held for the sole purpose of meeting CSO (especially when cross-border delegation is allowed)
- Usually contributes to **distributing reserves more evenly** across different locations and closer to key logistic hubs
- Good opportunity for operators holding a surplus of stock to **capitalise on excess inventory**

Obligations held by government/ CSE

- Relatively easy to implement **temporary solution** while in the process of building up stocks, with **relatively low up-front financial commitment**
- More **flexible** than purchasing/ selling physical stock in case of temporary variations in the level of obligations

Obligations held by economic operators

- If delegation is limited to an extent that some operators need to build up physical stocks for the sole purpose of meeting CSO, potential **disruptive impact on operational activity/ financial position**, resulting in increased costs of compliance
- Coverage easily **adjustable to fluctuations of operating stocks**

Key benefits

Areas of attention

- **Stock** availability and physical accessibility must be **monitored and guaranteed** in order to **make sure that the ticket is actionable** in case of crisis
- **Market timing** and access to a **wide network of counterparties** may contribute significantly to reduce costs of compliance
- Trading of tickets has to be made under a **certain set of rules that need to be carefully understood and applied**

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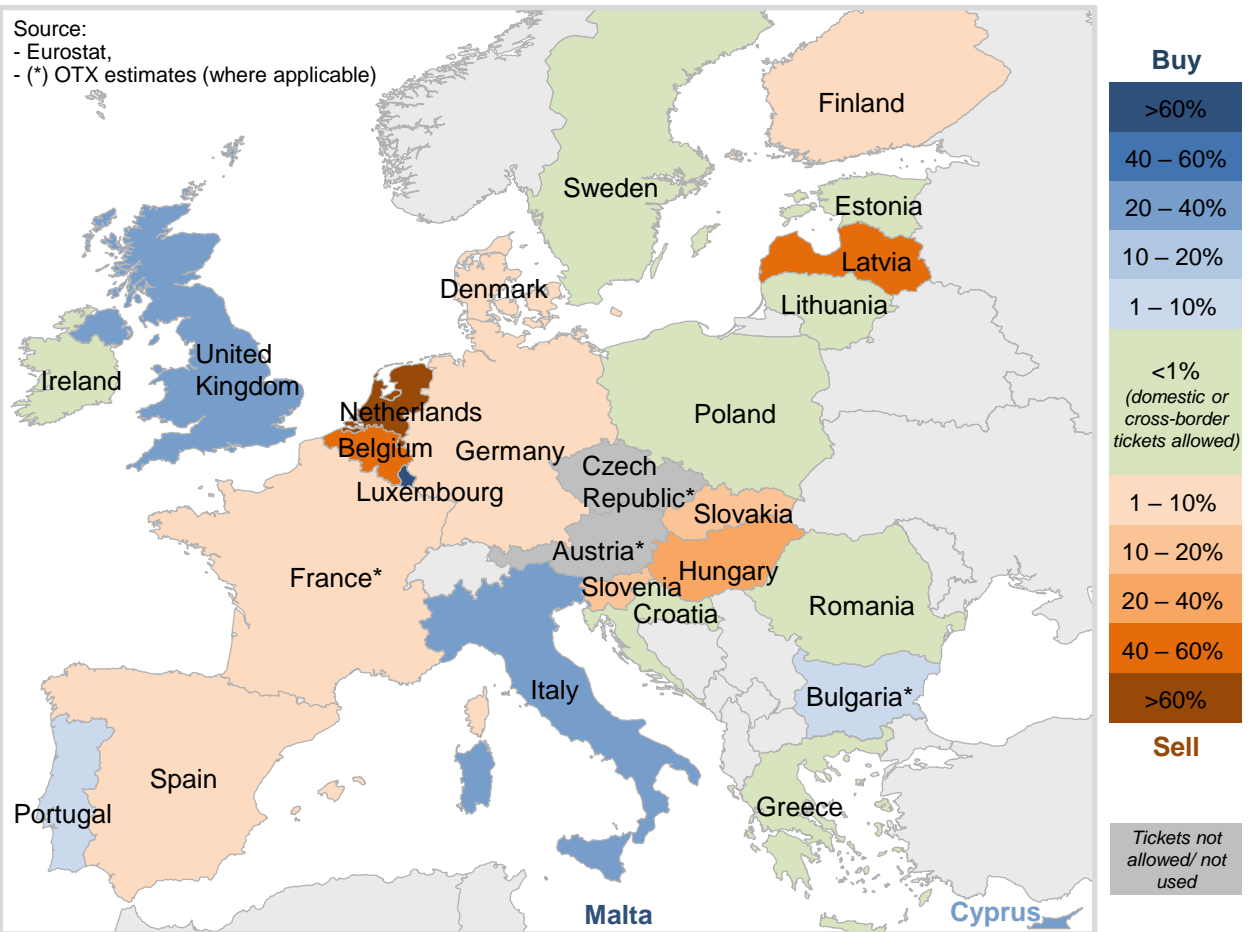
The CSO ticket market at a glance

Key considerations

- Total emergency oil stocks held by EU Member States equal to **c. 110 Mtons in 2015**
 - **c. 9% held as cross-border CSO tickets**
 - **In total, c. 10-15% held as CSO tickets***
- Largest **buyers** of cross-border tickets are the **UK** (c. 50% of EU cross-border tickets) and **Italy** (c. 30%)
- Largest **sellers** of cross-border tickets are the **Netherlands** (c. 40%), **Belgium** (c. 20%) and **Spain** (c. 10%)
- **Extra-EU Countries may buy CSO tickets from the EU** (e.g. New Zealand)
- **EU Member States are not allowed to hold stocks outside the EU**

Source: Eurostat, (*) OTX estimates

Cross-border buy/ sell ticket balance as % of Country CSO (2015)



A What are the key steps when trading tickets and **B** what are the main drivers of the market?

A

Basic flow of CSO ticket trading

1

Trading

Channels

Key rules and requirements

T&Cs

Price negotiation

Bids, offers and tenders are shown across **different channels**, i.e. one-to-one, brokers, OTX...

It is necessary to comply with a specific set of rules and requirements, including:

- **Sub-delegation**
 - Obligation can be delegated only once, therefore secondary market is not allowed
- **Product**
 - Depending on domestic legislation, requests can be made on specific products or “anyoil”/ categories (product always has to be indicated in the ticket contract)
- **Minimum reservation period**
 - The EU Directive does not impose a minimum period
 - In most Countries, minimum duration of **one month or calendar quarter**
- **Location of stock**
 - **Possibility to trade cross-border tickets may be restricted**
 - Some Countries require that a **MoU/ bilateral agreement** is in place
- **Notice period**
 - For cross-border tickets, it is necessary to **request approval to authorities within a certain timeframe** (usually 1 or 2 months prior to the start of reservation period)

Buyers/ sellers may require **additional conditions vs “market standard” CSO tickets terms**

- For example **governments/ CSEs usually require specific conditions** to comply with public procurement and to increase the level of security of the tickets

Supply and demand are the key elements driving price formation (***following slide***)

2

Post-trading

- **Obtaining approval from the relevant competent authorities**
- Reporting to competent authorities is required for both ticket buyers and sellers



Our understanding of the key factors driving CSO ticket prices

Key considerations

- The spot price of the underlying physical product and storage costs aren't usually the key drivers of ticket prices
- **Supply & demand** along with the way market participants interact are the main elements driving prices

Key drivers

Supply & demand

Stock obligations

- Net imports
- Domestic consumption
- Policy evolution

Stock available

- **Contango/backwardation**
- Refining and storage capacity
- **Restrictions imposed** on accepted products and cross-border tickets

Other factors

- Timing
- T&Cs required
- Market reach

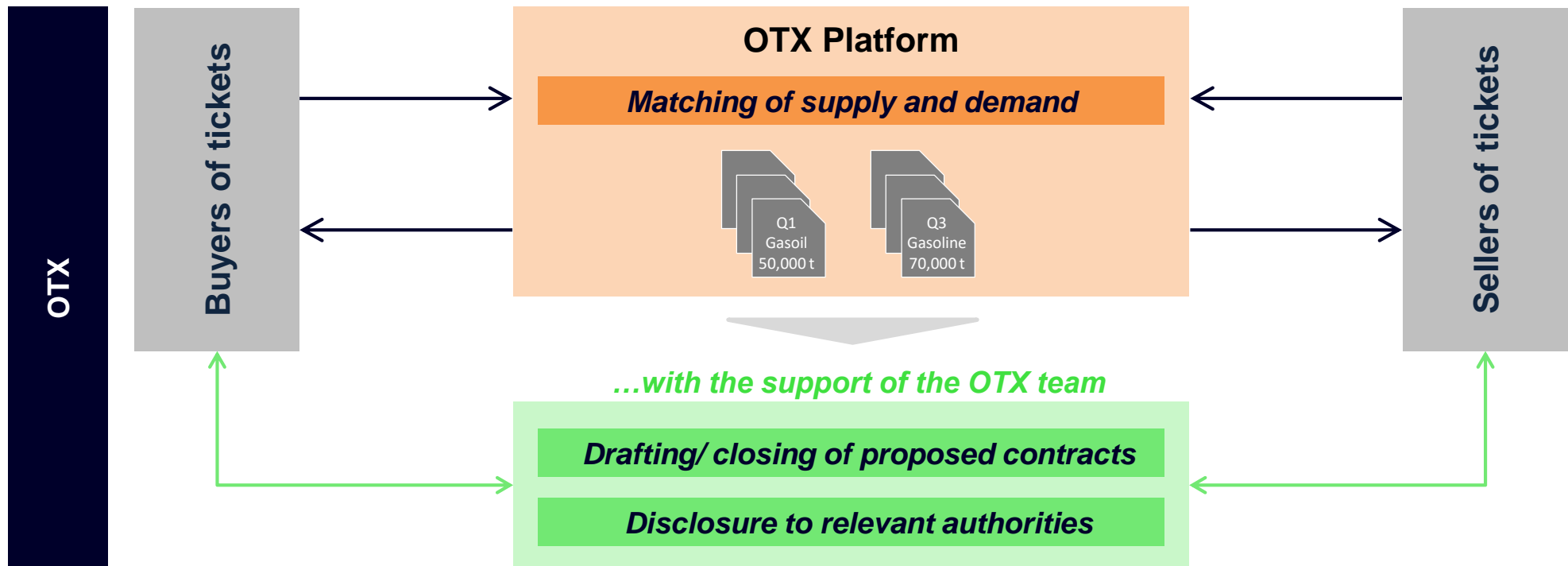
CSO and availability of stocks drive both supply and demand. An increase in CSO or decrease of stock available have the double effect of expanding demand and reducing supply magnifying their impact on prices

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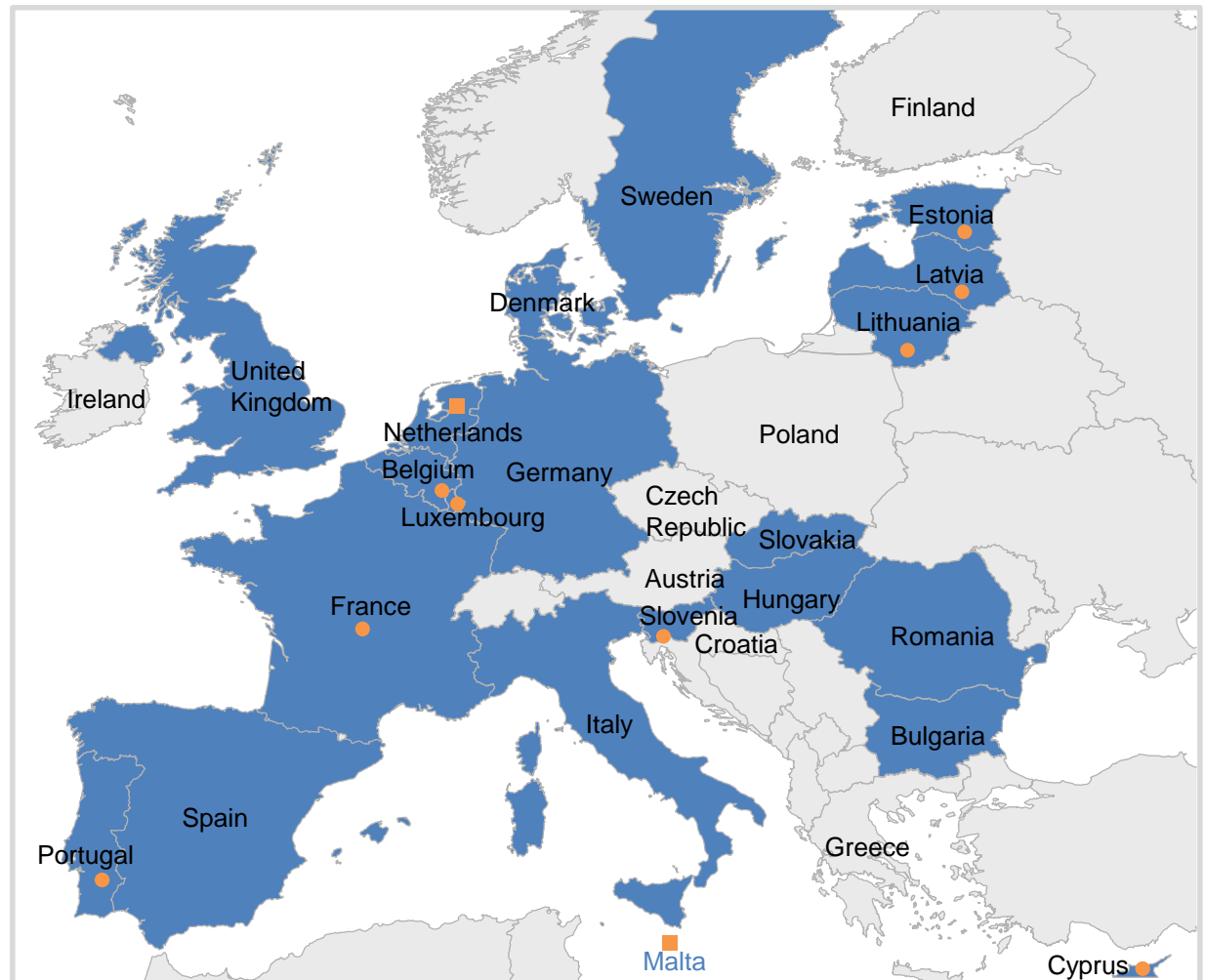
OTX is the first matching platform for the exchange of CSO tickets in the EU



- Key features**
- Real-time and **EU-wide access to CSO ticket markets** across different products
 - **Automatic management of rules and restrictions** imposed by EU and domestic legislations
 - All-round **support from the OTX team across all matters related to tickets trading**, including: preparation, negotiation, contracts drafting and closing, obtaining approval from national authorities,...
 - Possibility for **governments and CSEs to manage tenders using customised** procedures in line with specific needs

OTX key developments and geographical presence as of September 2016

- OTX was launched in 2014 and is currently available in **21 EU Member States**, with a user base exceeding 170 customers
- OTX has rapidly expanded also in those **EU Member States where the introduction of CSO tickets is relatively new**, providing immediate access to the EU market
- **OTX built relationships with key stakeholders including**
 - Competent authorities for CSO, both at a European and national level
 - Central Stockholding Entities (CSEs)
 - Industry associations
- The **analysis of the national stockholding systems and of the operators' needs** plays a key role in our activity across the EU



- Member States where OTX has at least a member
- Government/ CSE member of OTX
- Government/ CSE requests OTX support off-line when tendering

Thank you for your attention!



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