

10th Oil Forum

Belgrade, 25 September 2018

Overview

1. The 10th Oil Forum took place on the 25th of September 2018 in Belgrade. The Forum was opened with the welcoming of participants by the chairman, Mr. Massimo Lombardini, representing the European Commission.
2. H.E. Mr. Aleksandar Antic, Minister of Mining and Energy of the Republic of Serbia welcomed the Forum on behalf of the Government of Serbia thanking the Secretariat for organizing this important event and for the support it provides to the Contracting Parties in fulfilling their commitments. The Forum was informed about the latest progress of Republic of Serbia in establishing the oil stocks, fuel quality achievements and in particular their efforts on building up stocks in compliance with the long-term, mid-term and annual programs. During 2017 and 2018, the volume of oil products increased due to a rise in the purchase of oil and related goods and call option agreements. The Forum was informed that country's long-term plan has been revised and it is in process of adaptation, and that a new medium-term plan for the establishment and maintenance of emergency stocks of oil and oil products is in the process of preparation. In addition, activities to start the construction of new storage capacities for the needs of emergency stocks have been started.

Introductory Procedures

3. The Agenda as modified and circulated on 13 September 2018 was approved by the Forum.

Keynote speech

4. The Secretariat presented the latest developments in the Energy Community. The Forum was informed about the new 2030 climate and energy framework which will provide certainty to investors and contribute to emission reduction of greenhouse gases. In this respect, the Ministerial Council adopted a recommendation on preparing for the development of integrated national energy and climate plans in early 2018. All Contracting Parties were supported in the preparation of integrated national energy and climate plans by guidelines drafted by the Secretariat. In addition, the Forum was informed for the Secretariat's assistance to the Contracting Parties on the implementation of the Third Energy Package which is related to a number of tasks such as unbundling and certification of transmission system operators, unbundling of distribution system operators and full market opening. Potential decisions on the incorporation of new pieces of *acquis communautaire* and proposals for Treaty amendments under Article 100 of the Energy Community Treaty were also presented.

I. Latest development in oil prices

- 5 The IEA presented a short term update on crude prices, oil demand growth and global supply and stock drawing as well as a medium term outlook until 2023 on robust demand growth, with particular regard to the influence of petrochemicals. A large group of chemicals derived from oil and natural gas are crucial to the manufacture of many products that satisfy this rising demand. In addition, the Forum was informed about one of the most pressing issues, namely the implementation of major changes to marine fuel specifications under the International Maritime Organisation (IMO)'s MARPOL convention. The new rules loom ever closer and both the shipping and refining industries face a major challenge to implement them. There are signs of regulatory incentives for the replacement of oil by other energy sources in various countries. A prime example is China, which has some of the world's most stringent fuel efficiency and emissions regulations.
- 6 The Forum welcomed the presentation by the representative of Petrochemicals Europe (Cefic) which outlined the current situation, trends and challenges for Europe's chemical raw material base. With a share of 75% of in total 80 million tons of feedstock, which are required for Europe's chemical industry each year, refined (= oil-based) raw materials clearly dominate the landscape. Trying to potentially substitute this huge amount of material in a sustainable way optimizing all 3 dimensions - people, planet, profit - will be extremely challenging, the more so as 95% of all manufactured goods are made from petrochemicals. Insights in the significantly improved environmental footprint of the European (petro-) chemical industry and its enabling function for Europe's energy transition and the low-carbon economy were also provided. While concerns linked to Brexit and an ever changing US agenda are becoming more severe, recently some major investment projects in European petrochemicals have been announced.
- 7 The Forum appreciated the presentation delivered by the representative of JBC Energy on their relevant experience focused on the interplay between stocks and oil price formation. Inventories play a key role here as was highlighted when OPEC used stock levels as the key metric for the duration of its recent production cut. According to JBC Energy the Stock levels tell a lot about the health of the market and JBC Energy shared a few of its key price outlooks that are underpinned by inventory-analysis.

II. Oil price and its impact on refinery cost of oil stocks

8. The Secretariat presented the main steps in the evolution of the Oil Dimension over the previous 10 years which culminated in the adoption of the implementation of Directive 2009/119/EC in the Energy Community in 2012.
9. The Forum acknowledged that the progress in transposing the Directive diverges considerably across the CPs and most of them have not yet met the expectations. **Bosnia and Herzegovina**, is still in the early stages of considering possible options for a stockholding system; **Albania, Georgia and Ukraine** have prepared their respective primary and secondary legislation whereas **Kosovo***¹ have not been able to decide and approve the most appropriate final stockholding legal framework. **Moldova** has drafted the Law on creating and maintaining the minimum level of oil products stocks, which will allow it to immediately draft subsequent secondary legislation in line with the Law. The former

¹ * This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

Yugoslav Republic of **Macedonia** is close to approving the remaining part of the secondary legislation which is envisaged to begin to apply as of 1 January 2019. The current oil stocks corresponded to 65 days of average daily consumption, a decrease from the same period of last year when stocks stood at 70 days. Despite the fact that **Montenegro** made strong efforts in 2016 by drafting a compliant primary legislation, it has not managed to adopt the new draft law and the subsequent secondary legislation in line with Directive 2009/119/EC. **Serbia** is the Contracting Party that has progressed the most with the implementation and the only remaining secondary legislation is the Intervention Plan in case of oil supply disruption, which was expected to have been drafted and approved within 2016. Currently the estimated number of days of these stocks is 19.

10. The Forum appreciated the detailed presentation of the representative from the Netherlands Petroleum Stockpiling Agency (COVA). The Forum was informed about the Netherlands large and complex oil sector, with the largest gasoline port of the world and the largest marine bunker port of Europe. COVA holds large strategic oil reserves to protect the Dutch economy from disruptions in the oil sector. As part of an annual risk exercise COVA oil price risk is covered. Despite that the impact on the financials of oil price risks for COVA are relatively small, they use hedging for transactional price risks and they try to optimize transaction against market price structures. The presentation showed in some detail the COVA approaches to oil price risk and on other potential oil price risks for a Central Stockholding Entity.
11. The representatives of the Directorate Compulsory Reserves of Oil and Oil Derivatives of the former Yugoslav Republic of Macedonia presented the main activities carried out by their Directorate and the latest efforts on transposition of the bylaws, which have been drafted with the assistance of the Secretariat and currently are in the inter-ministerial reconciliation. Actually, the average occupancy level of the compulsory oil reserves, corresponds to 65 days. They also informed that the Intervention Plan in case of emergency disruption of the supply of the market with crude oil and oil derivatives was finally prepared.
12. The Forum welcomed the presentation of Eurostat which provided an explanation of typical problematic issues in reporting using the Monthly Oil Statistics (MOS) questionnaire to fulfil the reporting requirements under the Council Directive 2009/119/EC. The presentation included points for consideration by the Energy Community Contracting Parties and an overview of the workflow in Eurostat undertaken in the area of stock data reporting. The methodologies for calculating minimum stockholding obligations and compliance were also presented briefly. Eurostat underlined that the MOS data collection is fundamental for meeting obligations under the Directive and that each Contracting Party will need to fully understand the reporting details and methodologies related to the stockholding calculations using the MOS data.

III. The role of oil in an energy transition

13. An overview of the impact of the oil sector on the environment and climate and the imperative of the energy transition was presented by the representative of the Secretariat. It was agreed that the oil sector has a significant role beyond the energy and transport sectors and therefore its role in the energy transition will remain crucial. It was emphasized that given the irreplaceable role of oil in certain sectors beyond energy and transport, a resource-efficient economy would require its use to decrease in these areas as well.
14. The representative of the European Commission briefed the participants on the potential impacts on industry of the International Maritime Organisation (IMO)'s regulation under

MARPOL Annex VI setting at 0.50% the sulphur content in marine fuels that are coming into effect in 2020 globally, as this represents a significant cut from the 3.50% m/m global limit currently in place. Following a Decision in 2016 by the Ministerial Council of the Energy Community, the sulphur in fuel requirements applying in the EU, including the global limit, are also covered by the Energy Community *acquis*. Participants were reminded about the activities carried by the IMO level to ensure the consistent implementation worldwide of this new requirement which will deliver guidelines for administrations, port authorities, ship owners, shipbuilders and fuel oil suppliers. In addition, the representative of the European Commission pointed out that it is important that the fuel industry (including the Marine Fuels Platform that involves relevant stakeholders from all around the world, including Fuels Europe) supports the global Sulphur cap timely implementation and is developing a guidance on potential safety and operational issues related to the supply and use of 0.50% max sulphur fuels and possibly training materials, for all relevant stakeholders. Finally, reference was made to an ongoing initiative by the States bordering the Mediterranean Sea to potentially establish an Emission Control Area (0.10% Sulphur in marine fuels) in the sea waters under their jurisdiction which may impact both the oil and the gas sector in the future.

15. The representative of Wood (Amec Foster Wheeler) presented a summary of the impact assessment undertaken under contract to the Energy Community Secretariat to determine the potential costs and benefits that would result from the implementation of Directive 98/70/EC relating to the quality of petrol and diesel fuels (the Fuel Quality Directive). The assessment included an evaluation of current fuel consumption and quality standards across the Contracting Parties, determination of the likely administrative and compliance costs of the Directive and the likely emission reductions that would result from the application of the Fuel Quality Directive across all Contracting Parties. The impact assessment will be used to assist the determination as to whether the Fuel Quality Directive should be included into the Energy Community *acquis*.

Concluding Remarks:

16. The Forum agreed as a key priority for all Contracting Parties the transposition of primary and secondary legislation in compliance with the Oil Stocks Directive 2009/119/EC. There are some progresses with some Contracting Parties but not enough to ensure a quick transposition and consequently full implementation of the Oil Stocks Directive within 2022.
17. The next Oil Forum is tentatively scheduled to be held in September/October 2019.