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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL ON TRANSPARENCY OF THE OIL MARKET

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Communication from the Commission to the Council
on Transparency of the Oil Market

1. The Tokyo Summit last June underlined the need to improve transparency of the international oil market and clarify the supply situation for consuming countries.
2. The measures adopted¹ or in preparation² by the Community in collaboration with other industrialised countries will provide complete historical information on developments, notably import prices for crude oils and petroleum products and prices at consumer level. A synthesis of available information is published each week in the form of an oil bulletin.

Analysis of this information shows considerable divergence between Member State consumer prices. This situation is due to the differences between (or the absence of)³ price policies and the differing supply situations of oil companies. Commission services are continuing to examine the situation together with experts from Member States, and are now considering the possibilities of producing an improved method for the presentation of company results.

3. With regard to the spot market for oil products, an exercise is in operation (which will end on 1 June 1980), which, through the voluntary co-operation of most traders, provides a better understanding of spot markets. A note on the results from the first six months has been prepared by the Commission services.

In the same context, the Commission has established a working party composed of representative experts from the industry to study the possibility of introducing a "bourse" for oil products. The results of this study will be available later.

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¹ Council Directive 76/491/EEC of 4 May 1976 (Price transparency)
Council Regulation 79/2592/EEC (Crude Oil Register)

² Draft Council regulation laying down the rules for carrying out the registration of petroleum imports in the European Community

³ The Commission will analyse the costs of imported crude and consumer prices in 1979 in a subsequent Communication to the Council.

Much of the above information is available only after a considerable delay (about 2 months). This delay is necessary to ensure the accuracy of the information, however it prevents use of the data as a basis for discussion of approaches to be adopted during periods of major market tension like 1979. Consequently, additional complementary measures may be necessary to provide a more limited volume of information on an accelerated basis.

4. Quick Response System

One of such complementary systems is a Quick Response System, the purpose of which would be to provide rapid information on purchases of crude oil made outside the conditions of term contracts under abnormal commercial conditions on international level.

Such information would in case of market tensions provide the necessary understanding of the general evolution of activity, prices and trends in the world spot market for crude oil. The system should be on a "switch-on", "switch-off" basis.

For most multinational companies, crude oil is purchased by a central trading company which, in many cases, is registered outside EEC jurisdiction. Consequently, a compulsory system would be impracticable. However, there is little doubt that, if industry is asked to report high-price spot purchase on a voluntary basis, they will do so. A voluntary system underlines, in any case, the necessity for a participation of all industrialised countries.

This approach has the advantage of being genuinely "quick", since purchases can be reported to governments very shortly after agreement between buyers and sellers has been reached and the cargo destination has been decided. It should also be stressed that companies know only too well when a purchase is abnormal and reporting can be left to their discretion without the need for what could be restrictive definitions. To limit administrative work, the international information-gathering could eventually be done by independent auditing firms.

A QRS on the above basis appears feasible and the Community should start discussion with other industrialised nations and with industry to verify the assessment that companies would agree to participate on a voluntary basis. It should be underlined that it should not be the intention to create a new "heavy" administrative instrument, but a practical information system to be used should need arise.

5. Certification of original fob prices for crude oil

In the context of improving transparency, the Tokyo Summit agreed that the feasibility of certifying original fob crude oil prices should be studied. In this context, the prices finally paid when delivery is made to refineries will be obtained through the Registry Regulation, but buyers may often not know the original fob price. Proper certification of original fob prices can only be provided by the initial sellers - in most cases the state oil companies of producer countries. Thus, if certification is to be undertaken, the willing co-operation and participation of all producer countries would be highly desirable.

Many technical problems would have to be solved before a certification system would be introduced. However, its usefulness in obtaining a better understanding of the crude oil market suggests that this point should be raised with producer countries after consultation with other industrialised countries.

6. Conclusion

To improve transparency in the oil market it is necessary:

- a) to implement the registration of oil product imports by the adoption of the draft regulation by the Council and the modalities for application by the Commission;
- b) to continue the distribution of information on prices of crude oil and petroleum products;
- c) to determine, in liaison with other industrial countries, the basis for establishing a mechanism for accelerated information on crude oil imports;
- d) to continue to study, with other industrialised countries, the possibility of certification of fob prices for crude oil with a view to subsequent discussion with producer countries.

Following agreement in principle on points c) and d), the Commission will present proposals.