

COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE COUNCIL ON
THE IMPLEMENTATION OF DIRECTIVE 72/425 IMPOSING AN
OBLIGATION ON MEMBER STATES TO INCREASE THE
MINIMUM LEVEL OF THEIR STOCKS OF CRUDE OIL AND/OR
PETROLEUM PRODUCTS TO 50 DAYS' CONSUMPTION NOT
LATER THAN 1 JANUARY 1975

Introduction

Under Article 2 of Directive 72/425, the Commission must submit an annual report to the Council on the measures taken by Member States to increase their stocks to 90 days' consumption and on any problems arising from the build-up of stocks.

The Commission has consulted the Member States on the measures taken and the problems where any; a summary of the information obtained is attached and calls for the following remarks from the Commission:

1. Several Member States reported that they had so far been unable to adopt legal provisions requiring minimum stocks for 65 days' consumption to be maintained (United Kingdom, Ireland, the Netherlands and Denmark where storage is subject to voluntary undertakings).

Only three States (France, Luxembourg and Denmark) have hitherto taken measures to enforce the increase of stocks to the 90-day level from 1 January 1975 (1).

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- (1) In Germany, a draft law before parliament provides for an increase in stocks to the 70-day level for imported products and the 90-day level for petroleum products; Italy has provisions, temporarily suspended, on the phased increase of stocks at the rate of 5 days' consumption a year.

As early as 1 April 1974 the Commission sent letters to the German, Danish, Irish, Luxembourg, Netherlands and United Kingdom Governments requesting information on their laws in this field.

The Commission points out the urgent need for the Member States in question to comply with Directive 68/414 as amended by Directive 72/425 by creating a suitable legal basis to ensure that 90 days' stocks are maintained.

2. Certain countries (Belgium, Ireland, Italy and Denmark) explicitly stated that it would be physically impossible for them at present to attain the 90-day level by 1 January 1975. Others (United Kingdom and Germany) expressed reservations.

The level of stocks in the Community was 80 days' consumption on 1 April 1974 and on 1 July, 89 days'.

Technical storage capacity was estimated at 125 days' consumption on 1 January 1974, considering an average utilization factor of 85%.

Overall, this capacity is apparently sufficient for 90 days' strategic stocks, while leaving an appreciable capacity for trade stocks.

If the capacity available in certain member countries is less than their requirements, a solution must be found at Community level. The Commission therefore recommends that reliance be placed on the existing bilateral agreements (1), with their scope used to the full, and, should that not suffice, that further bilateral agreements be concluded.

3. Several Member States have pointed out that the obligation to maintain 90 days' stocks entailed a heavy cost burden on the oil companies. The Commission recognises that the politics of storage constitute a vital instrument for the security of supply of the consumer and considers that the financial problem must not prevent the Directive from being implemented within the set time limit. The Commission intends, however, to propose

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(1) So far only Germany has concluded agreements with its neighbours within the meaning of Article 6 of Directive 68/414. Its agreements with Belgium and the Netherlands are reciprocal; those with France and Italy, on the other hand, are unilateral, relating only to stocks of German companies located in the foreign country. An agreement between Belgium and the Netherlands is being negotiated.

that the problem of the financing of storage costs and its fair sharing between the various categories of company be studied with the aid of government experts and the industry.

Furthermore, the build-up of 90-day stocks is one of the long-term Community's objectives and should not be affected by short-term economic situations.

4. Certain member countries (particularly the Netherlands and Italy) stress the difficulties of finding the necessary quantities on international markets at acceptable prices.

The present condition on the international market and the degree of easing of the situation recently seem not to confirm these fears.

5. Monetary difficulties in purchasing additional quantities do not have the same significance for all member countries. The Commission, recognising that the problem is great for certain countries (especially Italy), estimates that it should be resolved in a general economic context.

6. Conclusions

The Council decision to increase the level of stocks from 65 to 90 days was taken in recognition of the importance of this factor for the Community's security of supply. This reason is still valid and has even been strengthened by the recent changes on the world oil market and their effects on Community supplies.

Apart from monetary problems, which have to be solved in a general context, the Commission considers that there is no effective obstacle which cannot be surmounted at Community level to the attainment of a 90-day stock level within the time limit set by the Directive.

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SITUATION REPORT ON STOCKS IN THE COMMUNITY

Introduction

This report reflects the stock situation in the Community and has been worked out on the basis of information given by the Member States.

I. Stock situation in the Community (1.4.73 to 1.7.74)

Thus the declarations of the Member States, made in the application of EEC Directive 68/414 (see Table 1), show that the average level of stocks increased from 71 days (in April 1973) to 86 days (in October 1973).

Starting from that date, following the decision of the principal producing countries of the Middle East to limit production of crude oil, the majority of member countries have been forced - in order to avoid a breakdown of supplies - to commence to deplete the stocks which have diminished by between 8% and 10%.

At 1 July, 1974, the average stocks, including commercial stocks reached for the whole of the Community was 89 days.

Table 1 shows that, at the present time, only three Member States (France, Italy and UK) have at their disposal stocks equal to the 90 days¹ level.

Nevertheless, the actual stock situation should be interpreted with caution, as the calculation methods were not identical in all the member countries (1).

(1) Certain countries reported obligatory and commercial stocks together.

2. Stock capacity in the Community

According to the information furnished by the Member States (see Table II) the stock capacity in the Community was about 223,9 m m³. If the average rate of consumption of 85% (see Table III) is taken into account, this amount corresponds roughly to 125 days' consumption of the previous year. (For an average rate of 70%, the figure is about 103 days). Nevertheless, at the level of member countries, the situation is not uniform. Only three countries (Holland, UK and France) reach or pass the 125 days' level, whereas four countries (Germany, Belgium, Denmark and Italy) have stocks at their disposal of between 88 and 117 days. Ireland (1) and Luxembourg keep respectively capacities equivalent to 30 and 20 days' consumption.

Of course, the situation of the companies differs from the general situation of the country.

New stockage capacities are under construction or in the planning stage in almost all Member States at this moment.

According to the information given by the Member States, within the framework of Regulation 1056, the Community should have at its disposal, at the end of 1978, a supplementary capacity of about 57 million m³, of which about 30 million m³ is crude oil and 27 million m³ finished products (see Table IV).

3. Legislative situation

(a) Directive 68/414 makes it obligatory for Member States to take all legislative arrangements, regulations and administrative procedures in order to maintain, on a permanent basis, a level of stocks for each category of petroleum products, of at least 65 days' average internal consumption of the previous year.

On 1 April 1974, the Commission requested detailed information from six member countries (Germany, Denmark, Ireland, UK, Holland and Luxembourg) on the state and on the bearing of their legislation on this matter.

(1) Only capacities of obligatory stocks.

At the present moment, with the exception of Great Britain, Ireland (1), the Netherlands (2) and Denmark (3), where the stocks are practically by virtue of voluntary commitments, the Member States have regulations making it obligatory to maintain stocks at the 65 day level laid down in Directive EEC/68/414.

In Luxembourg the current legislation prescribes a minimum obligatory stock level on national territory (45 days for category I - petrol - and 55 days for category II - gas/diesel oil), the balance may be stored on foreign soil for the Grand Duchy's account.

In case of supply difficulties, the assets of Luxembourg and Belgium will be added and considered as one (Article 5 of Protocol of 29.1.1963).

- (b) Only three Member States, France (4), Luxembourg and Denmark have, up to the present, taken steps to impose - pursuant to Directive EEC/72/425 - the increase of stocks to 90 days, commencing on 1.1.1975.

In Germany there is a bill before Parliament which states that the level of stocks should be raised to 70 days for imported products and to 90 days for products made from crude oil.

In Italy there are arrangements - temporarily suspended - whereby the stock levels are progressively increased by 5 days a year.

4. Problems raised by the application of Directive 72/425/EEC

Although no Member State has challenged the principle of the Directive of 19.12.1972 -

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- (1) Only in case of crisis.
 - (2) A bill is before the Dutch Parliament at this moment, dealing with the creating of stocks of petroleum products. The obligation imposed is to maintain stocks at a level corresponding to 18% of the products in a particular category sold during the previous calendar year: this is equivalent to about 65 days' consumption.
 - (3) A special stock regulation obliges Danish power stations (which can use oil or coal for production of electricity to arrange permanent stocks of combustibles (oil, coal or a combination of the two) sufficient for three months' consumption.
 - (4) In France, for 15 years, the whole of the petroleum industry has assured the maintenance of a security of stocks for 90 days (decreed 10 March 1958 and application order on 13 April 1959).

which is generally accepted as being an effective measure to deal with problems of supply, up to now, six Member States have been unable to finalise the necessary legislation to impose the obligation of a stock level of 90 days' consumption. They cite the difficulties encountered in the international petroleum market during the fourth quarter of 1973 and the first quarter of 1974 to justify the delay: these difficulties have suspended the procedures already started for the application of the Directive.

Nevertheless, and taken apart from the legal problems, declarations having been made by almost all the representatives of the Member States to increase stocks to 90 days by 1.1.1975, there remain, at this moment, a certain number of difficulties, namely:

(a) stock capacities level

Several Member States (Germany, Belgium, Denmark, Italy and UK) declare they do not, at this moment, possess sufficient stock capacities to maintain a stock level of 90 days.

The realization of the necessary capacities has been delayed in certain countries, either by the implementation of a programme of reconstruction in the petroleum industry which has suspended the granting of authorizations for one year (Italy) or for environmental reasons (Denmark).

(b) company level

Several Member States have declared that the amount of capital which must be tied up for stocks poses difficult fiscal problems for the petroleum industry, the risk being that the industry, not always being able to pass on the increased costs to the consumer, must bear them itself.

The investments necessary to buy the crude oil and the construction of new stock capacities will mean very large figures will be involved (for Italy they number about 1.5 milliard \$ and for Belgium 300 mio FB).

In addition, certain countries (notably Germany, Holland and Belgium) have emphasised the problems of independent petroleum product distribution firms

who cannot rely on stable contracts with a supplier able to meet their storage requirements run the risk of encountering even more difficulty in meeting their obligations (taking into account the actual price of crude oil and petroleum products) when the level of reserves is raised to 90 days' consumption on a previous year basis.

(c) Economic situation

At the beginning of September 1973, the situation in the international crude oil market was profoundly changed, not only at quantity level but also at price level.

Certain countries (notably Italy) emphasise the difficulties in finding, on the international markets, the necessary quantities at an acceptable price. For the whole of the Community, the extra stocks will amount to about 30 million tons (expressed in terms of crude oil) (1).

Other member countries consider that the purchase of crude oil required to raise the stock level would risk worsening the pressure now acting on the international oil market.

(d) Monetary situation

It can be estimated that, for the Community, the purchase of crude oil necessary to increase stocks to 90 days would produce an expenditure of about \$ 2.400 million (2).

The repercussions to each member country are not, however, uniform, certain countries must import proportionally much larger quantities than others in order to reach, by 1.1.1975, the level anticipated by the Community regulation.

Certain countries, in particular Italy, have stressed the difficulties of the monetary situation, the necessary devices for the purchase of the extra crude oil risk seriously worsening the disequilibrium which already exists in their balance of payments.

(1) Estimation of the quantity of crude oil calculated on the basis of information given by certain member countries and the theoretical calculations necessary to raise the actual level of stocks to 90 days.

(2) 1 ton = \$80.

Table I

STOCKS SITUATION IN THE COMMUNITY (5)

(given by Member States in conformity with EEC Directive 68/411)

| COUNTRY | Number of days' stocks | | | | |
|--------------------|------------------------|---------|--------|--------|---------|
| | 1.4.73 | 1.10.73 | 1.1.74 | 1.4.74 | 1.7.74 |
| Germany | 65 | 80 | 72 | 70 | 72 |
| Belgium | 98 | 114 | 99 (2) | 66 | 83 |
| Denmark | 65 | 91 | 87 | 80 | 87 |
| France | 86 | 111 | 101 | 88 | 101 |
| Ireland | 93 | 64 | 62 | 61 | 63 |
| Italy | 80 | 83 (1) | 105 | 98 | 112 (6) |
| Luxembourg | 19 | 17 | 17 | 12 | 14 |
| Netherlands (3) | 64 | 63 | 62 | 63 | 64 |
| United Kingdom (4) | 72 | 93 | 82 | 83 | 102 |
| EEC | 71 | 86 | 83 | 80 | 89 |

(1) 11.11.1973

(2) 1.2.74

(3) Supplementary stocks not given in the table (to 1.5.74) 4.7 m tonnes of finished products (which corresponds to about 98 days' consumption)

(4) Supplementary stocks not given in the table (1.5.74) 0.7 m tonnes (about 3 days' consumption).

(5) The information is not homogeneous, certain countries included a mixed figure of obligatory stocks and commercial stocks.

(6) During the month of June, Italy disposed of a level of obligatory stocks equivalent to 75 days' consumption (compared, according to the 1973 crisis, with the 1971 consumption levels).

Table II

STOCK CAPACITY IN THE COMMUNITY

Situation at 1.1.1974

| COUNTRY | Existing stock capacity (mio/m ³) | | |
|-----------------|---|--------------|------------------|
| | A. Products | B. Crude oil | TOTAL (A + B) |
| Germany (1) (2) | .. | .. | 40,9 |
| Belgium | 6,2 | 2,8 | 9,0 |
| Denmark (3) | .. | .. | 7,0 |
| France | 46,2 | 15,2 | 61,4 |
| Ireland (4) | .. | .. | 0,6 |
| Italy | 23,0 | 14,0 | 37,0 |
| Luxembourg | 0,1 | .. | 0,1 |
| Netherlands (1) | 10,3 | 12,3 | 22,6 |
| United Kingdom | 30,1 | 15,2 | 45,3 |
| C.E.E. | .. | .. | 223,9 |

- (1) Situation at the beginning of 1972.
- (2) After the response obtained within the framework of Reg. 1056 stock capacity in Germany will be at 1.1.74, 51 million m³ (of which 27.0 is products and 24.0 crude oil).
- (3) Stock capacity near raffineries and those of imported finished products refer to November 1971.
- (4) Excluding commercial stock capacity.

TABLE III

STOCK CAPACITY IN DAYS CONSUMPTION

Estimates

| COUNTRY | Daily consumption (expressed in m ³) (1) | Capacity of stock (expressed in products) mio/m ³ (2) | Number of days consumption (3) | |
|----------------|---|---|--|--|
| | | | Minimum rate of utilization 70% | Minimum rate of utilization 85% |
| Germany | 393.9 | 40.9 | 73 | 88 |
| Belgium | 67.9 | 8.5 | 88 | 106 |
| Denmark | 55.1 | 7.0 | 89 | 109 |
| France | 333.9 | 58.9 | 124 | 150 |
| Ireland | 16.9 | 0.6 | 25 | 30 |
| Italy | 251.3 | 34.7 | 97 | 117 |
| Luxembourg | 4.9 | 0.1 | 15 | 20 |
| Netherlands | 60.3 | 20.5 | 238 | 289 |
| United Kingdom | 290.0 | 45.3 | 110 | 132 |
| EEC | 1,474.0 | 216.5 | 103 | 125 |

- (1) To convert tons to m³ the coefficient of 0.8 has been used.
(2) Stock capacity of crude oil has been divided by 1.2.
(3) From the technical viewpoint the rate of utilization can be almost 100%.
In practice, the refineries need a certain operational flexibility (irregular supply, seasonal movements, etc.), which will be different for each refinery. The rate of 70% can be considered as a minimum. The rate of 85% is much nearer to the real possibilities.

STOCK CAPACITY (1)

(under construction or projected)

TABLE IV

mie/m³

| COUNTRY | PRODUCTS | | CRUDE OIL | | TOTAL GENERAL (a+b+c+d) |
|--------------------|-----------------------|------------|-----------------------|------------|----------------------------|
| | a) under construction | b) project | c) under construction | d) project | |
| Germany (2) | 2,6 | 2,4 | 18,7 | 2,1 | 25,8 |
| Belgium (3) | 0,2 | * | - | - | 0,2 |
| Denmark | 1,2 | 0,8 | - | - | 2,0 |
| France | 5,5 | 1,3 | 0,8 | 3,1 | 10,7 |
| Ireland | - | - | - | - | - |
| Italy (4) | 6,0 | 2,5 | * | * | 8,5 |
| Luxembourg | nd | nd | nd | nd | nd |
| Netherlands | 1,0 | - | 1,7 | 0,5 | 3,2 |
| United Kingdom (5) | 1,0 | 2,6 | 1,4 | 1,5 | 6,5 |
| E.E.C. | 17,5 | 9,6 | 22,6 | 7,2 | 56,9 |

* Figures less than 60,000 m³

1) Figures obtained via Regulation 1056 concern for the most part storage installations of a capacity of 100,000m³ or more.

2) Certain figures for underground storage have been considered exclusively in crude oil

3) Figures rounded off - excluding capacity (1400m³) which will be taken out of service during 1974.

4) Concerning enlargement demands and new installations on which public opinion has yet to be pronounced.

5) Excluding capacity (135.000 m³) which will be taken out of service during 1974.