Opinion: Consultation
Origin: European
RPC reference number: RPC-3011(1)-DECC
Date of implementation: Not provided

Regulatory Policy Committee

Compulsory Stocking Obligations on Refiners and Non-Refiners in the UK

Department for Energy and Climate Change

RPC rating: Fit for purpose

Description of proposal

The UK has an EU and international obligation to maintain emergency stocks of oil, which need to be made available to the market in the event of a major supply disruption. These Compulsory Stocking Obligations require Member States – including the UK - to hold buffer stocks proportionate to normal demand. In the UK, this obligation falls on 'substantial suppliers' of crude oil and petroleum products. These major suppliers fall into two groups. Refiners are deemed to have both in-house sources of supply and adequate storage space to meet these obligations. Importers are not and, as a result, have been allowed to hold a smaller proportion of their normal sales volume. Stocks may be held in three ways. Obligated companies may hold stocks directly in their own tanks. Member States may establish national Central Stockholding Entities (CSEs), which are non-profit bodies operating in the public interest as opposed to "economic operators." Alternatively, obligated firms can obtain tickets against stocks held by third-party (typically non-UK) suppliers. Following a consultation in 2013, the UK decided not to establish a CSE at present, so the obligations are met by a combination of refiners' stocks and tickets against international stocks.

As a consequence of shifts in market shares of refiners and importers (who bear a smaller obligation) and the introduction of an updated EU Oil Stocking Directive in 2013, the stocks maintained by UK companies fall short of the requirements. At present, the UK is not compliant with the EU Directive. In addition, the total obligation on the UK is expected to increase from 2021, which will exacerbate the shortfall without policy change.

Impacts of proposal

The Department explains in its impact assessment that the proposal will place obligations on oil refiners and non-refiners (ie importers supplying oil) to hold additional oil stocks over the appraisal period. The Department should identify and assess the number and type of companies that are likely to be affected by the proposal.

Presently, the UK is required to hold 67.8 days of total inland consumption. The UK obligation will eventually switch to the 100 day net import level as UK crude oil production declines. Based on independent and internal DECC analysis, the Department assesses this switch will happen in 2021. From that point, the total obligation will grow in terms of volume.

The Department explains in its impact assessment that:

- over the first five years of the proposal, non-refiners are expected to hold additional stocks to meet the obligations set out in the Directive. The obligation on refiners will not increase because they currently hold more stock than importers.

- over the second five years, both refiners and non-refiners will be expected to hold more stock, albeit with refiners expected to hold less stock relative to the anticipated increase in the base case.

Given limited storage options in the UK and the high costs of building new facilities, these additional stock obligations are expected to be met by business purchasing 'tickets' – options to buy stock held by third parties that would be made available when required. The Department explains that under the preferred option, the cost to business of buying tickets to meet the additional obligations will amount to £9.18 million total net present value (NPV). This cost equates to an estimated equivalent annual net cost to business (EANCB) of £0.79 million.

Quality of submission

The Department has assessed four options against the counterfactual. The preferred option at this stage presents the lowest cost to business. All options considered are regulatory. The Department should explain if non-legislative options have been considered where possible, and why they might have been discounted as not viable. Costs to business of complying with the requirements have been set out in the impact assessment. However, other costs such as familiarisation and administrative costs to business when they are deciding how best to meet their obligations of holding increased levels of oil stocks should be identified and tested with stakeholders during consultation. For example, it would be useful to know if there is an agency that assesses and informs companies of their oil stocking obligations, including whether the regulatory activities of such an agency generates any compliance costs to business.

The Department should also use the consultation to better assess the capacity of the market to meet the increase in demand from UK refiners and non-refiners for additional "tickets" to meet their increased obligations. In addition, in view of the low margins affecting parts of the market, the IA could usefully clarify how obligations sufficient to meet national demand will be met in the event of exit by a significant ticket supplier. In addition, the Department should gather evidence to test the possibility of the price of the tickets fluctuating in response to normal market conditions over time. It should also consider how any price fluctuation can be accurately reflected in the EANCB of the policy over the appraisal period.

The Department has assumed that additional obligations will be met through the purchase of tickets, based on evidence from industry. This is a key assumption underpinning the analysis in the impact assessment. The assumption appears reasonable but should be tested specifically during consultation to demonstrate that it is robust. Otherwise, it is hard to be sure that the ticketed supplies will actually be available when needed and that the current

approach of using offshore suppliers remains cost-effective. Specifically, a non-UK holder of oil stocks who sells tickets to UK and non-UK firms might 'overbook', reasoning that supplies are unlikely to be disrupted to all nations at once. In the unlikely event of a widespread disruption, however, UK firms might not be able to obtain the necessary supplies. Moreover, a supply disruption might also impair transportation links, making it hard to bring those stocks to the UK. For this reason, the impact assessment would benefit from evidence that tickets correspond to *exclusive* claims on verified physical stocks. It would also be helpful to know how this is monitored and how access to those stocks held outside the UK can be assured in the event of disruption. To provide a full accounting of the reasonableness of costs, the analysis should indicate why the necessary storage capacity cannot efficiently be created in the UK and analyse in greater detail the impact of disruption risks on the costs of holding stocks and the market position of refiners as compared to importers.

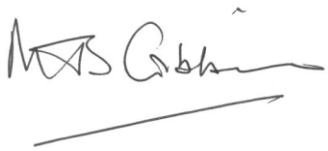
A Small and Micro-business Assessment (SaMBA) is not required as the proposal is of European origin. The Department does explain in its impact assessment that refiners and non-refiners affected by the proposal are all large businesses. The obligation only applies to those companies that supply over 50,000 tonnes of oil per year. Small and micro-businesses will not, therefore, be affected by the proposal

Initial departmental assessment

Classification	Out of Scope (EU)
Equivalent annual net cost to business (EANCB)	£0.79 million
Business net present value	-£9.18 million
Societal net present value	-£9.18 million

RPC assessment

Classification	Out of scope (EU)
EANCB – RPC validated	£0.79 million
Small and micro business assessment	Not required (European origin)



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