UPEI

Union Pétrolière Européenne Indépendante

Towards a European Strategy for the Security of Energy Supply Com (2000) 769

Further Observations by UPEI

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The process of consultations brought forward a variety of views – not surprisingly influenced by the various points of views by the various parties and their respective experience and know-how. UPEI – the representation of the independent oil trade in Europe - highly appreciated the opportunity to participate in this venture.

Reading the responses by various parties it was quite astonishing for us that actual crisis management for hydrocarbons and the mechanisms in place for crisis management got very limited attention. Also it is obvious to us that the crisis mechanisms in place – or rather not in place - are not well understood or appreciated.

As traders, not being linked to major international energy giants, we are perhaps closer to the market place to appreciate the immediate effect of interruptions. It is useful in this context to remember that the crises of 1973 and 1979 – with their tremendous effect on the western economies – were caused by relatively small shifts in the supply and demand balance and not by major interruptions. This aspect of small changes at the margin of energy supply from surplus to shortage and its effect on supply and price imbalances has not got enough attention in the debate so far.

In a multitude of answers it was stated that the IEA regulations were sufficient to eliminate further debates on security stocks. Three facts, however, have to be remembered:

1. IEA takes care of oil only
2. The degree to which various EU countries follow the IEA regulations with regards to stocks vary greatly
3. IEA and EU regulations do not cover chemical feedstock

Why should this be of concern:

1. Natural Gas has taken a much bigger share of energy supply in the EU since the inauguration of the IEA. Especially in electricity generation gas will have a dominant position.

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It is widely acknowledged – and became clear during the deliberations so far - that gas supply is geographically as vulnerable as oil and that the range of supply in terms of supply-years is only marginally better than oil – if at all.

It is therefore highly necessary to search for cost efficient ways to create gas security stocks – especially for interruptions at the margin as happened in oil during 1973 and 79 and to lesser extends in 1990 and 2000.

The observation by the gas side that storage of gas carries relatively high costs cannot be a valid reason for stopping the debate.

We may draw to your attention that already today in severe winters or extraordinary peak demand periods gas customers –were possible - are at times prorated and switched back to oil. We beg to consider whether it would not be feasible to hold at least some of the reserves, which should be mandated , in oil stocks.

2. The IEA mandates 90 days of security stocks. The quality of the stocks is, however, of dramatically different nature in the various EU countries. The wide use of operating stocks against these 90 days portrays a sense of security while actually undermining the vary aim of the exercise: to have 90 days of stocks to afford governments the time to devise strategies to ride out any crisis with stocks beyond the operating stocks of industry .

3. Chemical industry has developed tremendously in importance since the creation of the international crisis mechanisms. The fact that chemical feedstock such as naphtha, condensate and natural gas are not covered by security stock regulations is hardly known. The fact has nonetheless be of great concern under security of supply considerations: for international competitiveness of the EU and for the supply of its citizens.

Security of supply at the margin is certainly not an exciting eye catcher for the general debate – especially when big issues of general interest such as nuclear or renewable energy are being discussed. Nevertheless, we feel the Security of Energy Supply debate incomplete if not more attention is also directed towards the very practical questions raised in this memorandum.

In energy supply small changes at the margin from balance to imbalance can create price distortions with their damaging development to the European economies.
