November update

If you inhabit the oil geekosphere, then the proposed alterations to the government's Compulsory Stocking Obligations from January 2013, are a matter of some significant interest. Like the periodic changes to the captains on A Question of Sport, there is now nerd like excitement amongst the faithful, in anticipation of how the new regime will stack-up.

Firstly a recap on the whole stock obligation mechanism and how it came about. In October 1973, the western world experienced its first modern-day oil shock, as OPEC announced an oil embargo. This event coincided with US oil production hitting its "peak" status in 1971 and going into decline (which has continued ever since). The result was oil rationing and a quadrupling of the oil price (the equivalent of oil today going up to $400 per barrel). The western world came within days of grinding to a halt and with this as backdrop, the International Energy Agency and the EU (as was) understandably got together to formulate the first Compulsory Stocking Legislation. The nuts and bolts of each country vary, but broadly the measures ensure that a certain number of days' oil consumption are held back from the market and stored in case of emergency. In short – petrol for a rainy day. In Europe, member states are required to hold between 50 and 90 days of emergency stock, depending on whether they have indigenous crude oil (UK) or not (Germany) – in which case, the full 90 days of stock has to be held (One day's stock being equivalent to one day's national consumption).

How Europe originally reacted to Compulsory Stock Obligations

The reaction of the European Countries to these stocking regulations was (and is) rather reflective of how the EU works to this day. The Germans (being Germans), dedicated public money to the building of 100 or so football-pitched sized underground tanks, which they promptly filled with 90 days of diesel, said "das ist das" (that's that) and went for some beer and a very big sausage. The French did the same, but on completion they shrugged their shoulders, said they couldn't afford the project anymore and got the EU to pay for the remaining costs. The British held their hands up in horror at the thought of public works that would actually cost the tax-payer money. But horror soon turned to delight when the government realised that Big Oil "back in the day" was making so much money that they would pretty much agree to anything, so long as their activities in the North Sea were left alone. Therefore in the UK, it was left to BP, Shell et al to hold back 55 days of their annual sales. The Dutch being half Anglo and half Saxon, decided "for sure" that the scheme was "no problem" and went for a 50/50 Germanic-British approach; giving half the obligation to Dutch oil companies and the other half being held by government. Finally, the southern Europeans are still deciding what to do and will be submitting their proposals sometime before 2020…

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All in all the scheme has worked fairly well, with "structured stock releases" (ie, certain grades and volumes) in the early 1990s (Gulf War), 2005 (Hurricane Katrina) and 2011 (Libyan crisis). The proposed changes to the legislation will not change any broad principles, but they will have some impact on the obligated holders of stock – in the UK, oil companies large and small. Up until 2012, stock has been classified into four categories – Crude Oil, Category I (Petrol), Category II (Diesel, Gasoil and Kerosene / Jet Fuel) and Category III (Fuel Oils). Each stock holder was obliged to hold between 48 and 65 days of their sales for each category, with crude oil stocks being permitted to fill any category stock gaps. Such categorisation created major problems for many obligated stock holders, with European refining being configured in the way it is (ie, short diesel and jet fuel / long petrol and fuel oil). Petrol and fuel oil obligations were easy to meet (in a region that is awash with both products), whereas Category II (Diesel, Jet Fuel) obligations presented a significant financial burden, that inevitably was passed on to the customer (ie, higher diesel prices).

A very major challenge

So the 2013 revisions are broadly an improvement, with only 20 days of each refined product (Petrol/ Diesel/Jet Fuel) being now required to be stocked and the balance being held as "Any Oil". The latter "product" covers a rather large and motley collection of low value grades and blends (condensates, fuel oils etc), all of which are cheaper to store than finished grades. However, for the distributor who holds kerosene and has traditionally sold this volume as stock tickets, there is some bad news. For reasons unknown, the legislation deems that kero is an "Any Oil" product (even though inland kerosene is effectively interchangeable with jet fuel and in most cases is a higher spec) and with "Any Oil" in bountiful existence across Europe, there will now be few buyers for Kerosene Stock Tickets. Finally, the legislation is once again referring to a UK Stock Agency from 2015 onwards (the German model). Fundamentally the idea is sound, but in the current austerity climate, with a shortage of UK tankage and the increasing cost of working capital (as oil prices rise), it remains a very major challenge.

For more pricing information, see page 26

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