

## Compulsory Stocking Obligation

### UK's strategic oil stocks - time to move to a fairer and more reliable system



**The current system of keeping the UK's strategic stocks of petroleum products - under the Compulsory Stocking Obligation - is not working and must be replaced without delay with a fairer, less complex system.**

Furthermore, UKPIA and its members feel that the greater stock obligation levels placed on domestic refiners as opposed to other companies in the market importing petroleum products into the UK, is discriminatory. It should be abolished in the move to a new system so that all companies supplying products are treated the same way.

As part of the solution, UKPIA and other downstream oil industry bodies feel that the UK should move to

establishing an independent, privately funded Stockholding Agency, a practicable long-term solution that has been adopted by many other EU member countries, including Germany, Ireland, Netherlands and Spain.

#### Background

The Department of Trade and Industry under powers contained in the Energy Act 1976, is responsible for ensuring that companies comply with their stocking obligations.

The current requirements stipulate that refiners hold 67.5 days and non-refiners 48.5 days in stock, based on their sales made in the UK market. This 67.5 days is lower than the normal 90 days of imports required under International Energy Agency guidelines as the UK is able to apply a 25% derogation under EU rules because of its position as a net oil exporter. The current system means that the UK's oil reserves are kept by commercial companies, effectively at no cost to the government or taxpayer.

However, when first introduced, the shortfall in UK stocks created by allowing non-refiners to hold a lesser number of days stock - the differential of 19 days between refiners and non-refiners - was made up by including North Sea crude held in offshore or onshore storage facilities, and accounted for a small volume of oil.

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But the UK market over the past two decades has changed markedly. The sales made by non-refining companies such as supermarkets and larger independent groups have risen significantly, whilst stocks held of North Sea crude have declined. These two factors coupled with the complexity of the system, has meant that the UK has at times failed to meet its stock obligations of Category II (Gas oil/Diesel/Kerosene/Aviation Kerosene) products required to meet EU Regulations.

As a result, UKPIA member companies have been faced with uncertainty in planning their businesses and unexpected, significant, costs in making up stock shortfalls, especially in a period of more volatile markets

that have been experienced over the last two years.

### The way forward

UKPIA considers that the UK should move as soon as possible to an independent stock holding agency. This agency would be charged with ensuring that the UK's stock obligations were met, including allocating the burden fairly amongst refiners and importers, matching stocks held against the UK's total obligation and keeping track of the physical location of stocks. Although it would be independent and privately funded by the downstream industry,

it would nevertheless be accountable to government.

However, for such a system to work much of the complexity and unfairness of the current system must be left behind. As a first step, it is essential that an interim solution is agreed based upon stock obligations being assessed at the point where the product first enters the inland market - either when products leave a UK refinery or when they are imported into the UK. This approach also hinges upon early resolution of the stockholding differential between refiners and non-refiners. UKPIA insists that this unequal and discriminatory

burden on UK refiners be abolished as there are no practical reasons why importers should be favoured over domestic oil refiners.

**UKPIA and its members remain committed to working with the government and other downstream organisations to simplify the UK stockholding arrangements and move to an independent agency as soon as possible. This will dramatically improve the UK's compliance, give greater certainty and fairness to all companies supplying the UK market and ultimately help boost the nation's security of supply.**

## Forecourt Safety Passport Scheme

### Contractor competence

Working on a filling station presents some special hazards and safety issues, numerous regulations, and not least the added danger of the public, but when choosing a contractor how do you ensure their competence and how do you know that they will carry out the work safely?

In the past contractors frequently arrived on site to carry out work with no specific health and safety training relating to filling stations and little knowledge of the environment they were working in.

For this reason the Safety Pass Alliance in conjunction with UKPIA and contractors, developed a course to ensure that workers in the industry and particularly contractors working on forecourts are trained to meet specific standards.

Oil companies and some supermarket fuel retailers now require contractors to complete a two day training course before they are allowed to work on their forecourts. This training covers general health & safety issues but in particular focuses on the practical issues of identifying potential hazards,

safe work practices and controlling a work programme on the forecourt.

If the candidates successfully completed the course and assessment they receive a credit card sized "Safety Passport" which enables them to work on the forecourts of participating companies. The passport is valid for a period of three years from the date of issue.

Asking contractors to show their passport before commencing work provides filling station operators with a simple method of ensuring that contractors have a basic awareness of the health and safety issues involved in working on a forecourt. This not only helps sites comply with their obligations under DSEAR (Dangerous Substances and Explosive Atmosphere Regulations) but will also provide reassurance for site operators that the work is being carried out safely.

Acknowledged by the Health and Safety Executive (HSE), this cost effective programme has driven good practice through the contractor supply chain increasing safety awareness and contributing to higher standards of safety performance.

### Passport Facts

- Since its introduction in 2001 11,222 Safety Passports have been issued.
- To receive a passport contractors must undergo a two day training course and pass the assessment.
- There are 26 registered training providers across the UK.
- The Passport is valid for 3 years after which a one day refresher course is needed.

For any further information about the scheme contact:

- Safety Pass Alliance  
[www.safetypassports.co.uk](http://www.safetypassports.co.uk)  
Phone: 01162 221228 E-mail: [enquiries@safetypassports.co.uk](mailto:enquiries@safetypassports.co.uk)
- UK Petroleum Industry Association (UKPIA) [www.ukpia.com](http://www.ukpia.com)  
Phone: 020 7240 0289  
E-mail: [info@ukpia.com](mailto:info@ukpia.com)

# Renewable Transport Fuel Obligation announced

On 10th November the UK Government announced its intention to introduce a Renewable Transport Fuels Obligation (RTFO) requiring 5% by volume of all petrol and diesel sold to come from specified renewable sources by 2010.

The Government's next step will be a consultation on how the RTFO will work in detail. It also wants to ensure that biofuels are sourced sustainably, and proposes to develop a carbon and sustainability assurance scheme as part of the obligation. Under such a scheme companies would be required to report on the level of carbon savings achieved and on the sustainability of their supplies.

Chris Hunt, Director General of UKPIA, commenting on the announcement said, "World-wide our member companies are already selling large volumes of biofuels blended with petrol or diesel. Biofuels have a role

to play, but are just one of many measures to tackle the UK's CO<sub>2</sub> emissions from road transport, the level of which have been virtually static for the last seven years and are predicted to decline."

UKPIA and its members look forward to working with Government on the detail of how the RTFO might work in practice and ensuring the quality of bio fuels supplied. UKPIA plans to advocate policies which allow the maximum flexibility in meeting the targets set by HMG. As well as benefiting the consumer from the lowest possible prices at the pump, flexible policies will support the development of improved, more efficient biofuel production processes such as ethanol from straw and biodiesel from wood. They will also support the introduction of bio feedstock into the refining process to produce higher quality biofuels directly.

- The description "biofuel" is a generic one used to describe liquid or gas fuels that are not derived from petroleum based fossil fuels or contain a proportion of non fossil fuel.
- Biofuels fall into two main categories- conventional biofuels produced from plants - crops such as sugar cane/ beet or wheat for ethanol and rape seed oil or re-processed vegetable oils for bio-diesel - and advanced biofuels from wood, straw or some wastes. At present, most biofuels fall into the conventional category.
- Biofuels can cost two to three times as much as conventional petrol and diesel and currently enjoy 20 pence per litre duty differential compared to conventional fossil fuels.

## Secretary of State visit to Humber Refinery

The Right Hon Alan Johnson MP, Secretary of State for Trade and Industry visited the ConocoPhillips Immingham Refinery and CHP plant on 23rd September.

It was a very successful visit including a trip around the refinery and a dinner where Johnson's team (including Senior CP personnel headed by Mike Fretwell (CP President European Downstream), Spencer Mahoney (Johnson's Private Secretary), Nick Cook and Brian Allison of the DTI) dined with Dave Blakemore.

Johnson asked questions throughout the tour on areas such as refinery processes and operations: he was particularly interested in understanding how the refineries in the Gulf were affected by hurricanes. During the course of the tour, several very important points were tabled about the sustainability of UK refining, the UK's stringent 15 minute SO<sub>2</sub> emission limit, the Habitats Directive and Compulsory Stocking Obligation.

# CAFE Programme and Thematic Strategy

The European Commission published its Thematic Strategy on Improving Air Quality in Europe to 2020, on 21st September 2005. The Strategy was developed under the **Sixth Environmental Action Programme Programme** (<http://europa.eu.int/comm/environment/newprg/index.htm>) and is underpinned by the European Commission's Clean Air For Europe (CAFE) programme of technical analysis and policy evaluation set up in 2001.

The CAFE programme established that even with the maximum possible feasible reduction in all sources of air pollution considered, there would still be a significant impact on human health and the environment (acidification and eutrophication). The Thematic Strategy took the cost-effectiveness of measures into account and chose a level of reduction below the maximum. The level chosen will deliver most of the health benefits available under the maximum and reduce substantially the area of forests and other ecosystems suffering damage from airborne pollutants.

"The air strategy will substantially improve Europe's air quality. It will prevent thousands of premature deaths from pollution-related illnesses and drastically reduce damage to crops, forests and other



ecosystems." said Stavros Dimas, the EU Environment Commissioner.

## Particulates

While covering all major air pollutants, the Strategy pays special attention to fine dust, also known as particulates, because these pose the greatest danger to human health. Under the Strategy the Commission is proposing to start regulating fine airborne particulates, known as PM<sub>2.5</sub>, which penetrate deep into human lungs. The Commission also proposes to streamline air quality legislation by merging existing legal instruments into a single Ambient Air Quality Directive, a move that will contribute to Better Regulation.

## Projected Improvements

- Reduce number of premature deaths related to fine particulate matter and ozone from 370,000 a year (2000) to 230,000 (2020).
- Deliver health benefits - fewer premature deaths, less sickness, fewer hospital admissions, improved labour productivity etc.
- Protect several hundred thousand square kilometres of forest and other ecosystems.
- The cost of implementing the Strategy is estimated at around €7.1 billion per annum.

## Industry Standard for Tanker Driver Induction Training: endorsed by Secretary of State

The Secretary of State for Trade and Industry has endorsed the new standard for the tanker driver induction training, proposed by representatives drawn from the downstream industry (including the oil companies, trade unions, independent retailers,

distributors and tank storage companies). This Induction training will establish a minimum standard between different employers and locations and improved transferable skills. Areas covered will include:

- Loading operations

- Transportation of petroleum products
- Offloading operations
- Health and Safety of personnel

All members of the task group will now be responsible for promoting the scheme across the industry.

# Consultation on Petrol Vapour Recovery Stage II

Volatile organic compounds (VOCs) are hydrocarbon compounds emitted from a wide variety of sources both natural and man made, including; trees; motor vehicles; solvents; industrial processes; food manufacture; oil refining, storage and distribution.

In the last decade, the oil industry has reduced by 80% the amount of VOCs released from the fuel distribution chain, through reducing the volatility of petrol and Stage I petrol vapour recovery systems. The Stage II systems reduce emissions of VOCs by capturing the petrol evaporated into the air in storage tanks in both distribution terminals and service stations. The captured vapour is turned back into petrol using a vapour recovery unit located at distribution terminals.

The Government is now consulting on the proposal that petrol stations selling quantities of petrol above a certain annual threshold must install petrol vapour recovery Stage II controls by 2010. This will reduce emissions of VOCs which escape during the refuelling of vehicles at service stations by capturing the petrol vapour, forced out of the petrol tanks of cars during refuelling, with a vacuum pump.

Effectively it will make much of the distribution system for petrol a 'closed loop' from refinery to the point of filling a car.

In its current consultation on Stage II the Government is seeking views on three options.

- **Option 1:** Take no action
- **Option 2:** Mandate Petrol Vapour Recovery Stage II controls by January 2010, in all services stations with an annual petrol throughput greater than 3 million litres per year and all new services stations with an annual petrol throughput greater than 0.5 million litres per year.
- **Option 3:** Petrol Vapour Recovery stage II controls by January 2010 in all services stations with an annual petrol throughput greater than 3.5 million litres per year and all new services stations with an annual petrol throughput greater than 0.5 million litres per year.

Option 3 is the Government's preferred route for implementation of Stage II and would result in an annual reduction in emissions of volatile organic compound of 16.6 kilotonnes, in 2010. HMG feels that this option will provide a reasonable balance between the implementation costs and the associated benefits whilst, protecting the viability of smaller services stations particularly those which are situated in rural areas and offer additional services to rural communities.

## Energy Review Announced

Prime Minister Tony Blair announced on 29th November 2005 the new Energy Review to be conducted by Energy Minister Malcolm Wicks. The Energy Review will look at the progression towards goals set in the Energy White Paper of 2003 and aim to report in the summer of 2006. UKPIA welcomes the opportunity to outline how UK refining can play a key role in meeting future energy needs and improving overall security of supply.

## Innovene

January 2006 will see the enrolment of a ninth member of UKPIA, Innovene, whose membership will cover their refinery at Grangemouth in Scotland. Innovene's Council representative will be Dr Phil Davison. UKPIA looks forward to welcoming Innovene as a member.

# Environmentally Friendly Vehicles Conference



As part of the United Kingdom's Presidency of the G8 and the European Union, the Department for Transport hosted an international exchange of best practice on how to encourage development and commercialisation of clean, fuel-efficient vehicles.

Chaired by UK Secretary of State for Transport Alistair Darling, the two-day event (10/11th November) at the National Motorcycle Museum in Birmingham focused on how policy makers and industry can develop a market for more efficient vehicles as a way of reducing their contribution to air pollution and climate change.

The conference was divided into three main sessions:

- a) Science and Technological Development
  - Participating countries and organizations exchanged information on ways in which international R&D collaboration can be encouraged
  - Sought to define key priority areas for greater collaboration
- b) Measures to develop Environmentally Friendly Vehicles (EFVs)
  - Participants discussed the government policies and frameworks in place to encourage a market for EFVs
  - Addressed issue of consumer perception of EFVs
- c) Engaging Emerging Economies
  - Considered areas and forms of cooperation with emerging economies on promotion and uptake of EFVs and environmental risk

UKPIA hosted a small stand in the exhibition hall where four members of the Secretariat voiced the key messages of the member companies on the subject of how the oil industry is contributing towards cleaner air and reduced emissions. Key areas of discussion included the oil industry's initiatives on climate change, its contribution to reducing emissions and the importance of the UK's oil refining industry.

# 2005 Party Conference Season

This year UKPIA was partnered by the Energy Saving Trust at all three main party conference events with a theme looking at both technical and behavioural change issues to reduce CO<sub>2</sub>. UKPIA's key messages included the continued central role of fossil fuels in meeting the needs of transport for at least the next thirty years and how these fuels were likely to evolve to meet consumer requirements and environmental objectives.

## **LIBERAL DEMOCRATS: Wednesday 21st September (Blackpool)**

- *Fringe Event: 'Road Transport in the 21st Century - which way for a low emissions future?'*

The evening event was run as a discussion forum with Centre for Reform; Tom Brake (LD Shadow Transport) participated and Transport 2000 Chaired. There was a good discussion on a wide range of issues related to reducing emissions from road transport with a large audience of over 60 people.

## **LABOUR: Tuesday 27th September (Brighton)**

- Chris Hunt** UKPIA; Philip Sellwood, Energy Saving Trust; Alex Bruce GM/Vauxhall
- *Fringe Event: 'Road Transport in the 21st Century - which way for a low emissions future?'*

A lively discussion with Transport Minister Stephen Ladyman on the panel, who indicated support for a Renewable Transport Fuel Obligation. The benefits of RTFO and the role of Government policy in stimulating take up of cleaner fuels without distorting the market was keenly debated.

## **CONSERVATIVES: Tuesday 4th October (Blackpool)**

- *TGI Group dinner and discussion with UKPIA, EST and Low Carbon Vehicle Partnership*

The very well attended reception and dinner was opened with a speech by Oliver Letwin, followed by John Gummer and closed with an address by Bill Wiggin (Shadow Environment Minister), with speakers from UKPIA, EST and Low CVP in between. The overriding theme was the need for consistency throughout Government policies on environment/climate issues with the focus on some long-term consensus amongst all political parties.



*l/r Chris Hunt, UKPIA; Simon Barnes, SMMT;  
Jason Torrance, Transport 2000;  
Richard Tarboton, EST; Tom Brake, MP*

# 2005 UKPIA Awayday:

Lensbury Club at Teddington once again housed UKPIA's Away Day, 28/29 September: the event was a great success bringing together Council, all 14 Committee Chairs, and other members to discuss the successes of UKPIA in 2005 and the key focuses for 2006.

The keynote speaker at dinner, Steve Gooding (Director DfT), gave an insightful speech on Road Pricing.

The primary focus of Awayday was on two breakout groups that utilized

a Matrix of Issues Assessment to examine and prioritise issues being handled, under the title 'Understanding Agendas, Targeting Outcomes', followed by a feedback session to the plenary group to report findings.

Committee chairs also presented on their respective committees in a 'Show and Tell' exercise outlining the major responsibilities, key events and future issues. During the day two guest speakers kindly gave of their time- Patrick Robathan from Randall's

Parliamentary Services giving an interesting and thought-provoking address on 'Effective Lobbying' and Paul McBride, managing editor EAST journal, gave a heartfelt speech on his perception of environmental issues and how the oil industry was best placed to take a technological lead.

The overall feedback from the Awayday indicated that the event was very well received; '...a good format this year, very informative and interesting'.

# People

## President

**Dave Blakemore** will be stepping down early as President of UKPIA at the AGM in April 2006 as a new role within ConcoPhillips sees him assuming greater responsibility for European operations. He will be replaced by the Vice President of UKPIA, **John Lynn** of ChevronTexaco. We take this opportunity to thank Dave for his great contribution to UKPIA and to wish John every success as President.

## John Mumford

BP's Council member, **John Mumford**, steps down at the end of 2006 to take up a new role in BP after eight years as their Council representative and a past President of UKPIA. We take this opportunity to thank John for all his efforts and contributions and wish him well for the future. UKPIA welcomes **Richard Wheatley** as John's replacement.

## Secretariat

We are very pleased to welcome two new members to the UKPIA team, **Stephen Geldart** and **Gemma Shepherdson**. Stephen joins as a Business Analyst having studied at Imperial College London where he gained an MSci in Chemistry. Gemma has been seconded from Total for one year and will be working alongside Nick Vandervell in Public Affairs.



*John Mumford, OBE*

# Pre-Budget Report

The Chancellor, in his Pre-Budget Report on 5th December, announced that the main fuel and road gas duties would be frozen at current levels until the end of the tax year. However, he announced an increase of 1.22p per litre in duty on rebated fuels ('red' diesel) with immediate effect.

**MERRY CHRISTMAS!**

**UKPIA wishes all of our readers a very Merry Christmas and a Happy New Year!**

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