The background is a satellite-style image of the Earth at night, showing city lights. Overlaid on this are numerous glowing blue lines that represent energy transmission paths, connecting various points across the globe.

Problems of formation of emergency oil stocks in Ukraine – point of view of the Energy Community Secretariat

Kyiv, 2 March 2018

In December 2009 the Cabinet of the Ministers approved the Concept for the establishment of minimum crude oil and oil products stocks in Ukraine for the period up to 2020 but the Law on Minimum Oil and Oil Products Stocks drafted and discussed in 2010 was ultimately rejected by the Cabinet of the Ministers:

- Due to the lack of support from the Ministry of Economy and Ministry of Finance***
- The Ministry of Economy was unwilling to support the draft Law since they believed that State Reserves should be the responsible body for establishing and maintaining emergency oil stocks, rather than creating a new separate body under Government control, as foreseen in the draft***
- At the same time, the Ministry of Finance was concerned about the impact on the state budget and consumer prices coming from the establishment of an oil stockholding system as a whole***

Previous Efforts (II)

In July 2013, the Energy Strategy of Ukraine until 2030 was adopted by the Cabinet of the Ministers which included the establishment of emergency oil stocks as one of the strategic goals to be achieved - however it does not provide the details on how this is to be done

Ukraine and the EU Delegation in Ukraine negotiated a 3-year Operation Program (2014-2016) which also included the transposition of the oil stocks Directive. According to the drafted and agreed upon proposal, Ukraine should have adopted a legal framework on emergency oil stocks by end-2016.

3 performance indicators were clearly set in terms of scope and timing:

- *Collection of data on oil and oil products necessary for calculation of minimum oil stocks and relevant statistical reporting*
- *Decision by the Cabinet of Ministers on the oil stockholding model to be adopted, including appointing a responsible authority for stockholding, establishing a financing program and laying out a plan for how to progressively build up the emergency stocks*
- *Approval of the Oil Stockholding Law by the Cabinet of Ministers*

In October 2013, the President of Ukraine adopted an Economic Reform Coordination Centre's Action Plan for 2014 which envisaged adoption of an Oil Stockholding Law in 2014

November 2015, the EU launched a technical assistance to assist the Ministry of Energy and Coal Industry

- ***Project budget Eur 2.3 M and for a duration of 30 months***
- ***Oil Stocks is part of this project***

Project is ongoing, but to continue activities in oil stocks (drafting primary legislation), the Consultant is waiting for decision by Cabinet of Ministers on the model

This decision is pending since last year

Lack of political support for the proposed legislative basis

A general sense in Ukraine that the 2022 deadline for emergency stockholding provides largely sufficient time and therefore no pressing need exists for immediate action

Lack of transparency in Ukraine poses a challenge to establishing emergency stockholding in accordance with the Directive:

It is critically important that Ukrainian officials recognize the importance of data being considered in the public domain and not as classified

Lack of information regarding storage capacity has been another issue to be addressed

Oil Stockholding Fee:

- ***Oil market - fully liberalized***
- ***Retail prices are changing continuously and a fee for oil stocks should not dramatically influence the retail price volatility***
- ***Oil products quality is point of concern - given that oil stocks should be established on long term basis***
- ***Fee introduction is rather political than technical question***

Ukraine: Composition of Emergency Oil Stocks

Considerations:

- 30% crude oil & 70% petroleum products
- Taking into account the current consumption trends in Ukraine, the share of each refined product in the emergency product stocks should be:
 - 33% motor gasoline
 - 67% diesel/gasoil
- Primarily in the form of the **physical commodity** (crude oil and petroleum products), and partly in the form of contractual rights – **tickets**

| | | Quantity (metric tons) | Density | Required nominal capacity |
|------------------------------------|-------------------------|---------------------------|-----------------------|--------------------------------|
| Petroleum products | Unleaded motor gasoline | 460,000 | 755 kg/m ³ | 670,000 m ³ |
| | Diesel/gasoil | 930,000 | 845 kg/m ³ | 1,210,000 m ³ |
| Total products: | | 1,390,000 | | 1,880,000 m³ |
| Crude oil | | 580,000 | 850 kg/m ³ | 750,000 m³ |
| Total emergency oil stocks: | | 1,970,000 | | 2,630,000 m³ |

| | | Amount (tonnes) | Tonnes of crude oil equivalent | |
|----------------------------------------------|----------------|--------------------|--------------------------------|-----------|
| Petroleum products | Motor gasoline | 460,000 | 496,800 | 1,501,200 |
| | Diesel/gasoil | 930,000 | 1,004,400 | |
| Crude oil | | 580,000 | 501,120 | |
| Total tonnes of crude oil equivalent: | | | 2,002,320 | |

Different stockholding systems reflect the way holding oil stocks is financed:

Government/Agency Stocks

- **A variety of financing methods**
- **Initial set-up/capital costs**
 - ◆ **Financed from central government budget**
 - ◆ **Bank loans also used**
- **Running costs of stockholding agencies**
 - ◆ **Financed from central government budget (e.g. Czech Rep.)**
 - ◆ **Through a levy charged on product sales (e.g. Dutch COVA)**
 - ◆ **Through a fee charged to industry (e.g. German EBV)**

Compulsory Industry Stocks

- **Relevant costs are included in consumer prices and borne directly by consumers**

Ukraine will require a significant amount of funds (1.05 billion USD) in order to finance the establishment of an emergency oil stockholding system

Financing emergency oil stockholding in Ukraine could include re-allocating part of the income:

- ***from existing excise duty on petroleum products***
- ***introduction of a dedicated oil stockholding fee (0.40-0.50 UAH) per litre of gasoline and diesel sold on the market***
- ***standard banking credit lines***
- ***project financing and bond issuing***

Whatever the source or sources of funding, it is highly recommendable that the CSE have its own account in order to provide it with necessary operational flexibility

Timeframe for Transposition

| To be completed – 5 main milestones | Deadline |
|-----------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| Development of emergency oil stockholding model & Governmental decision on this model | Q1 2018 |
| Approval by Government of the Law on Emergency Oil Stocks | Q2/2018 |
| Approval by Parliament and President of Ukraine of the Law on Emergency Oil Stocks in compliance with the Council Directive 2009/119/EC | Q3/2018 |
| Preparation of secondary legislation | Q4 2018 |
| Approval of secondary legislation required under the Law | Q1 2019 |



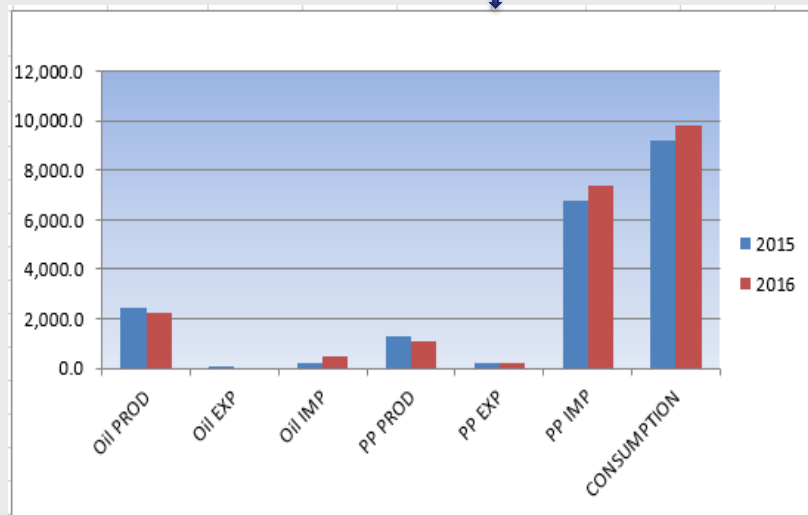
*Thank you
for your attention!*

adrian.jasimi@energy-community.org
www.energy-community.org

Annexure

Ukraine – 2016 Oil Data

| | YEARS | CRUDE OIL | | | PETROLEUM PRODUCTS | | | |
|---------|-----------|-----------------|----------|---------|--------------------|--------|---------|-------------|
| | | Oil PROD | Oil EXP | Oil IMP | PP PROD | PP EXP | PP IMP | CONSUMPTION |
| | | Thousand Tonnes | | | Thousand Tonnes | | | |
| Ukraine | 2016 | 2,270.0 | 0.0 | 516.0 | 1,103.0 | 233.6 | 7,410.0 | 9,788.0 |
| | 2015 | 2,472.0 | 21.0 | 228.0 | 1,268.0 | 202.0 | 6,750.0 | 9,219.0 |
| | 2016/2015 | -8.17% | -100.00% | 126.32% | -13.01% | 15.64% | 9.78% | 6.17% |



| 2016 | Nameplate Capacity | Current Capacity | Throughput |
|---------|--------------------|------------------|------------|
| Ukraine | 51.5 | 13.0 | 1.1 |



Costs consist of:

Set-up costs: construction of facility and purchase of stocks

Operating costs: maintenance, staff, utilities and insurance etc.

Refreshment costs: to ensure product quality

Land costs: buying or leasing terrain *(relevant for above-ground storage facilities)*

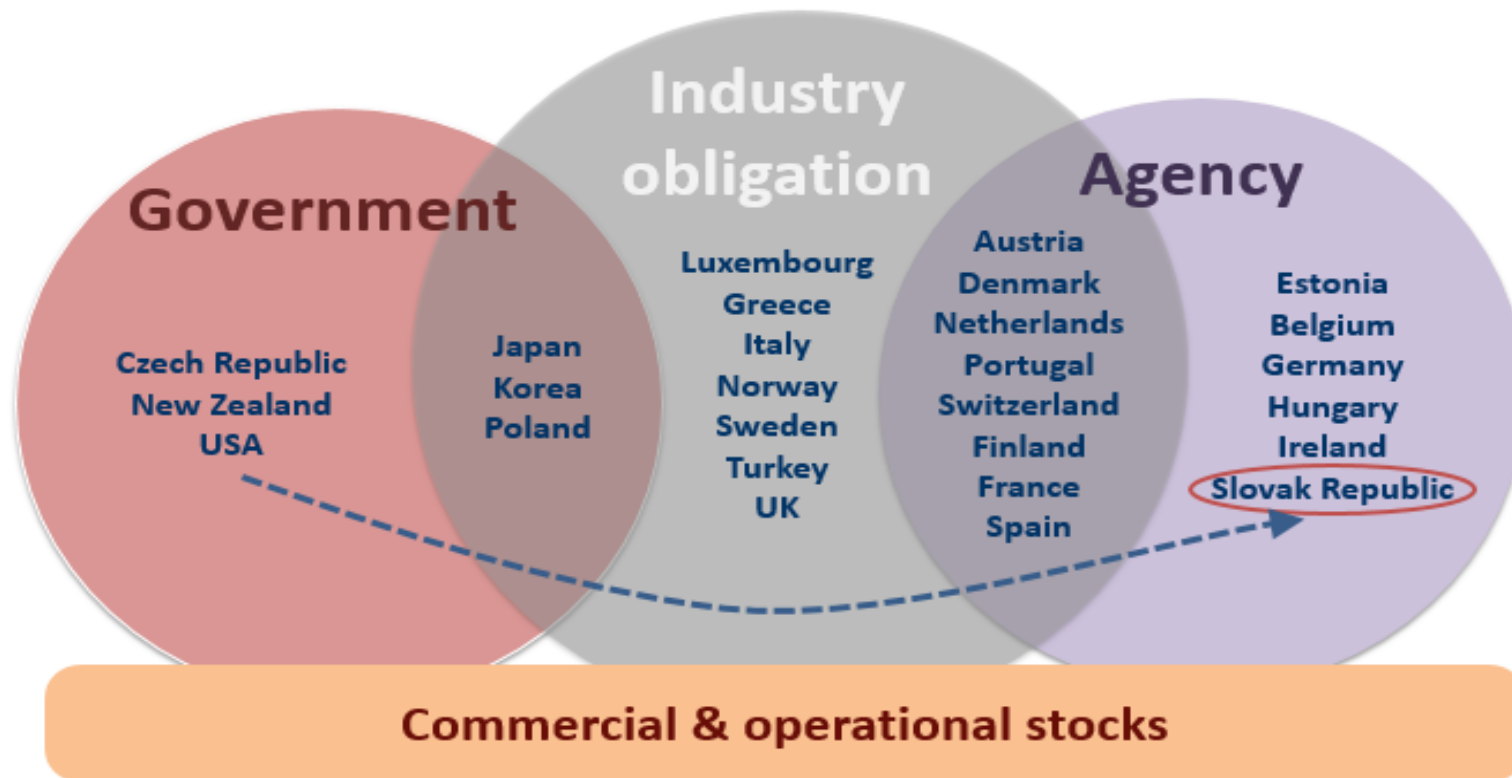
Costs should be assessed regarding:

Different kinds of storage facilities *(stand alone; add on; salt cavern etc.)*

Different sizes of tanks and storage facilities *(Optimal individual tank size lies between 80.000-120.000 m³ for crude oil and 40.000-60.000 m³ for products)*

Different compositions of stocks (crude/product) - *Construction costs for low flash product tanks (e.g. gasoline) are about 15-20% higher on a m³ basis than the costs for crude oil and middle distillate tanks)*

Different stockholding structures in the world



What to hold?

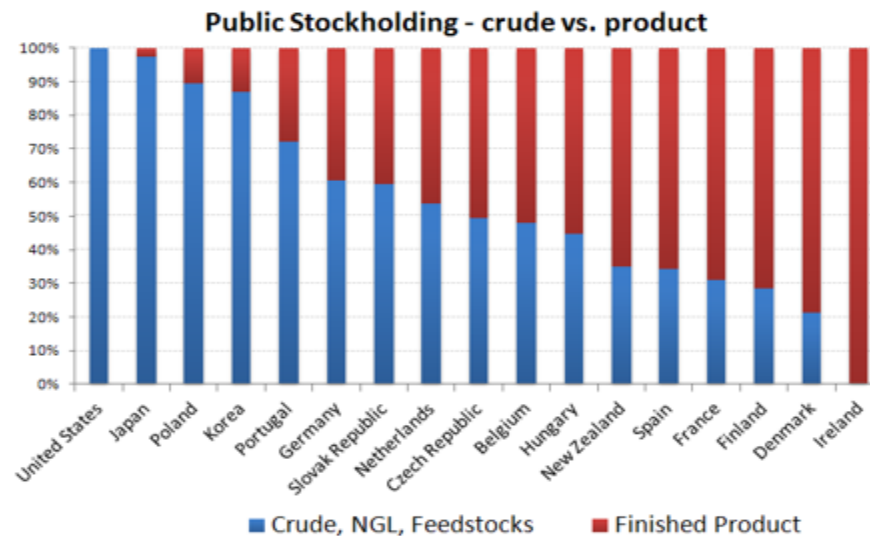
- Crude or Product

Where to hold it?

- Own storage/rented
- Co-mingled/segregated
- In another country (bilateral agreement)

How to release it?

- Loans, tender, sales



System used before Aug 2013:

- Emergency oil stocks owned by the State and managed by ASMR
- Financing – obligatory fee collected from oil industry allocated through state budget

New Agency system (EOSA – established in Sept 2013):

- Stocks - owned and managed by EOSA (2013); Financing separated from state budget;
- Greater involvement of industry in the oil stocks management;
- In Dec 2013 EOSA purchased all the emergency oil stocks from the ASMR
- ASMR remains relevant as supervision authority: calculates the minimal limit, controls fulfilment of the obligations, imposes sanctions, manages the state of oil emergency, etc.

Legal form of the Agency:

- Professional association of legal entities; Members are the oil industry representatives + 1 founder company controlled by the state
- Decision rights-70% has the state controlled founder company, 30 % of the rights is divided between the industry members

Stockholding Policy:

- At least 1/3 must be - Oil products; At least 50 % must be Crude oil; No tickets - EOSA keeps only physical stocks & are kept in the Slovak Republic (*legislation allows keeping stocks abroad*)
- EOSA keeps stocks on behalf of the market participants (Importers) – They pay around 20 €/m³

State should fully control the emergency oil system and should establish an independent, dedicated entity - CSE - to manage **a public oil stockholding scheme**

The main stakeholders in the emergency stockholding system in Ukraine would be the CSE, the State Reserves Agency, and the Oil Industry

Central Stockholding Entity (CSE):

- The Government should be the founder of the CSE
- CSE - an independent, autonomous, non-profit legal entity, but being able to operate on the oil market as a market entity (i.e. capable of buying/selling oil, concluding storage agreements, ticket contracts)
- Establishment of the management board consisting of high level officials appointed by the Government from the ministries responsible for energy, economy, finance, and the State Reserves Agency. Board appoints the head of the CSE
- ECS should be the owner of all physically purchased stocks; All services would be outsourced by the CSE to authorized entities or companies
- CSE should consist of only a small number of people up to 10

Establishment of the Agency in Ukraine

| | |
|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| FOUNDER | <ul style="list-style-type: none">• Republic of Ukraine The Government |
| FOUNDING ACT | <ul style="list-style-type: none">• New draft Law |
| LEGAL FORM | <ul style="list-style-type: none">• Non-profit legal entity public institution |
| BODIES | <ul style="list-style-type: none">• Management Board and Head of Agency |
| TASK | <ul style="list-style-type: none">• To form the state compulsory oil stocks at the level of a 90/61 days by 1st January 2023, in line with Directive 2009/119/EC |
| BASIC PRINCIPLE | <ul style="list-style-type: none">• Transparent, market-neutral operation and at the lowest possible cost |

State Reserves Agency:

To coordinate closely with the CSE on matters related to:

- Stock procurement policy,
- Stock build dynamics
- Refreshment of emergency stocks of petroleum products,
- Considering the refurbishment schedule for existing storage capacities
- Main provide of storage services related to petroleum products; technical expertise related to storage services and stock qualities; defining technical requirements for storage of emergency oil stocks

Oil Industry:

- Will have the opportunity to participate in the CSE's open tenders,
- Selling to the ECS the oil products
- Providing oil storage services or concluding oil ticket contracts
- CSE will not itself operate oil storage, but rather will contract out the services, becoming the single largest customer of the oil industry in Ukraine
- Better utilization of existing oil stocks and storage capacities: co-mingled storages