Strategic stock holding of oil products in Switzerland

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Oil in Switzerland (2015)

- 53% of end energy consumption
- deliveries to consumption: 12.5 mio m3
  - 3.4 mio m3 gazoline
  - 3.2 mio m3 Diesel oil
  - 2.1 mio m3 jet fuel
  - 3.8 mio m3 heating oil
- all imported, ¼ crude, ¾ products
- end of supply lines:
  - Rhine river, 1 crude pipe, 1 product pipe, rail, trucks
National Legislation

• law on national economic supply (SR 531)
• about essential goods & services
• public private partnership
  ▪ stock holding obligation on private companies
• measures:
  ▪ preparing:
    - improving resilience
    - stock holding: oil, food & animal feed, medical products, agricultural fertilizers, natural gas
  ▪ crises intervention: stock release, demand restraint
CARBURA: structure

- Legal form: Association
- Official bodies
  - General Assembly
  - Board of directors
  - Branch office
CARBURA Annual Assembly

• meets once a year

• participants:
  ▪ all CARBURA members (oil importers and oil stockholders)

• voting procedures
  ▪ decisions taken by 2/3rd majority vote
  ▪ voting power depends on the import share by a company

• tasks (selection)
  ▪ approval of bylaws (subject to approval by Federal Authorities)
  ▪ election of president, board and auditor
  ▪ approval of annual accounts and balance sheet
  ▪ decision about other proposals of the board or members
  ▪ decide about the liquidation of the association
CARBURA Board

• composition & voting procedures
  ▪ 1 neutral president (not from an oil company), Swiss citizen
  ▪ 8 – 11 members, all from oil companies; representing different kinds of market players; Swiss citizens;
  ▪ one man, one vote; at least 6 members of board present; president has no vote; decisions taken by 2/3 majority

• meetings
  ▪ 4 – 6 a year, prepared by commission meetings
  ▪ representatives of the Federal Office of National Economic Supply (FONES = supervisory body) to be invited, including documentation
CARBURA Board (II)

• tasks (selection)
  ▪ management of CARBURA (can be delegated to branch office)
  ▪ define regulations & executive orders (subject to FONES approval)
  ▪ define stockholding levies (subject to FONES approval)
  ▪ election of CEO (neutral, i.e. not from member; Swiss citizen)

• planning process
  ▪ stockholding programme (4 years, annually updated; subject to FONES approval)
  ▪ long-term financial planning (5 years)

• decision making process
  ▪ branch office → commissions → Board (→ FONES)
CARBURA: branch office structure

Management
Heinz Gerber
Managing Director

Contract Department
Andrea Studer
Deputy Director
- Contracts/ amendment
- Indemnities
- Guarantee fund contributions
- Petroleum tax
- Insurance/ policies
- National economic supply
- Statistics

Technical Department
Martin Rahn
Acting Director
- Indemnities
- Compulsory stock revision
- Insurance/ claims

Services
Heinz Gerber
Managing Director
- Personnel
- Management secretariat
- Internal services
- IT
- Finance
CARBURA Branch office

- **staff (19 in total)**
  - CEO elected by Board
  - top and middle management Swiss citizens
  - subject to professional secrecy

- **tasks**
  - all tasks assigned by board
  - all tasks assigned by FONES (stocks inspection, import licences, import control)
General Conditions

• stockholding obligation based on
  ▪ deliveries to consumption
  ▪ average of previous 3 years
  ▪ 4.5 months (= minimal requirements)
    - gasoline (1.4 mio m3),
    - transport diesel (1.2 mio m3)
    - heating oil (1.5 Mio m3), (+ 0.4 mio m3 for gas users)
  ▪ 3 months for
    - jet fuel (0.5 mio m3)

• adjustment of stocks
  ▪ recalculation every year in March
  ▪ adjustment of stocks during following July – June
Financial Planning

• = budget + extension of budgeting

• expenses:
  ▪ current costs 50 mio € (stock level * unit costs)
    - 5 mio m3
    - average: 10 € / m3 / y
    - incl. actual financing costs at an interest rate of 0.0%
  ▪ devaluation of incoming stocks (* expected oil prices)

• income:
  ▪ fees (import levies: 0.3 ct/l; exception: heating oil: 0.0 ct/l)
  ▪ revaluation of outgoing stocks (* expected oil prices)
  ▪ yield of financial assets
## Financial Planning - summary

<table>
<thead>
<tr>
<th>Year</th>
<th>(Mio CHF)</th>
<th>Gasoline</th>
<th>Jet fuel</th>
<th>Transport diesel</th>
<th>Heating oil</th>
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<tbody>
<tr>
<td>2016</td>
<td>Income</td>
<td>+ 25</td>
<td>+ 5</td>
<td>+ 9</td>
<td>+ 36</td>
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<tr>
<td></td>
<td>Expenses</td>
<td>- 28</td>
<td>- 5</td>
<td>- 34</td>
<td>- 24</td>
</tr>
<tr>
<td>2017</td>
<td>Income</td>
<td>+ 23</td>
<td>+ 5</td>
<td>+ 10</td>
<td>+ 14</td>
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<tr>
<td></td>
<td>Expenses</td>
<td>- 20</td>
<td>- 5</td>
<td>- 22</td>
<td>- 19</td>
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<tr>
<td>2018</td>
<td>Income</td>
<td>+ 27</td>
<td>+ 6</td>
<td>+ 10</td>
<td>+ 43</td>
</tr>
<tr>
<td></td>
<td>Expenses</td>
<td>- 20</td>
<td>- 6</td>
<td>- 22</td>
<td>- 23</td>
</tr>
<tr>
<td>2019</td>
<td>Income</td>
<td>+ 29</td>
<td>+ 6</td>
<td>+ 10</td>
<td>+ 46</td>
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<tr>
<td></td>
<td>Expenses</td>
<td>- 20</td>
<td>- 7</td>
<td>- 22</td>
<td>- 20</td>
</tr>
<tr>
<td>2020</td>
<td>Income</td>
<td>+ 30</td>
<td>+ 6</td>
<td>+ 10</td>
<td>+ 49</td>
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<tr>
<td></td>
<td>Expenses</td>
<td>- 19</td>
<td>- 7</td>
<td>- 23</td>
<td>- 17</td>
</tr>
<tr>
<td>2021</td>
<td>Income</td>
<td>+ 30</td>
<td>+ 6</td>
<td>+ 10</td>
<td>+ 49</td>
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<td></td>
<td>Expenses</td>
<td>- 19</td>
<td>- 7</td>
<td>- 23</td>
<td>- 17</td>
</tr>
<tr>
<td>2016-2021</td>
<td></td>
<td>+ 38</td>
<td>- 3</td>
<td>- 87</td>
<td>+ 117</td>
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</table>
Some characteristics of the Swiss system

• stock holding contract: importer - government
• owner of products and tanks: companies
• financing of incoming stocks:
  ▪ devaluation (CARBURA pays), loan, government guarantee
• no tickets
• no stocks abroad
• stock monitoring: CARBURA
• non-compliance: sanctions by the government
• money pump, ”if price outgoing > price incoming”
CARBURA Guarantee Fund: Devaluation & Revaluation

DEVALUATION = Δ price paid to stockholder from guarantee fund

REVALUATION = Δ price paid to guarantee fund from stockholder
Data

• import data
  ▪ collected by the foreign trade and tax authorities
  ▪ transmitted to CARBURA (import fees)

• stock data: level and changes
  ▪ collected by CARBURA: commercial and strategic stocks

• data reporting by CARBURA to
  ▪ oil industry association
  ▪ national statistical office
  ▪ IEA
  ▪ European Commission / UN
Emergency preparedness

• responsible: Federal Office for National Supply (FONES), Ministry of Economics
• decision : Ministerial Level
• CARBURA involved in planning
  ▪ stock release
  ▪ demand restraint
Stock release in autumn 2016

Crude: ~ 20 - 25%
Products: ~ 75 - 80%

<table>
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<th>2014</th>
<th>2015</th>
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<td>Refineries</td>
<td>42%</td>
<td>26%</td>
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<tr>
<td>Rail</td>
<td>25.5%</td>
<td>33%</td>
</tr>
<tr>
<td>Barge</td>
<td>20.5%</td>
<td>26%</td>
</tr>
<tr>
<td>Pipeline</td>
<td>7%</td>
<td>9%</td>
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<tr>
<td>Road</td>
<td>5%</td>
<td>6%</td>
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</table>

Source: FONES
Supply situation in late OCTOBER 2015

**Rhine (river):** sharply reduced capacities (low water levels)

**Rail:** only very limited additional capacities available

**Refinery** shutdown due to technical problems

**Pipeline** (SAPPRO): no additional capacities available (right the opposite; French throughput rationing)

**Supply loss:** initial estimate: 25%
<table>
<thead>
<tr>
<th>Date</th>
<th>What</th>
<th>CARBURA</th>
<th>Oil industry</th>
<th>FONES</th>
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<tbody>
<tr>
<td>22.10.15</td>
<td>Report Refinery shutdown  Phone conference (10 a.m.)  Situation report attn. FONES</td>
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<td>26.10.15</td>
<td>Stock release granted  Information of stockholders (release procedures, etc.)  <strong>First stock uptake</strong>  Phone conference (p.m.)  Situation report attn. FONES</td>
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<td>29.10.15</td>
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<td>30.10.15</td>
<td>Stock release granted  Information of stockholders</td>
<td>X</td>
<td>X</td>
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</table>
Summary of events

• Late October & November 2015: reduction of the stockholding obligation on industry (in 2 steps).
  ▪ 100’000 m³ of transport diesel
  ▪ 80’000 m³ of motor gasoline
  ▪ 60’000 m³ of heating oil.
• The stocks had to be rebuilt by the end of March 2016.
• Slight improvement of the supply situation in mid-November 2015.
  ▪ Cressier refinery operating again
  ▪ Railway logistics allowed for an additional 6-8 trains per week
• On 3 December 2015: Termination of the lowering of the stockholding obligation.
  ▪ Cressier refinery running smoothly
  ▪ Barges’ transporting capacities up to 70-80% of normal capacities
  ▪ Additional imports via rail could be maintained.
  ▪ Only about 55% of stocks made available to industry had been absorbed
    → 140’000 m³, i.e. 10% of normal sales or 3% of total compulsory stocks
Lessons learned (initial NESO findings)

• Positive
  ▪ Excellent cooperation within NESO (availability and commitment)
  ▪ Good and timely communication between all stakeholders involved
  ▪ Quick stock release due to quota allocations

• Negative
  ▪ Allocations to companies didn’t always match their individual needs
  ▪ Relatively slow uptake of released stocks due to allocations for a 30-day period
  ▪ Loss of supply via Rhine overestimated by oil importers
  ▪ Stock release pricing tricky

• Restrictions
  ▪ Spare transport capacities (barge, rail, pipelines) need some weeks to take effect
  ▪ Events in neighbouring countries affect supply (pipeline-throughput allocation in France; higher demand for railway loading at refineries in Southern Germany)
Lessons learned (results from member survey)

• Survey with form among all 58 CARBURA members in April 2016 (after completion of re-stocking)
  ▪ Good return, i.e. 35 answers (despite only 25 companies using stocks…)

• Overall: members well satisfied
  ▪ Stock release was necessary – yet 4 companies against a stock release, complaining about market distortion due to the release
  ▪ Procedure adequate and given the lack of time, no alternative deemed feasible – yet 6 companies complained about not being sufficiently supplied and 2 thereof faced problems getting product from other importers.
  ▪ Time-wise a good handling, especially short time for applying for stock release no problem for importers. However, uplift periode was way too long.
  ▪ Pricing tricky, current legal basis only allows for PEAW – yet this does not incorporate domestic freight adequately thus making released stocks cheaper than imports, to the benefit of “lazy bones”.
  ▪ Members satisfied with communication from CARBURA office – except for lack of information about start of re-stocking.