

AEGPL Response to the Public Consultation on the Evaluation of Directive 2009/119/EC imposing an obligation on Member States to maintain minimum stocks of crude oil and/or petroleum products

AEGPL, the European LPG Association, welcomes the opportunity to share, with the European Commission, its views on the Directive imposing an obligation on Member States to maintain minimum stocks of crude oil and/or petroleum products. Since AEGPL represents the LPG industry, our comments will mainly concern stockholding obligations on LPG.

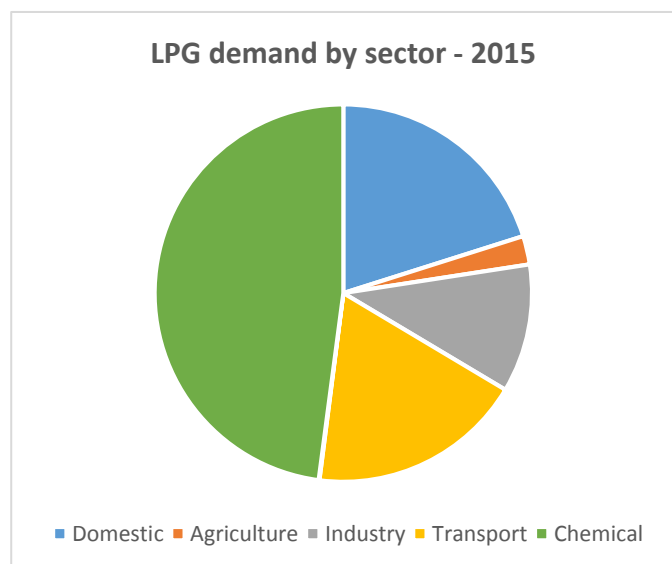
We agree with the European Commission that energy security is fundamental for the good functioning of the European economy. For this reason, we welcomed that the Commission made supply security one of the pillars of its Energy Union strategy. The Oil Stocks Directive is one of the cornerstones of EU's strategy on security of energy supply and has been very effective in ensuring a high level of energy security.

However, we believe that, in some EU Member States, its implementation resulted in a disproportionate economic burden for LPG distributing companies, which comprise many SMEs and family businesses. We think that this burden could largely be eased without any detrimental effect to the security of LPG supply in Europe, due to LPG's peculiar market characteristics, its chemical composition and its trade patterns.

Overview on the European LPG market

LPG is an extremely versatile fuel, currently used in the residential, transport, industry and agricultural sectors, as well as a feedstock in petrochemical plants. As it can be seen in the pie chart, in 2015, 20% of the LPG sold in the EU was used in the residential sector, 18% in transport, 11% in the industry sector, 5% in the agriculture sector and 48% in the chemical sector.

Autogas, automotive LPG, currently is the most widely used alternative fuel in the EU, with over 7.5 million vehicles on EU roads. Over the past years its use has been growing both in absolute terms and in terms of its share in the overall LPG demand. Being a low-polluting and low-carbon fuel, Autogas greatly helps the EU to reach its air quality and decarbonisation goals.



All Autogas cars are bi-fuel vehicles, which can indifferently run on LPG or gasoline. All Autogas cars sold and used in Europe are indeed equipped with both a gasoline and an LPG tank, and can switch between the two fuels at any time. In addition, the EU heavy duty fleet also comprises a small number of LPG-diesel dual fuel vehicles. LPG heavy duty vehicles can indifferently run on pure diesel or a blend of diesel and LPG. Therefore, in case of a disruption in LPG supply, this would not negatively affect the EU economy, as all LPG vehicles can run in the short term either on gasoline or on diesel, until sufficient supply of LPG is reestablished. The only noticeable downside is that, during that period of time, these vehicles would not benefit from the lower GHG and pollutant emission levels offered by using LPG as transport fuel.

An emergency mechanism allowing fuel switching as a possible measure to address disruption of supply, i.e. resulting in allocating the volumes of LPG used in transport to other LPG uses would by itself guarantee a very high level of security of supply. **In the past 5 years, the yearly volumes of LPG sold as transport fuel were equal to 150 to 241 days of net LPG imports and represented around 20% of the annual consumption of LPG in the EU.** This mechanism would put a limited pressure on gasoline and diesel supply, since LPG only represents 2% of the road transport energy mix.

We believe that the Directive should allow Member States to satisfy their emergency reserve commitment by establishing a fuel switching mechanism, as foreseen in article 3.1 of the Agreement on an International Energy Program. This would ease the burden on LPG distributors in countries where LPG stockholding obligations have been introduced, without negatively affecting the security of supply in the EU.

Crude oil stocks

LPG is a by-product of crude oil refining and of natural gas processing. Depending on the chemical composition of crude oil, 3% to 6% of the output of its refining process is LPG. Therefore, crude oil stocks held by Member States help increasing LPG's security of supply because, once refined, part of the output is LPG. According to Eurostat data, stocks of crude oil held in Europe over the past year amounted between 121.000 kilotonnes and 132.000 kilotonnes. This means that, if refined, this would generate between 1.480 and 3.290 kilotonnes of LPG. **Over the past 5 years, this was equivalent to 39 to 192 days of net yearly LPG imports and to 5% to 14% of the annual LPG consumption.**

For this reason, crude oil stocks and fuel switching capacity ensure a very high security of supply (i.e. over the past 5 years, between 190 and 462 days of annual LPG net imports in the EU or 25% to 34% of the annual LPG consumption). Therefore, we believe that it would be justified to grant the LPG sector an exemption from any stockholding obligations.

LPG primary storage capacity

LPG's security of supply is also guaranteed by a large number of storage facilities, holding large stocks of LPG across the European Union. AEGPL commissioned a study to the upstream oil and gas consulting firm IHS, highlighting that **primary storage facilities** – i.e. storage located in import terminals - **in the EU are such that a 32-day long interruption in imports would not cause a disruption in LPG supply to end**

users. This estimate does not include the amount of LPG stored in secondary and tertiary storage facilities, which would allow the LPG sector to withstand an even longer interruption.

Trade patterns

As mentioned above, LPG is a by-product of both natural gas processing and crude oil refining. While most of the LPG produced in the EU derives from crude oil, 80% of the imported volumes come from natural gas. Its dual origin guarantees uninterrupted global production (and supply to the EU) in case of a global oil or gas crisis.

The EU currently imports LPG from Norway, one of its main trading partners, North America, CIS, North Africa, West Africa, the Middle East and Latin America. The abovementioned study underlines that the situation is unlikely to change in the next 20 years. This multiplicity of access points makes a disruption in LPG imports to the EU highly unlikely.

In case of a long lasting disruption in imports from one of the major LPG trading partners, EU countries would be able to put in place mechanisms allowing them to cope with it for over a year. Similarly, according to our analysis, all EU Member States individually meet comfortable levels of security of LPG supply. LPG remains in its liquid form under moderate pressure, and does not necessarily need to be refrigerated, making its transport into Europe by sea or rail both fast and flexible. In addition, it is worth noting that, in case of a partial disruption in the imports, it takes between 6 and 15 days to deliver LPG from its trading partners to the EU, hence there is no risk of interruption in the supply of LPG to end users.

Hence, even without holding any emergency stocks, LPG distributors can guarantee uninterrupted supply in the EU, if trading routes from one or more major countries are interrupted. This is thanks to the security of supply guaranteed by the fuel switching capacity of LPG in the transport sector and by the crude oil and LPG commercial stocks currently held in Europe. These largely give LPG distributors enough time to import additional volumes from exporters located in other regions, in order to overcome the challenges posed by a possible long lasting disruption of supply from one or more trading routes.

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About AEGPL (The European LPG Association)

AEGPL is the sole representative of the LPG industry at European level, representing national LPG Associations as well as distributors and equipment manufacturers from across Europe. Our mission is to engage with EU decision-makers and the wider policy community in order to optimise the contribution that LPG - as a clean and immediately available energy source - can make to meeting Europe's energy and environmental challenges.

Annex: Security of LPG supply in the EU

