



# Department of Energy

**THE STRATEGIC STOCKS POLICY**

**Presented by**

**The Department of Energy**



**energy**

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA

# PRESENTATION OBJECTIVE

This presentation seeks to provide:

- An overview of the current stock situation including issues and challenges;
- A brief discussion on private sector involvement in strategic fuel stocks;
- Plans to increase current stock supplies (to the envisaged 42 days) including funding and infrastructure considerations;
- A brief discussion on the Millerton storage facility including plans to make it operational; and
- Plans to increase access for new players in the fuel value chain, where applicable.



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA

# Outline

- ❑ Definition of Strategic Stocks
- ❑ Issues and Challenges
- ❑ Analysis of the South African Situation
- ❑ Proposed Stockholding
- ❑ Recommended Locations of Strategic Stocks
- ❑ The Role of SFF
- ❑ Procurement and Management of Strategic Stocks
- ❑ Financing of Strategic Stocks
- ❑ Update on progress and way forward



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA

# WHAT ARE STRATEGIC STOCKS?

- Strategic stocks are defined as both crude oil and refined products, physical in nature, held by Government and/or oil companies to cater for catastrophes or severe fuel supply disruptions.
- They exclude dead stock in tanks, pipeline fills, refined products in road and rail tankers, stocks held on behalf of armed forces, commercial and safety stocks held by the oil industry.
- The products to be kept as strategic stocks will include diesel, petrol, jet fuel and LPG.
- The mandatory strategic stocks will only be released upon declaration of a state of emergency i.r.o. liquid fuel supply by the Minister of Energy.



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA

# ISSUES AND CHALLENGES

- Strategic stocks are like an insurance policy – Don't seem to matter until one gets into that severe fuel supply disruption.
- It's a risk mitigation measure – Probability of the risk and the consequent/impact of that risk being realised:
  - How much insurance policy should the country take?
  - The extent of the risk and the country's exposure thereto.
- A study on strategic stocks undertaken by the Department in 2006 indicated that, if the country were to have no fuel at all just for 1 day, the country would lose ~ R1 billion.
- The severe fuel shortages of Dec 2005 – Jan 2006 and the subsequent Investigative Commission headed by Adv. Moerane, SC gave impetus to studies related to strategic stocks
- Changes in fuel specs & stds of 2006
- The Energy Security Master Plan – Liquid Fuels of 2007; National Energy Act of 2008; etc.



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA

# ISSUES AND CHALLENGES (contd.)

- Cost of acquiring and holding strategic stocks
- Statutory and operational model for the stock-holding agency (Strategic Fuel Fund)
- Funding / financing mechanism for strategic stocks
  - Sensitivity regarding overburdening the consumer
  - Alternative funding mechanism – related to the Agency model chosen
  - Global and national economic climate
- Stock-turning
  - Requires proximity to market
  - Cooperation with the private sector.
- Monitoring and Enforcement
  - Ensuring adherence to set stock levels.
  - Personnel, systems, procedures in place
  - Particularly difficult on private players
- Replenishment of stock once drawn
  - Trigger and release mechanisms



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA

# CURRENT STRATEGIC STOCKS SITUATION

- SA is the net importer of crude oil and refined petroleum products.
- About 70% of fuel consumption is from imported crude oil and finished petroleum products and the rest from indigenous resources.
- Currently over 50% of the country's imported crude oil comes from the Middle Eastern countries.
- The White Paper on Energy Policy of 1998 requires SA to keep 90 days of net imports:
  - like the 28 member countries of the Organization for Economic Co-operation and Development (OECD), which are required to maintain 90 days of net imports under the International Energy Agency (IEA) programme.
  - this does not reflect South Africa's risk exposure, hence a study conducted
- Status quo: 10.3 million barrels/day held [Ministerial Directive]



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA

# SOURCES OF SA CRUDE OIL IMPORTS IN %

Country	2010	2011	2012	2013	2014
Saudi Arabia	24.00	27.00	45.00	52.00	38.00
Iran	28.00	27.00	8.00	-	-
Angola	18.00	11.00	17.00	13.00	12.00
Nigeria	19.00	21.00	23.00	23.00	31.00
Other	11.00	11.00	7.00	12.00	19.00



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA

## ANALYSIS OF THE SA SITUATION (contd.)

- The Investigative Commission headed by Adv. Moerane SC noted, amongst others, that the Strategic Stocks Policy had shortcomings and needed to be reviewed.
- The shortcomings highlighted included that:
  - Strategic stocks are kept in crude oil only in Saldanha Bay;
  - Oil companies have no obligation to keep strategic stocks; and
  - There are no trigger and release mechanisms in place.



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA

# PROPOSED STOCKHOLDING

- Based on the analysis of the current country's situation, it is proposed that SA should keep a total of 60 days of strategic stocks.
  - All the 60 days of stocks to be kept by Government.
  - The 42 days of stock shall be crude oil and the balance (18 days) shall be refined products.
- Furthermore, oil companies should be obliged to keep 14 days of refined products as strategic stocks.
  - These stocks shall also be released through a Ministerial Directive i.t.o. the trigger and release mechanism to be instituted.



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA

# CONSIDERATIONS FOR STOCKHOLDING IN SA

The basis of this proposal has its origin from the following considerations:

- **Risk exposure:**
  - Although there remain threats to international supplies of petroleum products due to geopolitics and piracy in the Indian Ocean, South Africa, like many other oil importing countries in the world, is less dependent on the Middle Eastern countries oil than in the past. For example, since 2010, over 30% of crude oil imports came from the West African countries.
  - This implies that there is now less need to hold large quantities of strategic stocks against an international threat of supply disruption than in the past.



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA

# CONSIDERATIONS FOR STOCKHOLDING IN SA (contd.)

- **Cost of funding strategic stocks:**

- South Africa, as developing country is faced with many other competing needs. Therefore costs of funding strategic stocks and the related infrastructure should be taken into consideration when deciding on the level of stockholding.

- **Lead times for the receipt of imports:**

- The time it takes for imports to land on SA ports of entry has to be taken into consideration when determining the level of stockholding. The shorter the time it takes for imports to reach SA, the lesser the quantities of strategic stocks would be kept.
- Average lead time of ~4 weeks (28 days) from the sources of supply.
- Average 14 days for demurrage, offloading, refining and transportation to the Inland region.



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA

# RECOMMENDED LOCATION OF STRATEGIC STOCKS

- Ideally, strategic stocks should be kept closer to the markets.
- All strategic stocks for crude oil shall be kept in Saldanha because of the availability of storage (45 million barrels capacity).
- Strategic stocks for refined products should be kept closer to operating facilities for the purpose of quality control.



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA



# THE ROLE OF THE STRATEGIC FUEL FUND (SFF)

## Pre- 1994

- Up to early 1990s SFF was charged with purchases of all crude oil supplies for SA oil industry.
- SFF held both strategic and commercial stocks

## Post – 1994

- SFF manages strategic stocks on behalf of Government.



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA

# PROCUREMENT & MANAGEMENT OF STRATEGIC STOCKS

- SFF be responsible for the procurement, maintenance and management of strategic stocks held by Government.
- For the management of strategic stocks, SFF could have a contractual arrangement with third parties e.g. Transnet Pipelines and independent storage companies.
- Oil companies shall be responsible for the management of strategic stocks kept by them.



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA

# FINANCING OF STRATEGIC STOCKS

- In the Draft Policy document, a levy of approximately 6 cents per litre on petrol, diesel and jet fuel was proposed to finance procurement of stocks, construction of storage facilities for refined products and operational expenses.
- Combined with the levy option, a percentage of SFF's income could be used for the same purpose.
- Oil companies will be compensated through the pricing mechanism for both working capital and capital expenditure on additional storage facilities strategic stocks kept by them.



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA

# UPDATE ON PROGRESS

- On 20 March 2012, the then Minister tabled the Draft Strategic Stocks Policy to Cabinet.
- Cabinet directed that, amongst other things;
  - Document should not be published for public comment because of the security nature of stockpiling;
  - Policy Document be reviewed to separate policy and operational matters;
  - Financing options for strategic stocks be expanded in consultation with the Minister of Finance; and
  - The matter be referred to the Cabinet Committee for Justice, Crime Prevention and Security for consideration before resubmission to Cabinet.



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA

# UPDATE ON PROGRESS (contd.)

- On 4 July 2012, the said Policy document was presented to the Infrastructure Development Cluster.
- The latter supported the Document but directed that the Department collaborates with National Treasury in finding a solution to the funding mechanism for strategic stocks.
- On 6 November 2012, after complying with the Cabinet directive of March 2012, the Revised Draft Revised Strategic Stocks Policy document was presented to the Justice, Crime Prevention and Security Cluster.
- The latter supported that the document be published for public comment as required by the National Energy Act (Section 17 (4) (a) and (b) of the Energy Act (Act No. 34 of 2008).
- This requires that policy be published for public comment.
- On 8 March 2013, Revised Draft Policy marked “Public version” and the Draft Implementation Plan were gazetted for public comment in compliance with the Act.



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA

# UPDATE ON PROGRESS (contd.)

- A Working Group comprising the DoE, National Treasury and SFF was formed to deal with the Cabinet's directive on the funding mechanism.
- After looking into various options, the Department proposed a funding mechanism that combines a small portion of a levy and certain percentage of SFF's income.
- A Ministerial submission was drafted requesting approval of the proposed funding mechanism and also seeking concurrence by the Minister of Finance.



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA

# UPDATE ON PROGRESS (contd.)

- There has been a delay in the processing of the request by National Treasury (NT).
  - Partly due to staff changes
  - No formal response received from NT to date
- As a parallel process, the Department has initiated a process to develop a legal framework that will allow SFF to achieve its objectives and that of Government.
- The initial steps require that the challenges, faced through the current legislative framework, are identified and proposals made to address them.
- This has entailed consultations with SFF and the CEF Group to identify gaps in the legislation.



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA

# UPDATE ON PROGRESS (contd.)

- Information gathered from this consultation process will culminate in a Concept Document which is required for the drafting of legislation.
- As a way forward, further engagement with the CEF Group on the Concept Document will take place to solicit final inputs therein.
- The utilisation of existing infrastructure (like the Milnerton Tank Farm) by SFF remains its operational matter that the DoE will respond to as required.
- The development of new infrastructure will incorporate the promotion of BBBEE
- Discussions with Transnet on infrastructural matters incorporates the reduction of barriers to entry, chief among which is lack of access to infrastructure



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA



THANK YOU



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA

# ADDITIONAL SLIDES



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA



# POSSIBLE CAUSES OF SUPPLY DISRUPTIONS

- **International logistical disruptions**
  - Major disruption in supply route, e.g. piracy in the Indian Ocean.
- **International crude disruptions due**
  - Major disruption in the production capacity of the crude supplying country such as geopolitics.
- **Local logistical Problems**
  - Any local logistical constraint that would affect the movement of product from the coast to inland; e.g. pipeline size, transportation, storage and port infrastructure.



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA

# COUNTRIES KEEPING STRATEGIC STOCKS

- Twenty eight (28) countries belonging to the Organization for Economic Co-operation and Development (OECD).
- All these are required to maintain 90 days of net imports under the International Energy Agency (IEA) programme.
- Over and above, each individual country has its own strategic stocks policy.
- Developing countries such as China, India, Kenya are also keeping strategic stocks.
- Our neighbouring countries such as Botswana, Lesotho, Swaziland and Namibia are also in the process of keeping strategic stocks.



energy

Department:  
Energy  
REPUBLIC OF SOUTH AFRICA