Republic of Latvia

Cabinet

Order No. 399

Adopted 8 June 2021

**Regarding the Preliminary Report On Ensuring the State Emergency Stocks of Petroleum Products**

1. To support the introduction of the Solution 1, Scenario B included in the preliminary report On Ensuring the State Emergency Stocks of Petroleum Products, gradually increasing the level of emergency stocks which is stored in the territory of Latvia within a period of three years, in 2023 – up to 75 %, in 2024 – up to 85 %, and in 2025 – up to 100 %. To provide concurrently preliminary support to the transition to Solution 2 included in the preliminary report – to acquire emergency stocks in State ownership and to transition to the agency model.

2. To determine the Ministry of Economics as the responsible institution in the implementation of both solutions referred to in Paragraph 1 of this Order.

3. For the Ministry of Economics to develop and for the Minister for Economics to submit, by 31 December 2021, for examination to the Cabinet the draft regulations regarding the necessary amendments to Cabinet Regulation No. 286 of 12 April 2011, Procedures by which Merchants shall Ensure and Provide the Emergency Stock Service for the Establishment of State Emergency Stocks of Petroleum Products at a Specified Level, determining the minimum level of emergency stocks to be stored in the territory of Latvia based on the solution referred to in Paragraph 1 of this Order.

4. For the State Construction Control Bureau to implement a procurement for the storage of 2022 emergency stocks, clarifying the procurement regulations and taking into account the conclusions of the hackathon organised by the Ministry of Economics. Concurrently, for the Ministry of Economics to conduct discussions with the representatives of the sector regarding the improvements to be made in the regulations of the procurement for the provision of the service for the storage of 2023 emergency stocks to promote the participation of merchants in the procurement, and the Minister for Economics shall submit the informative report with conclusions and proposals for the improvement of the abovementioned regulations for examination to the Cabinet.

5. For the Ministry of Economics to develop and for the Minister for Economics to submit, by 31 December 2021, draft regulations regarding the necessary amendments to Cabinet Regulation No. 312 of 19 April 2011, Procedures for the Supply of Energy Users and Sale of Heating Fuel During a Declared Energy Crisis and in the Event of a Threat to the State, for examination to the Cabinet, determining clear actions in a crisis situation, including the procedures for the buy-back, issuing, and transportation of emergency stocks, defining the responsible parties to an energy crisis situation of the oil sector, and also determining the data which permanently must be at the disposal of the responsible institutions and the obligations of the responsible institution to ensure and maintain such data.

6. For the Ministry of Economics to develop and for the Minister for Economics to submit, by 31 July 2022, to the Cabinet for examination a preliminary report on specific activities for the establishment of an agency in which different scenarios for the establishment of the agency will be offered and the process of circulation (rotation) of acquired fuel will be described, an evaluation of the involvement of the merchants currently participating in the supply chain of petroleum products and their petroleum products in the formation of emergency stocks will be made, using (attributing to emergency stocks) the resources of petroleum products currently in commercial circulation to the extent possible and thus reducing the direct expenditures of the State, and also a detailed assessment of the necessary financing and its sources will be provided, including assessment of the possibility to use a financial instrument and the borrowed capital.

7. The issue on the financing necessary for the implementation of Solution 2 referred to in Paragraph 1 of this Order shall be examined in the process of preparation and examination of the State budget for the current year and the draft law on the medium-term budget framework together with the applications of priority measures submitted by all ministries and other State central institutions according to the financial possibilities of the State budget.

Prime Minister A. K. Kariņš

Minister for Economics J. Vitenbergs

(Cabinet Order No. 399

8 June 2021)

**Preliminary Report On Ensuring the State Emergency Stocks of Petroleum Products**

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**1. Summary**

In order to improve the system for the creation of the service of the State emergency stocks of petroleum products (hereinafter – the emergency stocks), the Ministry of Economics has prepared the preliminary report On Ensuring of the State Emergency Stocks of Petroleum Products (hereinafter – the preliminary report).

The preliminary report has been developed in accordance with Cabinet Order No. 49 of 9 February 2018, Regarding the Preliminary Report On the Improvement of the Emergency Stock Service for the Formation of the State Emergency Stocks of Petroleum Products, by which the preliminary report On the Improvement of the Emergency Stock Service for the Formation of the State Emergency Stocks of Petroleum Products (hereinafter – the 2018 report) was supported. The 2018 report was developed with the objective of improving the system for the formation of emergency stocks. Option 1 included in the report in which it was provided that a procurement procedure may be organised by applying the Law on Procurements in the Field of Defence and Security was selected as the most appropriate solution for addressing the established issues within the shortest possible time. However, it was acknowledged in the 2018 report that the formation and maintenance of emergency stocks which has been handed over to an agency established by the State would be a long-term solution.

The preliminary report has been developed with the objective of assessing future steps in implementation of the abovementioned long-term solution. **The objective of the preliminary report is to offer proposals for more efficient solution to ensure the emergency stocks necessary to the State, assessing the establishment of a State agency.**

In order to prepare an in-depth evaluation with a proposal for more efficient solution for ensuring the emergency stocks necessary to the State, it was concluded that it would be necessary to analyse experience of other European Union (hereinafter – the EU) Member States, to research the pricing structure mechanism for the storage of oil and petroleum products and the storage possibilities. In addition, an impact on the State budget is foreseeable if the emergency stocks are acquired into State ownership and stored.

Therefore, the Ministry of Economics signed a procurement contract with the consulting company Deloitte Advisory s.r.o. (hereinafter – the Consultant) on 7 November 2018 for the pricing structure of the emergency stocks of petroleum products and the development of proposals for the best solution for the formation of emergency stocks[[1]](#footnote-1). The preliminary report provides an overview of the current model for the maintenance of emergency stocks and its costs, paying attention to the issues which should be solved.

**Three possible solutions have been considered in the preliminary report:**

**Solution 1 – To keep the current system for ensuring the emergency stocks.** Two possible implementation scenarios are offered for this solution:

A. To keep the current system for ensuring the emergency stocks without changes.

B. To keep the current system for ensuring emergency stock, increasing the level of emergency stocks stored in the territory of Latvia gradually within a period of three years.

**Solution 2 – To acquire emergency stocks into State ownership and to transition to the agency model.**Two possible implementation scenarios are offered for this solution:

C. Acquisition of the whole volume of emergency stocks necessary for ensuring the emergency stocks at the same time.

D. Gradual transition to the agency model and acquisition of the stocks within a period of five years.

**Solution 3 – To apply the industry model, imposing an obligation on merchants to ensure emergency stocks.**

**The Ministry of Economics is of the opinion that it would be necessary to implement Solution 2 – to transition to the agency model gradually, acquiring the petroleum products in State ownership, and to store them as emergency stocks.**The Consultants have estimated that the additional financing necessary for the acquisition of emergency stocks amounts to **EUR 172 million**. Concurrently, when commencing full-fledged operation, the new cost-effective system could result in a reduction of costs per year which amount to approximately **almost EUR 15 million**.

**2. Description of the Emergency Stock Management System of Latvia and the Identified Problems**

**2.1. Legal Framework for the Formation of Emergency Stocks**

The objective of the formation of emergency stocks is to ensure different groups of energy users with the supply of petroleum products during a declared energy crisis of national or local scale, in case of a threat to the State, and also in order to carry out coordinated activities within the scope of the European Union (hereinafter – the EU) and globally.

The energy crisis management mechanism, including also the obligation to form emergency stocks, is governed by the 1974 Agreement on an International Energy Programme of the International Energy Agency. In turn, the requirements of Directive 2009/119/EC[[2]](#footnote-2) impose an obligation on each EU Member State to ensure such level of emergency stocks which conforms to at least 90 days of average daily net imports or 61 days of average daily inland consumption, whichever of the two quantities is greater, and also determine actions for the use of the mandatory stocks in case of serious disturbances in the supply. As Latvia is an importing country of petroleum products, 90 days are applied to the level of emergency stocks.

Directive 2009/119/EC stipulates that the availability of emergency stocks and maintenance of energy supply are essential elements of public security for the EU and the Member States, acknowledging that the existence of central stockholding entities (CSEs) in the EU brings those goals closer. Within the meaning of Directive 2009/119/EC, CSE is the body or service upon which powers may be conferred to act to acquire, maintain or sell oil stocks, including emergency stocks and specific stocks.

Emergency stocks are formed in Latvia in accordance with the requirements of Directive 2009/119/EC which has been transposed into the legal acts of Latvia under the Energy Law.

In accordance with Section 72.1 of the Energy Law, functions of the CSE are fulfilled by the State Construction Control Bureau (hereinafter – the Bureau) since 1 January 2020. The functions of the CSE include the acquisition and administration of the service for the formation of emergency stocks in a specific amount so that supply with petroleum products would be ensured during periods of an energy crisis.

The Energy Law provides a delegation for the Cabinet to issue legal acts for the formation of emergency stocks by organising procurement procedures.

Cabinet Regulation No. 286[[3]](#footnote-3) (hereinafter – Regulation No. 286) prescribes the procedures by which merchants shall ensure and provide the emergency stock service (service for the storage of petroleum products).

Cabinet Regulation No. 450[[4]](#footnote-4) (hereinafter – Regulation No. 450) prescribes the rate of the State fee for the maintenance of emergency stocks (hereinafter – the State fee), the procedures for the payment of the State fee, and the procedures for the administration of the State fee. The State fee shall be paid by merchants which have received the special permit (licence) for the activity of an approved tax warehousekeeper, merchants which have received the special permit (licence) for the activity of a registered consignee, merchants which have received the special permit (licence) for the wholesale trade in petroleum products, and merchants which have received the special permit (licence) for the retail trade in petroleum products. Other merchants shall pay the State fee for the amount of petroleum products which they bring into the Republic of Latvia from an EU Member State or import from a third country for personal consumption. According to the information at the disposal of the Ministry of Economics, there are approximately 60 merchants to which special permits (licences) of different kinds for activities with excisable goods (petroleum products) have been issued.

Cabinet Regulation No. 312[[5]](#footnote-5) prescribes the procedures for the use of emergency stocks during a declared energy crisis and in case of a threat to the State.

Cabinet Regulation No. 40[[6]](#footnote-6) prescribes the operational procedures and competence of the State Energy Crisis Centre (hereinafter – the Centre). The Centre shall be a coordinating and consultative State authority and the task thereof shall be to manage, during a declared State energy crisis, the measures for the elimination of the crisis and the liquidation of the consequences caused by the crisis.

The State fee specified in Cabinet Regulation No. 450[[7]](#footnote-7) shall be paid for the maintenance of the emergency stocks referred to in the Energy Law[[8]](#footnote-8). The State fee for the maintenance of emergency stocks shall be paid into the State basic budget.

**2.2. Maintenance of Emergency Stocks**

According to the abovementioned regulation, the emergency stock model of Latvia provides that the formation of emergency stocks for 90 days is ensured by announcing procurements, and the State acquires only the storage service without acquisition of petroleum products. It means that currently the emergency stocks of Latvia are maintained on the basis of the contracts entered into with merchants for the deferred supply of petroleum products. Merchants store the petroleum products belonging to them as emergency stocks in the agreed volume and for the specified period. The rate of the State fee is formed from the total sum of the procurement for the provision of the emergency stock storage service. When the procurement ends, the rate of the State fee is changed. Table 1 demonstrates the amount of emergency stocks, the sums of the administered emergency stock contracts and the rates of the State fee by years, and the amount of the State fee collected.

Merchants – the potential storers – include the following items in the price in the current model for the formation of emergency stocks when the State is acquiring the storage of petroleum products in a centralised manner without acquiring petroleum products in State ownership:

• insurance (hedging) of the price fluctuation risk of petroleum products throughout the storage period (the period of provision of the storage services and the time before and after the period of the storage service which is necessary to the merchant for the formation of stocks and/or for selling the product on the market). The principle of merchants is to fix (hedge), calculate, and include the costs of price fluctuations of petroleum products in the storage period prior to provision of the service. The objective is to ensure that, after the end of the storage period, there would be no losses in selling petroleum products on the market if the sales market price is to be lower than the price for which the merchant acquired petroleum products in order to be able to provide the storage service. At the same time, if the market forces foresee a price increase in long term, a merchant may, in fixing the price fluctuations (hedging), fix profit from the price increase, thus reducing the costs of the storage service, and the price of the storage service offered would be lower;

• the current status of the product to be stored (whether it is already in the ownership of the merchant, whether the merchant is just planning to take a credit, to acquire and import, and to store);

• excise security (the amount has been specified in laws and regulations), if the place of the provision of the service is a tax warehouse, or the legislative requirements of customs and free ports, if the place of the provision of the service/terminal is a customs warehouse and/or the territory of a free port;

• currency fluctuations (transactions with petroleum products take place in US dollars, the prices of the storage service are indicated in euros in the procurement procedure);

• financing costs of a stored product, average weighted capital costs of each merchant, costs of the bank financing attracted, additional conditions of the sponsor (pledging of a product), periodic inspections of the quantity and product quality, etc.);

• the number of intermediaries involved (bank credit for the acquisition of petroleum products; lease contracts with a warehouse, the place where petroleum products will be stored; supply of the petroleum products acquired, etc.);

• costs of storage containers (regardless of whether the container is located at the property of the service provider or containers are leased from another merchant – terminal service provider). Other logistics costs for the transportation of the product;

• administrative costs of the merchant;

• profit.

Table 1. Administration of emergency stocks

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Period** | **Volume of emergency stocks (tonnes)** | **Contractual sum for the emergency stocks administered by CSEs (EUR)** | **Rate of the State fee (EUR/t)** | | | | **Collected State fee without VAT (EUR)** |
| **Category I**  **motor gasoline, aviation gasoline** | **Category I**  **liquefied petroleum gas** | **Category II**  **diesel fuel** | **Category III**  **fuel oil** |
| 2011-2012 | 247 767 | 19 879 624 | 0.00 | - | 20.16 | 34.52 | 16 428 458 |
| 24.23 | - | 17.29 | 26.99 |
| 2012-2013 | 230 820 | 21 657 702 | 26.10 | - | 22.75 | - | 22 586 597 |
| 2013-2014 | 315 990 | 28 751 921 | 29.35 | 23.66 | 21.54 | - | 25 390 382 |
| 2014-2015 | 327 644 | 18 595 585 | 15.67 | 15.67 | 15.67 | 15.67 | 18 132 400 |
| 2015-2016 | 328 374 | 12 580 882 | 11.36 | 11.36 | 11.36 | 11.36 | 13 948 541 |
| 2016-2017[[9]](#footnote-9) | 345638 | 11 159 876 | 9.60 | 9.60 | 9.60 | 9.60 | 12 314 943 |
| 2017-2018[[10]](#footnote-10) | 336762 | 7 901 215 | 12.35 | 12.35 | 12.35 | 12.35 | 13 597 252 |
| 2018-2020[[11]](#footnote-11) | 376544 | 39 321 873 | 14.35 | 14.35 | 14.35 | 14.35 | 34 652 127[[12]](#footnote-12) |
| 2021 | 352 700 | 14 376 372 | 12.28 | 12.28 | 12.28 | 12.28 | n/a[[13]](#footnote-13) |

According to the estimates of the Consultant, the administrative costs which are related to the fulfilment of the functions of CSEs form an insignificant part of the total expenditures, i.e., they are less than 1 % from the total expenditures.

It means that the stocks in the current model of Latvia do not belong to the State – the State owns tickets (rights) providing it with an opportunity to buy back petroleum products – and the State budget costs are compensated with fees collected from merchants. During an energy crisis, the Centre would request merchants, providers of the emergency stock service to sell petroleum products for the price of petroleum products on the day which follows directly the day on which the Cabinet declared an energy crisis of national level.

From 12 December 2018 to 11 December 2020, the emergency stock services are provided by the following merchants: *SIA “Pirmas”* [limited liability company Pirmas], *UAB “Okseta”* [limited liability company Okseta], *UAB “Baltic Petroleum”* [limited liability company Baltic Petroleum], *SIA “Circle K Latvia”* [limited liability company Circle K Latvia], *AS “Ventbunkers”* [joint-stock company Ventbunkers], *SIA “RDZ Energy”* [limited liability company RDZ Energy], Gunvor SA, Vitol SA, Mercuria Energy Trading SA, and also the amount of diesel oil in stocks of *AS “Latvenergo”* [joint-stock company Latvenergo] (as on September 2018 – 10 125 tons of diesel oil). The emergency stocks – motor gasoline and diesel oil – were stored in Latvia (60 % from the total volume) and in other EU Member States (40 %). Table 2 demonstrates the amount of the emergency stocks of Latvia in 2019–2020, and also in 2021. In turn, it should be indicated in relation to the amounts of emergency stocks which are stored by other countries in Latvia that the amount stored is very varying and the emergency stocks of foreign countries in Latvia are stored for very short periods of time. As on 22 April 2021, the emergency stocks of Sweden in the amount of 45 000 tonnes are stored in Latvia (will be stored until 30 June 2021)

Table 2. Amount of the emergency stocks of petroleum products of Latvia in 2019–2021

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **2019–2020** | **In Latvia**  (thous. of tonnes) | **EU**  (Lithuania, the Netherlands, Sweden)  (thous. of tonnes) | **In total**  (thous. of tonnes) |  |
| Category I (motor gasoline and aviation gasoline) – motor gasoline | 1.00 | 90.00 | **91.00** | 23.5 % |
| Category II (kerosene, diesel oil and kerosene-type jet fuel) – diesel oil | 229.32 | 66.34 | **295.67** | 76.5 % |
| **In total** | **230.32** | **156.34** | **386.67** |  |
|  | 60 % | 40 % |  |  |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **2021** | **In Latvia**  (thous. of tonnes) | **EU**  (Lithuania, the Netherlands)  (thous. of tonnes) | **In total**  (thous. of tonnes) |  |
| Category I (motor gasoline and aviation gasoline) – motor gasoline | 1.0 | 120.0 | **121.0** | 33.4 % |
| Category II (kerosene, diesel oil and kerosene-type jet fuel) – diesel oil | 229.9 | 11.9 | **241.8** | 66.6 % |
| **In total** | **230.9** | **131.9** | **362.8** |  |
|  | 63.6 % | 36.4 % |  |  |

According to the estimates of the Consultant, the storage infrastructure of petroleum products currently available in Latvia would be able to ensure storage of the whole volume of emergency stocks. Taking into consideration its total storage capacity and the total number of merchants on the market, and also being aware that this infrastructure is used, only in specific proportion, for the storage of a part of emergency stocks located in Latvia, there are no objective grounds for the necessity to build an infrastructure for the storage of petroleum products belonging to the State for the storage of such part of emergency stocks which is to be held in Latvia. It should be recognised that it is essential, for the use of the infrastructure for the storage of emergency stocks, that merchants would be interested in participation in public procurements in order to undertake the provision of the storage of emergency stocks, including if Latvia was to transition to the agency model.

In December 2020, a procurement procedure implemented by the Bureau within the scope of the negotiated procedure “Provision of the Emergency Stock Service for the Formation of State (Republic of Latvia) Stocks of Petroleum Products”, identification No. BVKB 2020/06, in accordance with the Law on Procurements in the Field of Defence and Security, has ended. The total amount for which a framework agreement and contracts have been entered into is 352 700 tons (motor gasoline – 121 000 tons or 34.3 % and diesel oil – 231 700 tons or 65.7 %). In 2020–2021, the emergency stock services will be provided by the following merchants: SIA “Pirmas”, UAB “Okseta”, UAB “Baltic Petroleum”, SIA “Circle K Latvia”, AS “Ventbunkers”, SIA “RDZ Energy”, GUNVOR PETROLEUM ROTTERDAM B.V, Vitol SA, and also the amount of diesel oil in stocks of AS “Latvenergo” (as on July 2020 – 10 119 tons of diesel oil). 63.6 % of the whole volume will be stored in Latvia (0.4 % – motor gasoline and 99.6 % – diesel oil) and 36.4 % – in foreign countries. Contracts were entered into with all merchants which offered to store emergency stocks in the territory of Latvia. Table 3 demonstrates the territorial division of the storage of the emergency stocks of Latvia in 2020–2021.

Table 3. Level of the emergency stocks of Latvia in 2020–2021

|  |  |  |  |
| --- | --- | --- | --- |
|  | **In Latvia**  % | **EU**  (Lithuania, the Netherlands)  (thous. of tonnes)  % | **In total**  (thous. of tonnes) |
| Category I (motor gasoline) and  Category II (diesel oil) | 63.6 % | 36.4 % | 362 819 |

**2.3. Identified Problems**

Although the solution to organise a procurement of emergency stocks in accordance with the procurement procedures specified in the Law on Procurements in the Field of Defence and Security was supported in 2018, there are still several issues in long term as regards the current procedures for maintaining the emergency stocks.

First of all, considering long-term evaluation, the current **model** of Latvia **is comparatively expensive**. Emergency stocks are maintained in the form of “tickets”, and the State itself does not own petroleum products. Therefore, the State is paying merchants for the storage of petroleum products and for the possibility for the State to buy these stocks when an energy crisis of national or local scale is to be declared. The maintenance of emergency stocks through a procurement is profitable from the point of view of the State budget in short term, however **it is not effective from the point of view of the whole system**. Merchants which maintain stocks include all financial risks and capital costs in the final storage price, thus causing higher service prices. It means that the risk is always paid even if the particular risk does not set in during the period of operation of the contract, for example, a fall in fuel prices during the contract performance period. In addition to the current costs, the stocks will have to be bought back from merchants, in case of an energy crisis of national or local level, for the current prices according to the contracts in effect.

Secondly, a system which is based on contracts entered into with merchants for the deferred supplies of petroleum products **cannot be regarded as the safest solution from the point of view of the security of supply** because situations may arise where the possibilities of merchants to fulfil the contracts entered into for the supplies of emergency stocks might be restricted (for example, in situations when merchants store the emergency stocks in foreign countries and supplies from foreign countries are not possible due to any external circumstances). Energy sources and particularly petroleum products are of significance not only for the functioning of national economy but also for the **maintenance of the capacities of the national security and defence system**. Similarly, timely availability of petroleum products which corresponds to the demand is linked to the requirements of NATO. In a situation where emergency stocks do not belong to the State there are greater security risks for the supply, namely, the emergency stocks are not supplied to Latvia within the intended time frame and volume or are not supplied at all. The acquisition of stocks would allow, in case of a crisis, to supply the services responsible for civil defence and national security in an urgent manner, thus improving the national resilience against internal and external threats. The acquisition and storage of stocks in the territory of Latvia would reduce crisis mobilisation requests of the NAF and improve the combat readiness of units, thus also causing a lesser burden on national economy and improving its viability in crisis circumstances.

Similarly, the acquisition of emergency stocks has a significant psychological and also deterrent effect, allowing to maintain a higher morality among emergency services and the society at large in crisis circumstances. Emergency stocks allow both to maintain public order and to ensure public utilities and health care system, and also to protect the inhabitants of the State more efficiently. Support can also be provided to the strategic sectors (merchants) which are necessary for the overcoming of a threat.

The acquisition of emergency stocks is also a measure supporting the national industry, allowing for more extensive use of merchants and infrastructure based in Latvia. Through the use of local infrastructure, the stocks can be evenly distributed throughout the State, promoting safety of stocks and improving the supply chain in case of a crisis.

COVID-19 crisis has confirmed the significance of the strategic State stocks in the maintenance of national security and stability. Petroleum products is one of several groups of material and technical means of vital importance upon which the efficiency of many emergency services, including the National Armed Forces, depends.

Thirdly, upon assessment of the Consultant, the current system provides for an administratively unwieldy procedure **and experience of the Ministry of Economics attests to a low interest of local merchants in participation in a procurement**. The current procurement procedure is time-consuming (including in relation to the assessment of tenders). Provision of the service for the formation of emergency stocks is not sufficiently attractive to merchants due to several reasons:

1) when preparing the financial tender, the merchant includes the risk of fluctuations in market price of the product in the price of the service. It is calculated on the basis of the market data as they were on the day of providing the tender but, if the procurement result is announced after a longer period of time, market prices have changed and it is very possible that the costs of the risk of price fluctuations will increase. The duration of assessment of tenders of the current procurement procedure, taking into account the liabilities undertaken by the merchant in expressing the tender, encumber the ability of the merchant to plan its storage capacity in long term and to manage its financial resources to be invested in the provision of the service;

2) the merchant must ensure the existence of petroleum products at the moment of submitting the tender, although the merchant cannot be certain whether it will be awarded the procurement. The merchant reserves petroleum products and freezes financial resources and the capacity of containers which increases the price of the storage service. Although theoretically the merchant can attest to its ability to acquire petroleum products also after the procurement results are announce, in practice the period until entering into a contract is insufficient for the merchant to be able to plan the supply of petroleum products;

3) taking into account the uncertainty of procurement results, credit institutions are sceptical and are very critical in their assessment of the ability to finance operations of such merchants. The procedure which is long and complicated in general does not cause sufficient interest in merchants.

Due to this reason, the State must take into consideration that the proportion of foreign merchants increases in the range of tenderers, thus promoting a possible increase in the time necessary for the assessment of applications of participants to the procurement, and the procedure within the scope of which the conformity of tenderers with the requirements of the procurement must be examined becomes more complicated. Also, taking into account the previous experience which has been difficult in terms of bureaucracy, merchants do not want to spend resources for participation in a procurement.

**2.4. Experience of Other EU Member States in the Formation of Emergency Stocks**

There are three different models for the management and maintenance of emergency stocks:

a) State model – the State model provides that the emergency stocks belong to the State and they are managed and financed from the State budget;

b) agency model – this model provides that an agreement has been concluded according to which an independent agency in the form of a non-profit-oriented organisational unit manages emergency stocks and is the owners of such stocks;

c) industry model – the industry model provides for an agreement under which the responsibility for the formation and protection of emergency stocks, and also the financial burden is fully transferred to the oil sector.

The research conducted by the Consultants included general information on the experience of three countries, the model for the management and maintenance of emergency stocks applied in each of them, and the regulatory base thereof: Czech Republic – the State model; Estonia – the agency model; Denmark – the industry model.

The State model is used for the management and maintenance of emergency stocks in **Czech Republic**. The Administration of State Material Reserves (ASMR) is an undertaking belonging to the State which is the institution responsible for the maintenance of such stocks. It is a central State administration authority for the determination of economic resources in emergency situations, including for the establishment and administration of crude oil and petroleum products, State material reserves. The acquisition of emergency stocks and the protection of the State material reserves are fully financed from the State budget. There is no obligation for the industry to pay the State fee which would be divided for the finished products. The undertakings belonging to the State – MERO ČR a.s. and Čepro a.s. – have a significant role in storage of such stocks. MERO stores crude oil and Čepro – finished products. The value of the emergency stocks of crude oil and petroleum products is approximately EUR 1.5 billion. The annual costs for the protection and renewal thereof reach approximately EUR 60 million. The emergency stock model was, to a large extent, selected due to the capacity of the local crude-oil refineries and their ability to produce different petroleum products. A significant factor is also the current diversification of supplies.

In essence, the State model is being currently applied in Latvia, however it does not provide a possibility to benefit from more significant advantage arising from the ownership rights to the stocks as emergency stocks have not been acquired in State ownership. This model is operation only if there is a possibility to request stocks in a situation of a national or local energy crisis for the market price.

**Estonia** is using the agency model for the maintenance of emergency stocks. The Estonian Stockpiling Agency (hereinafter – the ESPA) is an Estonian undertaking of strategic significance the task of which is to establish, maintain, and renew emergency stocks and to supplement them. The ESPA itself does not keep the emergency stocks. The storage, acquisition, and selling of the emergency stocks of liquid fuels is organised through public procurements. In case of Estonia, the formation of emergency stocks was financed from the State budget, increasing the equity capital of the ESPA and using the resources obtained from the sale of emergency stocks. The maintenance costs of emergency stocks are covered from the State fee. Figure 1 demonstrates the financing structure of the ESPA. The model of Estonia has been recognised as more cost-effective, it helps to ensure implementation of the management of the emergency stocks using public procurements for the storage, acquisition, and selling of the emergency stocks of liquid fuels. According to the assessment of the Consultants, transparency, low level of bureaucracy, and cost-effectiveness are the most significant advantages of this model.

Concurrently, on 11 March 2021 the Estonian government approved amendments to the Emergency Law which will give grounds for the establishment of the Estonian Central Depository for Securities (ECDS). The ECDS will be established by expanding the current ESPA. The Estonian Central Depository for Securities is planned to be established on July 2021. In addition to the stocks of petroleum products, the ECDS will be engaged in the establishment, storage, quality control, renewal, and logistics of also other operational stocks necessary to the State, for example, food, medicinal products, and personal protective equipment.

Figure 1. Financing the acquisition and maintenance of the emergency stocks of Estonia

A picture containing graphical user interface

Description automatically generated

There is a well-developed market of petroleum products in **Denmark**, and also it has a strong related infrastructure, therefore, Denmark has chosen the industry model. The obligation to maintain the State emergency stocks has been delegated to private merchants. The Danish Central Oil Stockholding Entity (hereinafter – the FDO) is the main legal person for the maintenance of the stocks managed by private merchants. Merchants which obtain oil in Denmark, produce petroleum products, or import petroleum products to Denmark are subject to a mandatory obligation to form emergency stocks. The FDO ensures, free of charge, emergency stocks worth of 57 days of the average consumption of Denmark while merchants themselves have an obligation to pay for the emergency stocks for 24 days. For this need, the FDO offers to use its storage terminals for market prices. Storage is cheaper in the situation of Denmark because it has a well-established infrastructure at its disposal and a well-developed market is operating therein.

As mentioned, the **maintenance costs** of the model of Latvia **are significantly higher** in comparison with the models for the formation of emergency stocks of other EU Member States. Figure 2 demonstrates the maintenance costs of the emergency stocks in each country in calculating which the acquisition costs have not been taken into account. Administrative costs form an insignificant part of the total costs. Regardless of the fact that Latvia has been applying the same model as Denmark in relation to the maintenance of emergency stocks, i.e., the acquisition of tickets, the costs of the model of Latvia are significantly higher (storage costs of stocks EUR/ton/year are based on the results of the procurement, tenders of the participants of procurements in the relevant year depending on the items forming the storage price referred to in Section 2.2). It arises from the fact that the oil industry is not as extensively developed in Latvia as in comparison to Denmark. The current costs of the price per unit also show higher costs of merchants in Latvia in comparison to Czech Republic and Estonia which, in turn, have direct ownership rights to stocks and have an obligation to act with them accordingly. In procuring the emergency stocks into State ownership, the agency would not pay for several risks included by merchants in the costs of provision of the emergency stock service. Such difference in costs indicates that it would be preferable for Latvia to change the model for the maintenance of emergency stocks.

If our estimates on savings are based on the data of 2018, the system of Estonia is able to maintain 1 ton of petroleum products for EUR 38.87 per year cheaper in comparison with the system of Latvia (according to the data obtained by the Consultant, in 2018 Latvia stored 1 ton of petroleum products for EUR 57.01, Estonia – for EUR 18.23). If the system of Latvia was as efficient as the system of Estonia, the costs of maintaining 386.7 thousand tonnes of emergency stocks for one year (the indicator of Latvia in 2018) would decrease by almost **EUR 15 million** (including administrative costs). By taking the decision on the introduction of the agency model, accurate calculations regarding the administrative costs of the introduction of the model would be made depending on the technical plan for the introduction of such model.

Figure 2. Maintenance costs of stocks (EUR/ton/year)

Chart, bar chart

Description automatically generated

**3. Solutions for Ensuring the Emergency Stocks Necessary to the State**

In order to eliminate the problems defined in Chapter 2 of the preliminary report, it is necessary to improve the currently existing system. Therefore, the following solutions are offered in the preliminary report:

**Solution 1:**

**To keep the current system for ensuring the State emergency stocks.**

Two possible implementation scenarios are offered for this solution:

A. To keep the current system for ensuring the emergency stocks without changes.

B. To keep the current system for ensuring the emergency stocks, increasing the level of emergency stocks stored in the territory of Latvia gradually within three years. Introduction of this solution provides for making amendments to legal acts with the purpose of increasing the level of emergency stocks stored in the territory of Latvia within three years: in year 1 up to 75 %, in year 2 up to 85 %, and in year 3 up to 100 %.

**Solution 2:**

**To acquire emergency stocks into State ownership and to transition to the agency model.**

Introduction of such solution would implement the long-term solution included in the 2018 report – for the State to acquire the necessary levels of emergency stocks and to establish an agency which will manage the petroleum products.

**Transition to the agency model will require the taking of the following steps:**

• **legal establishment of an agency**;

• **acquisition of emergency stocks from the funds of the State budget**.

Transition to such agency model would provide that emergency stocks would be owned by the State and they would be managed by an independent agency. The agency would acquire, maintain, or sell emergency stocks. The agency would continue to use public procurements in order to acquire emergency stocks into State ownership, organise their storage, supplement the stocks, and ensure rotation of out-of-date stocks. At the time of taking the decision to introduce the agency model, an evaluation would be made as to whether the functions of the agency could be fulfilled by an already existing authority or it would be necessary to establish a new body.

In order to use a storage infrastructure which already exists but does not belong to the agency, the agency would have to use a public procurement for the storage of the emergency stocks already owned thereby. The use of these procedures will ensure competition and will not cause a distortion in the relevant market. The State fee for the maintenance of emergency stocks should be kept. Costs for the storage of emergency stocks and partially also acquisition of stocks would be covered from this very fee.

Two possible implementation scenarios are offered for this solution:

A. Acquisition of the whole volume of petroleum products necessary for ensuring emergency stocks at the same time.

B. Gradual transition within five years.

Considering the State budget, it would take five years to introduce the offered solution by gradual acquisition of petroleum products and simultaneous continuation of the application of “tickets” for ensuring emergency stocks.

**Solution 3:**

**To apply the industry model, imposing an obligation on merchants to ensure emergency stocks.**

This solution provides that the obligation to maintain the State emergency stocks been handed over to private merchants. I.e., it is necessary to establish a legal body which would fulfil the functions of a CSE and which would be managed by private merchants, and also to enshrine in legislation the obligation for merchants to form emergency stocks.

**4. Impact Assessment of Solutions**

**Solution 1:**

**To keep the current system for ensuring the State emergency stocks.**

The solution provides for the keeping of the current system for ensuring the emergency stocks. Two possible implementation scenarios are offered for this solution:

B. To keep the current system for ensuring the emergency stocks without changes.

This solution keeps the current system and does not solve the problems identified.

B. To keep the current system for ensuring the emergency stocks, gradually increasing the level of emergency stocks stored in the territory of Latvia within three years.

Introduction of this solution provides for making amendments to legal acts with the purpose of increasing the amount of emergency stocks stored in the territory of Latvia within three years: in year 1 up to 75 %, in year 2 up to 85 %, and in year 3 up to 100 %. Currently, Regulation No. 286 provides that not less than 25 % of the total level of emergency stocks to be stored are held in the territory of Latvia and not more than 75 % of the total level of emergency stocks to be stored may be held in other European Union Member States. However, the level of emergency stocks to be stored in Latvia within the scope of the current procurement forms 60 % of the total amount (see Table 2).

Introduction of the solution does not solve the most essential problem identified and does not improve the cost-effectiveness of the current “ticket” system because it does not provide for the acquisition of emergency stocks into State ownership and there is even a risk of increase in costs. However, this solution holds certain advantages from the point of view of the speed and safety of supplies.

Previous experience shows that, upon introduction of this solution, there is a risk of not achieving the storage level specified in the EU regulation not because of capacities but because of the low interest of merchants. Within the scope of the procurement of 2020–2021, contracts were entered into with all merchants which offered to store emergency stocks in the territory of Latvia and the level of stocks to be stored in Latvia reached only 62.6 % of the whole volume. Provision of the service for the formation of emergency stocks is not attractive to merchants as the leasing of storage capacities because local merchants do not have sufficient long-term storage capacity and free financial resources to be invested in the provision of service. Due to this reason, the proportion of foreign merchants increased in the range of tenderers of the procurement.

Table 3. Advantages and disadvantages of the solution which provides for the increase in the level of emergency stocks stored in the territory of Latvia

|  |  |
| --- | --- |
| **Advantages** | **Disadvantages** |
| • Substantial initial investments from the State budget for the acquisition of emergency stocks are not necessary.  • There are advantages from the point of view of the speed and safety of supplies. | • It does not improve the cost-effectiveness of the current “ticket” system. There is a risk that the total costs of the State for the service will increase while the number of tenders will decrease.  • There is a risk that the requirement for the storage of emergency stocks will not be fulfilled if sufficient amount of tenders is not received.  • Insufficient advantages from the point of view of safety as the stocks themselves do not belong to the State. |

**Solution No. 2:**

**To acquire emergency stocks into State ownership and to transition to the agency model**

Transition to the agency model will ensure that:

a) the most cost-effective solution is introduced in long term;

b) emergency stocks would be owned by the State thus strengthening the safety of supply and timely availability of petroleum products in case of a crisis, sustainability of civil and military defence, and also overall resilience of the State against a threat;

c) efficient management of emergency stocks, including the circulation and storage of fuel;

d) the established agency will be able to organise a public procurement for the acquisition of emergency stocks which is more attractive from the point of view of merchants than the procurement of storage service.

The most essential advantage of the agency model is related to the fact that, by acquiring emergency stocks into ownership, the State may respond to changes in the national economy and to change the composition of petroleum products according to the current needs of national economy and the strategic priorities of the State. Advantages and disadvantages of the agency model are listed in Table 4.

Table 4. Advantages and disadvantages of the agency model

|  |  |
| --- | --- |
| **Advantages** | **Disadvantages** |
| • Cost-effective solution.  • The role of the State in the system for the management of emergency stocks.  • The State determines the operational provisions of the agency, thus determining the volume of the stocks to be used.  • The ability to finance the initial capital with a low initial interest rate.  • Direct and transparent financing. | • Initial contributions from the State budget or in the form of a bank loan are necessary to acquire emergency stocks and to reduce the one-off impact on the sector. This capital can be repaid in the form of a State fee in a longer period of time, reducing the impact on the initial capital provided from the State budget or loan. |

The agency model is the most appropriate solution for Latvia as it **combines cost-effectiveness and the strategic role of the State**.

For the implementation of such solution, it would be necessary to allocate additional funds from the State budget or to take a loan in a bank for the acquisition of emergency stocks.

In order to introduce the solution offered in the preliminary report, amendments need to be made to the following legal acts, determining a transition period at the beginning and ensuring full operation of the agency afterwards:

- to the Energy Law;

- to Regulation No. 286;

- to Regulation No. 450;

- to Regulation No. 312[[14]](#footnote-14).

Accordingly, it would be necessary to develop the by-laws of the agency and to make amendments to the internal procedures of the Bureau which determine the procedures for the administration of emergency stocks of the Bureau.

Concurrently, the law On Excise Duties stipulates that only an approved warehousekeeper may operate with excise goods in the tax warehouse, applying the duty suspension arrangement thereto, and also a special permit (licence) is required for activities with excise goods, except when, in specified cases, activities take place at the place indicated in another special permit (licence) for the operation of an approved warehousekeeper. Thus, by determining that the State will acquire and sell petroleum products, the need for changes in the law On Excise Duties and the legal acts subordinate thereto must also be evaluated.

**Solution 3:**

**To apply the industry model by imposing an obligation on merchants to ensure the emergency stocks.**

The introduction of this solution requires the country to have a well-developed petroleum sector and infrastructure. This solution may be, fully or partially, considered as efficient and feasible in situations when storage is cheaper as a well-formed infrastructure is available and a well-developed market is operating. In this model, the State imposes a statutory obligation on merchants (acquirers, producers, and importers of petroleum products) to store a specific level of emergency stocks. In the industry model, emergency stocks are formed and maintained by a legal body established by merchants and the emergency stocks are their property. Merchants must be able to cover the administrative costs and initial capital costs themselves in order to ensure the necessary level of emergency stocks. The costs arising from the maintenance of emergency stocks are included in the prices of petroleum products. Taking into account that there is no well-developed market for extraction, production, processing of and transactions in oil (moreover, the infrastructure does not belong, in practical terms, to the importers of petroleum products and petroleum products are stored at tank farms which, in turn, do not own petroleum products, thus tank farms cannot be involved in the provision of emergency stock service) and there is no reason to expect a significant expansion of the oil industry of Latvia in the nearest future, transition to such model is unlikely and is not considered henceforth.

Table 5. Advantages and disadvantages of the industry model

|  |  |
| --- | --- |
| **Advantages** | **Disadvantages** |
| • Financial and operational burden is completely transferred from the State to private merchants.  • Economic benefits can be gained if the oil industry is large. | • This does not apply to the situation of Latvia due to the small market.  • The infrastructure does not belong to importers of petroleum products, and merchants would have to lease the infrastructure.  • If the industry is small, financing of emergency stocks will not be cost-effective. Benefits cannot be gained from lower costs of the State capital and there are no efficiency benefits from the volume.  • The imposition of an obligation on wholesalers to store emergency stocks would reduce their competitiveness.  • An increase in costs which could affect the prices of petroleum products is foreseeable.  • The State does not have its own stocks as they are maintained by private merchants.  • The management and control of emergency stocks is transferred to private merchants and is outside the direct control of the State. |

**5. Impact of Solutions on the State Budget**

**Solution 1:**

The impact of the first solution on the State budget is neutral as it provides for the keeping of the current situation – the solution would be implemented within the scope of the current financing scheme.

However, if, when introducing this solution, such scenario is chosen which provides for making amendments to legal acts with the purpose of increasing the level of emergency stocks stored in the territory of Latvia within three years: in year 1 up to 75 %, in year 2 up to 85 %, and in year 3 up to 100 %, an increase in costs may be anticipated starting from the first year of transition.

As regards the impact of Solution 1, Scenario B on the amount of the State fee, the Bureau concluded, by making indicative calculations and taking the price offered by merchants within the scope of the procurement implemented in 2020 and their ability to increase the offered levels of emergency stocks as the basis, that the amount of the State fee will increase by:

a) 2.1 % if the volume to be stored in the Republic of Latvia corresponds to 75 %;

b) 11.77% if the volume to be stored in the Republic of Latvia corresponds to 85%;

c) 26.28 % if the volume to be stored in the Republic of Latvia corresponds to 100%.

Such increase in the costs of the State will primarily arise due to two reasons. Firstly, the previous experience shows that in some cases the prices offered by foreign merchants are lower than the offers made by Latvian merchants. For example, the price offered by individual Latvian merchants was 40 % higher than the average price offered by foreign merchants in the procurement of 2017. Secondly, due to decreased offer and narrowing of the range of tenderers, the prices offered by merchants may increase even more.

Taking into account the indicative increase in the amount of the State fee, it is possible that fuel prices might also increase for final consumers, however this impact cannot be calculated as the behaviour of private merchants in circumstances of free competition cannot be foreseen.

**Solution 2:**

Establishment of the agency model is not possible without an initial involvement of the financial instruments of the State or a bank, i.e., by gradually allocating funds from the State budget or a bank loan in a fixed period for the acquisition of emergency stocks, thus ensuring that emergency stocks are the State property. Investments in the acquisition of emergency stocks will be the biggest cost item in transition to another model. It is important to take into consideration that it is an investment and not costs from the point of view of the system the initial capital can be freed by selling the stocks or depositing the fees paid by private merchants. Other costs, for example, costs for the replacement of stocks, administrative costs, or the insurance costs of stocks, are similar both in the State model and the agency model if the State will have the actual ownership rights to emergency stocks. Moreover, they are significantly less important in the overall comparison.

According to the estimates of the Consultants, the financing necessary for the acquisition of emergency stocks amounts to EUR 172 million if the necessary level of emergency stocks is acquired within three years. It should be taken into account that it depends on the fluctuating prices of petroleum products and these estimates were made in January 2020. In addition, it should be emphasised that the total level of emergency stocks is a variable value, therefore, costs will also depend on the quantity that should be in stock. The costs include the oil acquisition price which has been estimated on the basis of forward contracts which are exchange-traded and also the potential transport costs.

The total costs of petroleum products, including the supply price, would constitute approximately EUR 163.5 million. Concurrently, the initial emergency stocks in the amount of EUR 7.8 million – the sum of money to be paid to a broker to open a purchase or sale item in the forward contract – should be taken into account. The initial emergency stocks is calculated as a part of the price of the financial instrument and it is determined by the stock exchange. Table 6 demonstrates the calculation of the abovementioned expenditures.

The initial investment in the acquisition of emergency stocks may be divided on a multiannual basis, concurrently continuing the application of tickets for ensuring the emergency stocks. The sooner the transition to the agency model happens, the greater the cost savings will be in long term. On the basis of the three-year period offered for the acquisition of emergency stocks, the total costs would amount to EUR 55 082 417 in the first year, EUR 54 530 839 in the second year, EUR 53 919 262 in the third year.

Table 6. Procurement costs of diesel oil and motor gasoline in the next three years

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Supply date according to the contract** | **Market price of diesel oil (EUR/ton)** | **Market price of motor gasoline (EUR/ton)** | **Supply price of diesel oil (EUR/ton)** | **Supply price of motor gasoline (EUR/ton)** | **Costs of diesel oil (EUR)** | **Costs of motor gasoline (EUR)** | **Total fuel costs (EUR)** |
| 12/2020 | 446.126 | 438.99 | 481.126 | 468.990 | 41 574 098 | 13 508 319 | 55 082 417 |
| 12/2021 | 445.714 | 421.076 | 480.714 | 451.076 | 41 538 497 | 12 992 342 | 54 530 839 |
| 12/2022 | 442.829 | 408.498 | 477.829 | 438.498 | 41 289 204 | 12 630 058 | 53 919 262 |
|  |  |  |  |  | **Total costs** | | **163 532 517** |
| **Total fuel costs (EUR)** | **Initial emergency stocks (EUR)** | **Total costs to be financed (EUR)** |  |  |  |  |  |
| 163 532 517 | 7 880 612 | **171 413 129** |  |  |  |  |  |

The abovementioned financing is intended only for the acquisition of emergency stocks. In addition, similarly to the current situation, financing would be necessary for the maintenance of the system, for example, for covering the lease costs of the infrastructure (on the basis of the historical results of procurements, the Consultant estimated that the costs of the infrastructure per year would constitute approximately EUR 16 million), for ensuring the insurance services (for example, in case of the ESPA, the average insurance expenditures per year during the period 2015–2018 were around EUR 28 000), for covering the administrative costs (for example, in case of the ESPA, on average in the amount of 5.75 % of the total additional expenditures) and the costs for quality control (for example, in case of the ESPA, the average costs of analyses and controls were EUR 4.4 million per year during the period 2015–2018). The low efficiency of the current model of Latvia for the management of the stocks creates the potential for changing the model, using the surplus of the financing costs which might be saved and due to which the costs of the State budget or bank loan in relation to the acquisition of emergency stocks can be partially reduced. According to the estimates of the Consultants, the Estonian system is capable of maintaining one ton of petroleum products for EUR 38.87 per year less than the system of Latvia. If the system of Latvia was as efficient as the system of Estonia, the costs of maintaining 386.7 thousand tonnes of emergency stocks (the indicator of Latvia in 2018) for one year would decrease by almost **EUR 15 million** (including administrative costs).

Concurrently, after consulting with the sector, the Ministry of Economics evaluated that a more optimal period for the introduction of Solution 2 would be five years. On the basis of the assumptions of the Consultant, the Ministry of Economics made an additional calculation of the total costs if Solution 2 was to be introduced within a period of five years. Table 7 demonstrates the annual costs of Solution 2 if the emergency stocks were to be acquired in a period of five years. The total costs in a period of five years are, in general, equivalent to the period of three years – **EUR 171 million** (reduction in the total costs by EUR 1 million in comparison with the calculation of three years provided by the Consultants is related to the price of petroleum products used in calculations for which the same value is applied in years 4 and 5 as in year 3), however the annual costs would be approximately 40 % less, thus creating a lighter financial burden on the annual budget or the necessary bank loan depending on the chosen financing model.

Table 7. Procurement costs of diesel oil and motor gasoline in the next five years

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Supply date according to the contract** | **Market price of diesel oil (EUR/ton)** | **Market price of motor gasoline (EUR/ton)** | **Supply price of diesel oil (EUR/ton)** | **Supply price of motor gasoline (EUR/ton)** | **Costs of diesel oil (EUR)** | **Costs of motor gasoline (EUR)** | **Total fuel costs (EUR)** |
| 12/2020 | 446.126 | 438.99 | 481.126 | 468.990 | 24 944 362 | 8 105 085 | 33 049 448 |
| 12/2021 | 445.714 | 421.076 | 480.714 | 451.076 | 24 923 002 | 7 795 495 | 32 718 497 |
| 12/2022 | 442.829 | 408.498 | 477.829 | 438.498 | 24 773 427 | 7 578 122 | 32 351 549 |
| 12/2023 | 442.830 | 408.499 | 477.830 | 438.499 | 24 773 479 | 7 578 140 | 32 351 618 |
| 12/2024 | 442.831 | 408.500 | 477.831 | 438.500 | 24 773 530 | 7 578 157 | 32 351 687 |
|  |  |  |  |  | **Total costs** | | **162 822 800** |
|  |  |  |  |  |  |  |  |
| **Total fuel costs (EUR)** | **Initial emergency stocks (EUR)** | **Total costs to be financed (EUR)** |  |  |  |  |  |
| 162 822 800 | 7 880 612 | **170 703 412** |  |  |  |  |  |

However, it should be emphasised that the calculations indicated in Table 7 are based on assumptions which were used by the Consultant when making the calculation of three years in January 2020. The actual annual and total costs depend on fluctuating prices of petroleum products and should be calculated accurately for the planned period of five years if introduction of Solution 2 were to be conceptually supported by the Cabinet.

In addition, it should be indicated that, according to the estimates of the Consultants, **the State need not build a new infrastructure** for the storage of emergency stocks. Building of a new state-owned infrastructure for the agency to store the emergency stocks owned by State therein lacks economic justification. Therefore, the solution provides that the storage infrastructure will be leased from merchants on the basis of a procurement. These costs are included in the abovementioned maintenance costs which, upon the introduction of the new system, would be by EUR 38.87 per year per ton less than currently according to the estimates of the Consultants.

Taking into account the estimates for the total reduction in the maintenance costs of emergency stocks, the State fee would also decrease in long term and accordingly it is possible that the fuel prices for final consumers would also decrease, however this impact cannot be calculated as the behaviour of private merchants in circumstances of free competition cannot be foreseen.

**Solution 3:**

The impact of Solution 3 on the budget cannot be determined and is not examined because this solution cannot be implemented in Latvia as there is no sufficiently developed oil sector in Latvia which could undertake the responsibility for the storage of the stocks. Concurrently, it may be concluded that the total maintenance costs of the stocks will increase as individual merchants are not capable of operating as efficiently as one agency. It is related to higher capital costs in comparison with the State capital costs and also to the low volume of storage contracts because the storage costs usually directly depend on the stored volume. Most likely, higher costs will lead to higher fuel prices which will have a direct impact on consumers and the economy at large.

**6. Consultations with the Sector**

In order to gain an in-depth understanding of the deficiencies of the current model for ensuring the State emergency stocks and to find out the solution which the representatives of the petrol sector view as the most effective, the Ministry of Economics organised a virtual hackathon on 15 March 2021 for improvement of the emergency stock system (hereinafter – the hackathon). Both oil wholesalers and retailers and representatives of local oil terminals and oil depots, and also representatives of the Latvian Fuel Traders Association and the Association of Fuel Retailers and Producers were invited to participate therein. Participants of the hackathon were divided into three groups and all groups had the same tasks. The hackathon was divided into two thematic parts – in the first part participants looked for answers to questions in relation to actions in a specific crisis scenario (buy-back procedure, transportation, distribution of emergency stocks), whereas in the second part the participants had to present a vision of a long-term solution.

During presentations of the results of their discussions, all three working groups pointed towards a unified conclusion as regards the long term solution – **emergency stocks must be owned by the State**. All working groups recognised that **the agency model would be the most suitable one for Latvia** (similarly as in Estonia). Working groups highlighted several advantages of the agency model:

• the agency model would provide an opportunity to have more control over the placement of petroleum products throughout the territory of Latvia;

• from the point of view of the availability of financing, the agency model would be better as the State can take a loan under better conditions than a private merchant;

• an agency would be a successful solution also from the point of view of management as the agency would concurrently procure the emergency stocks and ensure the circulation and transportation of stocks.

The participants of the hackathon indicated that the current ticket model is considered to be wasteful in long term from the point of view of the State, whereas the agency model is more cost-effective in terms of financing costs. Working groups recommended **a gradual transition to the agency model within a period of five years**. In addition, it was emphasised that the infrastructure for the storage of emergency stocks in Latvia is sufficient and **both private and public infrastructure may be used for the storage of emergency stocks, including also the infrastructure belonging to State capital companies**, for which a solution of determining a minimum self-security level of emergency stocks in the legal framework may be considered. Detailed minutes of the hackathon are available in annex to the preliminary report.

Concurrently, all three working groups also drew attention to additional topical problems which are related to the use of emergency stocks in a crisis situation, i.e., currently **neither the legal acts nor guideline documents provide clear procedures to be followed when a crisis sets in**. In order to ensure expeditious and efficient use of emergency stocks in a crisis situation, these aspects should be clearly defined – where to primarily transport the emergency stocks, the necessary volume of fuel (for example, for the critical infrastructure), where will it be transfused after transportation, who will be the provider of transport services? As indicated by the participants of the hackathon, these are the aspects for which procedures must be stipulated and data must be available before a crisis sets in.

By summarising the arguments laid out in the preliminary report and taking into account both the consultations with the representatives of the sector which took place within the scope of the hackathon and the discussions between the ministers, a combination of Solutions 1.B and 2 is to be considered as the most effective solution, i.e., initially Solution 1, Scenario B should be implemented, **gradually increasing the level of emergency stocks stored in the territory of Latvia within a period of three years – in year 1 up to 75 %, in year 2 up to 85 %, and in year 3 up to 100 %, concurrently also Solution 2 or the agency model should be introduced within a period of five years**.

When commencing the introduction of the initial Solution 1.B, amendments need to be made to Regulation No. 286, specifying the percentage of emergency stocks to be stored in Latvia accordingly. Taking into consideration that the procedure for the procurement of emergency stocks for the 2022 emergency stocks is currently at the initial stage in accordance with the current normative regulation, implementation of Solution 1, Scenario B should be commenced along with the procurement procedure to be organised in 2022, providing that 75 % of emergency stocks must be stored in the territory of Latvia in 2023, 87 % of the emergency stocks – in 2024, and 100 % of emergency stocks – in 2025.

In order to make the introduction of this solution as efficient as possible, the regulations of the procurement for the provision of emergency stock storage services for the procurement procedure of 2022 should additionally be evaluation in cooperation with the representatives of the sector and they should be improved, where necessary, including by making such changes to the regulation that would promote a more regional placement of emergency stocks in the territory of Latvia (for example, by evaluating the possibility to implement the procurement in regional lots). Concurrently, the Bureau must also take into account the conclusions of the hackathon when implementing the procurement procedure of 2021 (for the storage of the emergency stocks of 2022). It is also essential to develop a clear mechanism for the activation of emergency stocks in the situation of an energy crisis.

In relation to the introduction of Solution 2, the Ministry of Economics must, prior to commencing the introduction of the solution, develop a preliminary report on specific activities for the establishment of an agency in which different scenarios for the establishment of the agency will be offered and the process of the circulation (rotation) of acquired fuel will be described, an evaluation of the involvement of the merchants currently participating in the supply chain of petroleum products and their petroleum products in the creation of emergency stocks will be made, using (attributing to emergency stocks) the resources of petroleum products currently in commercial circulation to the extent possible and thus reducing the direct expenditures of the State, and also a detailed assessment of the necessary financing and its sources will be provided (State budget or financial instruments).

**7. Future Steps**

1) To support the introduction of Solution 1, Scenario B offered in the preliminary report, gradually increasing the level of emergency stocks stored in the territory of Latvia within a period of three years: in 2023 up to 75 %, in 2024 up to 85 %, and in 2025 up to 100 %, and also to provide preliminary support to transition to Solution 2 offered in the preliminary report within a period of five years, i.e., to acquire emergency stocks into State ownership and to transition to the agency model.

2) To determine the Ministry of Economics as the responsible institution in the implementation of both solutions referred to in Paragraph 1.

3) For the Ministry of Economics to develop and for the Minister for Economics to submit for examination to the Cabinet amendments to Cabinet Regulation No. 286 of 12 April 2011, Procedures by which Merchants shall Ensure and Provide the Emergency Stock Service for the Establishment of State Emergency Stocks of Petroleum Products at a Specified Level, determining the minimum level of emergency stocks to be stored in the territory of Latvia according to the solution referred to in Paragraph 1.

4) For the State Construction Control Bureau to implement a procurement for the storage of 2022 emergency stocks, clarifying the procurement regulations and taking into account the conclusions of the hackathon organised by the Ministry of Economics. Concurrently, for the Ministry of Economics to conduct negotiations with the representatives of the sector regarding the improvements to be made in the regulations of the procurement for the provision of the service for the storage of 2023 emergency stocks in order to promote the participation of merchants in the procurement and to submit the informative report with conclusions and proposals for the improvement of the abovementioned regulations for examination to the Cabinet.

5) For the Ministry of Economics to develop and for the Minister for Economics to submit amendments to Cabinet Regulation No. 312 of 19 April 2011, Procedures for the Supply of Energy Users and Sale of Heating Fuel During a Declared Energy Crisis and in the Event of a Threat to the State, for examination to the Cabinet, determining clear actions in a crisis situation, including the procedures for the buy-back, release, and transportation of emergency stocks, defining the responsible parties to an energy crisis situation of the oil sector, and also determining the data which permanently must be at the disposal of the responsible institutions and the obligations of the responsible institution in to ensure and maintain such data.

6) For the Ministry of Economics to develop and for the Minister for Economics to submit for examination to the Cabinet a preliminary report on specific steps for the establishment of an agency in which different scenarios for the establishment of the agency will be offered and the process of the circulation (rotation) of acquired fuel will be described, an evaluation of the involvement of the merchants currently participating in the supply chain of petroleum products and their petroleum products in the creation of emergency stocks will be performed, using (attributing to stocks) the resources of petroleum products currently in commercial circulation to the extent possible and thus reducing the direct expenditures of the State, and also a detailed assessment of the necessary financing and its financing sources will be provided, including assessment of the possibility to use a financial instrument and borrowed capital.

7) The issue on the financing necessary for the implementation of the Solution 2 referred to in Paragraph 1 shall be examined in the process of the preparation and examination of the State budget for the current year and the draft law on the medium-term budget framework together with the applications of priority measures submitted by all ministries and other central State institutions according to the financial possibilities of the State budget.

Minister for Economics J. Vitenbergs

**Annex**

to the Preliminary Report

On Ensuring the State Emergency Stocks of Petroleum Products

**MINISTRY OF ECONOMIC OF THE REPUBLIC OF LATVIA**

**MINUTES**

**Virtual Hackathon for the Improvement of the System of the State Emergency Stocks of Petroleum Products**

*videoconference on Zoom platform*

Riga, on 15 March 2021, at 12.30 p.m.

**Official Head of the Hackathon: Deputy State Secretary Edijs Šaicāns**

**Participants of the Hackathon:**

|  |  |
| --- | --- |
| Guntars Matrevics | *SIA “ORLEN Latvija”* [limited liability company ORLEN Latvija] |
| Gatis Grots | *AS “Kurzemes degviela”* [joint-stock company Kurzemes Degviela] |
| Mārtiņš Stirāns | *SIA “Vortex Oil Engineering”* [limited liability company Vortex Oil Engineering] |
| Māris Āriņš | *SIA “RDZ Energy”* [limited liability company RDZ Energy] |
| Ieva Ligere | Latvian Fuel Traders Association |
| Ojārs Karčevskis | Latvian Fuel Traders Association |
| Ivars Blumbergs | Latvian Fuel Traders Association |
| Sergejs Semjonovs | Association of Fuel Retailers and Producers |
| Diāna Iļjina | *SIA “INGRID A”* [limited liability company INGRID A] |
| Kaspars Meinuzs | *AS “VIRŠI-A”* [joint-stock ompany VIRŠI-A] |
| Artis Apinis | *SIA “Neste Latvija”* [limited liability company Neste Latvija] |
| Inese Ulmane | *AS “VIADA Baltija”* [limited liability company VIADA Baltija] |
| Mārtiņš Rubezis | SEB banka Latvia |
| Jānis Kļimenkovs | *AS “Swedbank”* [joint-stock company Swedbank] |
| Dace Cīrule | LarkLaw ZAB |
| Artis Lapiņš | **Procurement Monitoring Bureau** |
| Ivars Nakurts | State Fire and Rescue Service |
| Baiba Bļodniece | **Ministry of Defence** |
| Edgars Svarenieks | **Ministry of Defence** |
| Elīna Timma | **Ministry of Defence** |
| Ivo Mūrmanis | **Ministry of Defence** |
| Gustavs Gudzuks | **Ministry of Defence** |
| Romāns Rudens | **Ministry of Defence** |
| Kristīne Rudzīte | **Ministry of Defence** |
| Marina Podvinska | *SIA “Publisko aktīvu pārvaldītājs Possessor”* [limited liability company Publisko aktīvu pārvaldītājs Possessor] |
| Svetlana Mjakuškina | State Construction Control Bureau |
| Inga Lāce | State Construction Control Bureau |
| Jurģis Miezainis | Ministry of Economics |
| Edijs Šaicāns | Ministry of Economics |
| Marija Zjurikova | Ministry of Economics |
| Līga Rozentāle | Ministry of Economics |
| Dainis Dravnieks | Ministry of Economics |
| Kristīne Liepiņa | Ministry of Economics |
| Elvis Dins Kalnbērziņš | Ministry of Economics |
| **Minutes prepared by:**  Kristīne Liepiņa |  |

**Agenda:**

1. The representative of the Ministry of Economics (hereinafter – the Ministry) M. Zjurikova opens the “Virtual Hackathon for Improvement of the System of the State Emergency Stocks of Petroleum Products” (hereinafter – the Hackathon) and the agenda of the Hackathon is presented.

2. Address of the Parliamentary Secretary of the Ministry J. Miezainis.

3. The representative of the Ministry E. Šaicāns introduces the participants of the Hackathon with the two main task blocks of the hackathon on oil issues and provides the following general information with a presentation on the current situation with the storage of the State emergency stocks of petroleum products:

3.1. the current model and the problems arising therefrom: levels, contractual sums, tender, and the storage of the emergency stocks of oil of Latvia over the last two years both in Latvia and other countries;

3.2. three possible solutions:

a) to keep the current system for ensuring emergency stocks;

b) to acquire emergency stocks into State ownership and to transition to the agency model;

c) to apply the industry model which imposes an obligation on merchants to ensure emergency stocks.

Participants of the working groups of the Hackathon were invited to provide proposals with other solutions in order to improve the system of the emergency stocks of petroleum products.

4. M. Zjurikova introduced the participants of the Hackathon with the description of the situation/scenario (assumptions) which were divided into two blocks, including the presentation of the tasks of the Hackathon and questions to which answers should be found and information on the presentation of the results. Participants of the Hackathon are informed that individual mentors will also be available to each working group.

**Task I:**

The State emergency stocks of petroleum products stored in Latvia need to be activated within a period of 48 h so that the supply of fuel could be ensured with them for three days: to wholesalers; critical infrastructure; transport of the National Armed Forces.

Questions to which the working groups should find answers:

1. Procedure for the buy-back of emergency stocks.

2. Transportation and distribution.

**Task II:**

To ensure that 100 % of the emergency stocks are stored in the territory of Latvia within a period of five years. Possible solutions: current model, agency model, industry model.

Questions to which the working groups should find answers:

1. How can the participation of the merchants registered in Latvia in a procurement for the provision of the emergency stock service be promoted?

2. Which model would be the most appropriate to ensure that 100 % of the emergency stocks are stored in the Republic of Latvia after five years? Is the selected model the most cost-effective solution? How can it be financed? What are the main subsequent subtasks of this model in order to achieve the pursued objective?

3. What are the risks if 100 % of the emergency stocks are stored in Latvia?

5. From 1.00 p.m. to 4.00 p.m. work takes place in three groups, organising it in two parts.

• Group 1: moderator – E. Šaicāns, participants – I. Blumbergs, M. Āriņš, G. Grots, S. Semjonovs, K. Meinuzs;

• Group 2: moderator – M. Zjurikova, participants – O. Karčevskis, I. Ligere, G. Gudzuks, L. Timma, S. Mjakuškina;

• Group 3: moderator – L. Rozentāle, J. Miezainis, participants – M. Stirāns, G. Matrevics, A. Apinis, D. Iļjina.

6. From 4.00 p.m. to 5.00 p.m., working groups present the results:

**Working group 1 “Crude Oil”**

6.1. Main conclusions on the questions of Block I:

- If an energy crisis sets in, first of all, it is necessary to convene the State Energy Crisis Centre.

- The available levels and locations of the stocks of petroleum products must be identified – the information should be easy to access. The volumes of consumption (emergency transport, National Armed Forces, critical infrastructure) and the supply points must also be established.

- The transport logistics issues are topical for the supply to the critical infrastructure – the procedures should be drawn up in advance and the providers of transport services should be known.

- Wholesalers and retailers will be able to perform transportation on their own. However, the location where and volume in which the product can be taken should be clearly known.

– The levels of crisis must be defined and different restrictions must be accordingly stipulated for them in the regulation. Restrictions would not be required in relation to diesel oil, but motor gasoline should be primarily assessed as the necessity for the critical infrastructure and the emergency transport. If the volume is insufficient then the trade in motor gasoline in service stations should be restricted. Restrictions on volumes should be organised through an IT tool, for example, bank cards, fuel cards.

6.2. Main conclusions on the questions of Block II:

- The most appropriate model for Latvia would be the agency model which is formed on the basis of the agency model of Estonia. The agency model has several advantages – it gives an opportunity to have more control over the placement of the product throughout the territory of Latvia, the agency model is better from the point of view of availability of the financing, the State may take a loan under better conditions than an undertaking.

- The agency should be provided with the right to “earn profit” and not pay dividends – one should be aware that there may also be losses due to the fluctuations of the product price.

- The product is stored at reservoirs already available in the State, however planned acquisition of the product is necessary (it is not advisable to acquire a large amount in one go).

- In order to promote competition, it is necessary to determine a clear buy-back formula with the link-up of the price on the following day (the past may not be fixed), to divide procurements according to the products (motor gasoline, diesel oil, aviation gasoline). The decision-making process must be made more efficient – rapid taking of decisions, significant reduction of the procurement assessment process – more flexible approach.

- The current supervision model in relation to existence of oil stocks is optimal.

- Military risk and large concentration of stocks at one place if stocks are held only in Latvia. Information on levels and locations should be restricted access information.

- Next main steps: it is necessary to gradually advance towards the agency model by keeping the mixed model (part in State stocks, part in the form of tickets), it is necessary to approve a corresponding model, it is necessary to determine the responsible institution, the working plan for the introduction of the model must be approved (financing, reporting, administration, and control).

**Working group 2 “Diesel Oil”**

6.3. Main conclusions on the questions of Block I:

- It should be clearly stipulated who undertakes the coordination of the process – the State Energy Crisis Centre to which all information is available or the Operational Management Centre.

- It is important to define and describe the recipients of fuel in advance. Answers to these questions must be found before a crisis occurs: where will we transport it, where it will be unloaded, who will be the supplier. The objects of the critical infrastructure with the necessary volumes (hospitals, the SFRS, the Border Guard, etc.) have been identified in the National Economy Mobilisation Plan. It is necessary to identify the merchants which provide transportation services and to determine the most efficient type of transport based on the region. For example, train in case of Ventspils–Rēzekne. The transport resource of the emergency services and the NAF themselves should be known.

- The algorithm for determining the price should be defined. The State must be able to plan and count on the sum that will be necessary at the moment of buy-back. The State must provide funds for such procurement. The price cannot be foreseen in a crisis situation – financial risks for both the State and the merchant. The supply price may be topical only in non-critical issues.

- Diesel oil is primarily necessary for services. Small proportion of motor gasoline in stocks – risk for private users.

6.4. Main conclusions on the questions of Block II:

- The current system will not promote the participation of the merchants registered in Latvia in the procurement. Merchants are more interested in participating in a tender for the storage of the stocks owned by the State. The industry model cannot be supported – Latvian merchants will not be able to efficiently ensure stocks for 90 days. The current ticket model – the State “burns the money”, the agency model – more cost-effective in terms of financing.

- The most optimal solution – the State acquires stocks into its ownership and enters into contracts with merchants for storage. The manager – the agency which conducts the acquisition, storage, transportation. It is complicated for the State to both make the policy and to be involved in the process therefore the agency model has several advantages. If the agency model is efficiently managed, it also allows for a profit. Secondary, the question of who is the agency should be reviewed – it could be an existing body (*SIA “Publisko aktīvu pārvaldītājs Possessor”* [limited liability company Publisko aktīvu pārvaldītājs Possessor] or the State Construction Control Bureau). Transition to the agency model should be made within three to five years.

- Regulation which will allow to apply the stock exchange price by removing the cumbersome tendering procedure, without the application of the procurement procedure is necessary.

- If stocks are not owned by the State:

○ the price of the “tickets” could be higher (less competition);

○ the risk of “not getting access” to stocks is lower. It is easier to deliver to Latvia, the task is only to distribute and transport;

○ it is important that a mechanism for the termination of a contract which protects the State is determined.

- Issues to be considered: whether it is safe to store everything at the same place, whether it would be worth to store a part in foreign countries due to security considerations.

**Working group 3 “Motor Gasoline”**

6.5. Main conclusions on the questions of Block I:

- When redeeming the emergency stocks, both technical and economic possibilities should be assessed together. The best solution – to take stocks for the lowest price from the point where the fastest filling is possible.

- As regards organising the transportation of fuel:

○ operational data should be available, and it should be defined in legal acts;

○ operational and critical bodies should ensure direct supplies organised by the Energy Crisis Centre or another authority;

○ filling stations should provide for themselves on their own by going after it (according to tickets, on the basis of turnover (information from the State Revenue Service is necessary));

○ stocks should be stored regionally.

- As regards the allocation of emergency stocks among wholesalers:

○ they should be allocated on the basis of the information of the State Revenue Service on turnover;

○ if the level of motor gasoline is as low as currently, it should only be provided for the emergency transport, and the distribution should be controlled by the State;

○ restrictions should be introduced for retailers;

○ it is necessary to survey information in advance on the volume of diesel oil/motor gasoline consumed by emergency transport.

6.6. Main conclusions on the questions of Block II:

- In order to ensure that 100 % of the emergency stocks are stored in the territory of Latvia after five years, gradual transition to the agency model is necessary.

- In order to promote the participation of the merchants registered in Latvia in a procurement, it is necessary to introduce a condition for the “tomorrow” price (risks of uncontrolled price rise) to prevent a situation where it is cheaper to pay the fine than participate.

- The existing supervision model of the State Construction Control Bureau is optimal. It should be ensured that the same volume is not sold to two recipients – cross-border exchange of information is necessary.

- If 100 % of emergency stocks are stored in Latvia, there is a risk that the costs for the final consumer may increase; similarly there is a risk of whether the stocks will actually be on site at the moment of the crisis and whether the same level of stocks has not been reserved for different recipients (different countries) as currently there are civil legal contracts not imposing consequences if the merchant gives the stock to another country.

- Instead of buying or building the infrastructure for storing the stocks, the State should lease it. The storage capacities of Latvia are sufficient.

- It should be determined that part of merchants and the critical infrastructure themselves should, partially or completely, ensure the minimum security on commercial basis (centralised thermal supply systems, hospitals, Latvian Railway, *AS “Latvenergo”* [joint-stock company Latvenergo]).

- The main future subtasks of the agency model for the achievement of the pursued objective:

○ to determine the functions of the agency: 1) to acquire and exchange fuel; 2) close cooperation with the crisis centre;

○ to ensure increase in the proportion of the motor gasoline held;

○ to provide for contracts with the State (agency) that a merchant ensures its transport at the crisis hour. If merchants are not interested, the State shall ensure the minimum (for example, involvement of the NAF. Note. The Ministry of Defence does not support such solution). The final solution for a shortage of transport – request for mobilisation;

○ clear procedures for the release of emergency stocks must be stipulated (in a contract/regulations).

7. From 5.00 p.m. to 5.30 p.m., the jury assesses the proposals of the working groups. Composition of the jury: J. Miezainis, E. Šaicāns, S. Mjakuškina, A. Lapiņš, B. Bļodniece

8. At 5.30 p.m. – the announcement of the results. E. Šaicāns expresses gratitude to all participants of the Hackathon, noting that the results of all three working groups were similar, however working group 3 “Motor Gasoline” is recognised as the best as it provided the most accurate answers to all questions.

9. At 5.40 p.m., J. Miezainis expresses gratitude to all specialists of the oil sector for work and open discussions.

At the end, everyone who wanted to provide additional remarks are allowed to speak. Persons speaking at the end: B. Bļodience, S. Mjakuškina, A. Lapiņš, M. Stirāns, O. Karčevskis, I. Nakurts, G. Matrevics.

10. E. Šaicāns informs that the draft preliminary report On Ensuring the State Emergency Stocks of Petroleum Products will be supplemented on the basis of the conclusions mate at the Hackathon and it will be submitted to the government for assessment.

**CONCLUSIONS:**

- All three working groups drew attention to the problem that currently neither legal acts nor other guideline documents stipulate clear procedures to be followed upon setting in of a crisis.

- The authority which will be responsible for actions and decision-making in the buy-back process must be determined. Levels of a crisis which also provide for different restrictions must be defined.

- All procedures must be clearly defined before the crisis – where will we transport, where will we unload, what will be the volumes, and who will be the distributor? It is necessary to survey the merchants providing transportation services.

- All three working groups came to a similar solution: the stocks must be owned by the State, as this would mean clear expenditures for the State and clear conditions for the merchant.

- Working groups recognised that the agency model would be the most suitable one for Latvia (as in Estonia). The agency model has several advantages – it gives an opportunity to have more control over the placement of the product throughout the territory of Latvia, and the agency model is better from the point of view of availability of the financing as the State may take a loan under better conditions than a private merchant. The current ticket model = the State “burns the money”; the agency model = more cost-effective in terms of financing. An agency would be a successful solution also from the point of view of management, as it would both conduct the procurement of oil stocks and ensure the circulation and transportation of stocks.

- Restrictions would not be required in relation to the consumption of diesel oil, but motor gasoline should be primarily assessed as the necessity for the critical infrastructure and the emergency transport.

- Working groups recommended a gradual transition to the agency model within a period of three to five years.

**FURTHER ACTIONS**

The Ministry of Economics will improve the preliminary report On Ensuring the State Emergency Stocks of Petroleum Products on the basis of the results of the Hackathon, the proposals made by the participants, and the joint conclusions. The Cabinet will use the conclusions of the preliminry report as basis for deciding on further measures necessary to introduce an optimal and effective model for the storage of the State emergency stocks of petroleum products and a mechanism for preparedness to petroleum crisis situations.

Host of the Hackathon: E. Šaicāns

Minutes prepared by: K. Liepiņa

Minister for Economics J. Vitenbergs

1. *Pētījums par naftas produktu drošības rezervju cenas veidošanos un priekšlikumu izstrāde labākajam risinājumam valsts naftas produktu drošības rezervju izveidei* [Research on the Pricing Structure of the Emergency Stocks of Petroleum Products and Development of Proposals for the Best Solution for the Formation of the Emergency Stocks of Petroleum Products] (available at: http://petijumi.mk.gov.lv/sites/default/files/title\_file/200327\_Latvia\_oil%20reserve%20management\_Deloitte\_LAT.pdf) [↑](#footnote-ref-1)
2. Council Directive 2009/119/EC of 14 September 2009 imposing an obligation on Member States to maintain minimum stocks of crude oil and/or petroleum products [↑](#footnote-ref-2)
3. Cabinet Regulation No. 286 of 12 April 2011, Procedures by which Merchants shall Ensure and Provide the Emergency Stock Service for the Establishment of State Emergency Stocks of Petroleum Products at a Specified Level [↑](#footnote-ref-3)
4. Cabinet Regulation No. 450 of 14 June 2011, Regulations Regarding the Amount of the State Petroleum Product Stocks, the Amount of the State Fee to be Paid for the Maintenance of Emergency Stocks, and the Procedures for the Calculation, Payment and Administration Thereof [↑](#footnote-ref-4)
5. Cabinet Regulation No. 312 of 19 April 2011, Procedures for the Supply of Energy Users and Sale of Heating Fuel During a Declared Energy Crisis and in the Event of a Threat to the State [↑](#footnote-ref-5)
6. Cabinet Regulation No. 40 of 29 January 2002, By-laws of the State Energy Crisis Centre [↑](#footnote-ref-6)
7. Paragraph 5 of Cabinet Regulation No. 450 of 14 June 2011, Regulations Regarding the Amount of the State Petroleum Product Stocks, the Amount of the State Fee to be Paid for the Maintenance of Emergency Stocks, and the Procedures for the Calculation, Payment and Administration Thereof. [↑](#footnote-ref-7)
8. Section 72.3 of the Energy Law [↑](#footnote-ref-8)
9. Period of 11 months and 14 days. [↑](#footnote-ref-9)
10. Period of 6 months and 3 days. [↑](#footnote-ref-10)
11. Period of 24 months. [↑](#footnote-ref-11)
12. From 1 January 2020 to 2 June 2020. [↑](#footnote-ref-12)
13. The State calculated fee for the whole year of 2021 cannot be calculated [↑](#footnote-ref-13)
14. Cabinet Regulation No. 312 of 19 April 2011, Procedures for the Supply of Energy Users and Sale of Heating Fuel During a Declared Energy Crisis and in the Event of a Threat to the State [↑](#footnote-ref-14)