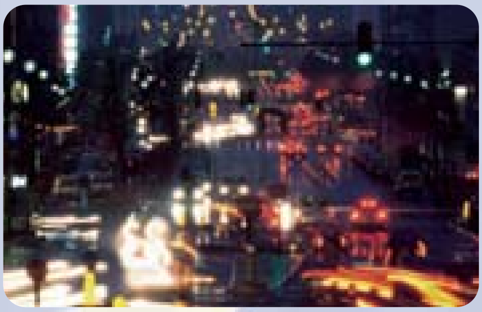
UPEI

Union Pétrolière Européenne Indépendante
Union of European Petroleum Independents


REPORT 2004

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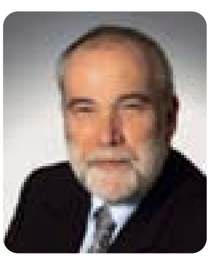
UPEI BOARD MEMBERS



Hellmuth Weisser,
President

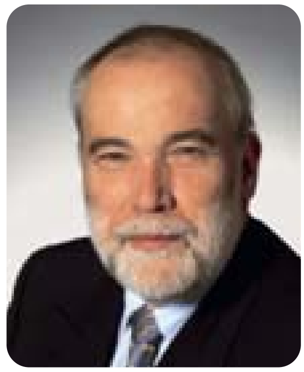
Pacifique Le Clère,
Vice President

Paul Storme,
Vice President

SECRETARY GENERAL

Bernd Schnittler

PRESIDENT'S FOREWORD



I am honoured to have been re-elected in 2004 to serve a further term of office in my responsibility as President of UPEI.

Since I became President, independent oil companies which are mostly small and medium enterprises have considerably increased their influence on the security of supply and on the existence of lively competition in the European energy market. With their entrepreneurial spirit – the essence of independence – they take risks and preserve the competitive environment. But these internal aspects alone are not sufficient to safeguard security of supply and competition. The political and structural environment plays a critical role for the proper functioning of the independents.

UPEI (Union Pétrolière Européenne Indépendante) is the umbrella organisation of the independent European oil trade. The members of UPEI are the respective national organisations in the various European countries. They meet twice a year. At these meetings they find out about developments in the countries where UPEI members operate, learn which issues affecting them are dealt with by supranational institutions, and discuss their strategy.

The goal of UPEI is to represent homogeneous interests and to offer its members common objectives. For this reason we attach special importance to strategic looking ahead, though despite all we have in common, it is still necessary to preserve the sectoral interests of the individual members with their clearly defined degrees of autonomy.

The year 2004 was an important milestone in the history of UPEI. With the enlargement of the EU to take in ten new countries, most of their national organisations of small and medium-sized oil enterprises also became members of UPEI: the Czech Republic, Hungary, Poland, Slovakia. But other national organisations from countries that do not or do not yet belong to the EU are also represented in UPEI: Croatia and Switzerland.

UPEI and its General Secretary together with the Presidential Board represent and promote the interests of its members at European level. A further goal is to promote awareness in the European institutions and the International Energy Agency concerning the important role played by the independents in an otherwise rather oligopolistic market, with respect to security of supply and competition.

Hellmuth Weisser
President

GENERAL ISSUES

A paradigm change has taken place in the international oil market in recent years. The buyers' market has turned into a sellers' market. The reserve capacity that used to exist in the oil production and petroleum processing sectors has been depleted by the sharp rise in demand for oil and gas, especially in the threshold countries of Asia and South America. The international oil industry is faced with a period of uncertainty. Will oil production in Iraq rise or fall? Do we have to expect permanent political instability in the oil exporting countries? Will the rapid increase in oil production in Russia continue? Will the rate of growth of China's energy consumption continue to increase? How will the dollar exchange rate develop? In these days of numerous variables of this kind, politicians who have to take decisions on energy policy should seize every opportunity to make use of the practical know-how and long experience of businesses and their employees, with their interest keyed primarily to the domestic market.

These businesses include the small and medium petroleum enterprises in Europe that are members of UPEI (Union Pétrolière Européenne Indépendante). Following the major mergers in the international petroleum industry in a number of European countries during the 1990s, they are the only companies in the petroleum industry whose decision-making centres are located in their home countries and whose business policy is geared to local and regional conditions.

In line with the differences in the petroleum markets of the individual countries in Europe, there are also differences in the role played by the independent petroleum companies. The activities of independent oil companies are highly diversified and individual. The independent oil companies range in size from the company with a single service station or delivery tanker through medium-sized operations to larger firms, some of which sell several million tons per year. These approximately 2,000 member companies operate at all levels of the petroleum industry in Europe: import, trade, wholesale, retail, transport, storage, distribution and refining. Many of them are also involved in gas supplies, and even electricity supplies cannot be excluded, provided access to the grid is guaranteed on competitive terms. Although this is regulated by law in most European countries, in practice grid operators are hesitant about opening up their natural monopoly. UPEI is making every effort to ensure that non-discriminatory access to power and gas lines is the rule and not the exception.

UPEI agrees in general with all efforts being made to increase competition in the European energy market. As importers, independent firms source various petroleum products from the global markets to supply domestic markets. As wholesalers, independent firms provide alternative supply routes for commercial and retail business. As retail traders, they directly supply customer needs either through independent gas stations or through delivery of heating oil to privately owned homes, commercial and industrial entities or small industry and enterprises.

In some countries, the proportion of petroleum product supplies handled by independent firms is as high as 50 to 70 per cent of the total in certain market sectors. In Belgium, for instance, the market share of independent companies in the gasoil sector is 80 per cent. In France independent companies supply 27 per cent of all heating oil. In Germany every seventh ton of oil consumed in the country has been sourced by independents. In Croatia independent companies have a market share of 70 per cent in gasoline retailing. In Spain a substantial part of the storage business is done by independents. In the UK a quarter of all gasoline distributed by retail stations is in the hands of independent companies.

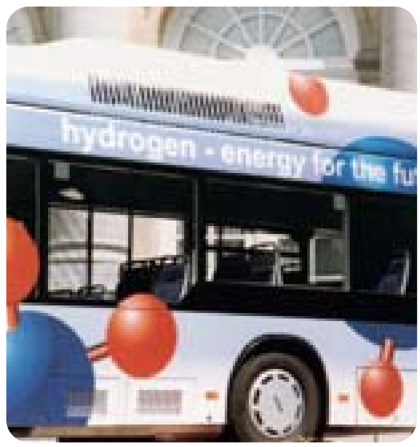
The independent small and medium petroleum enterprises in Europe are an important counterweight to the decreasing number of increasingly large internationally operating oil companies that largely focus on global perspectives. The independents not only act as an element that maintains and stimulates competition and ensures security of supplies, they are also a driving force for innovation and technological progress. For example, they played a pioneering role in the market launch of alternative fuels.

Small and medium enterprises provide the most jobs in their companies in Europe, and they also create new job opportunities in the regions. But the independent companies can only continue to play their role in securing energy supplies, ensuring efficient distribution and use, and maintaining regional diversity if politicians, in the measures they take, are always aware of the impacts these will have on the activities of the independents. They do not expect any special favours, but simply fairness and the observance of certain facts. The overall economic role of these independents rests on two pillars, namely the guarantee of competition and the security of supplies. They perform their role by providing non-parallel trading market alternatives at almost every level of the oil industry. To be able to calculate the future and the risks that the European energy market is exposed to, it is necessary to consider the essential differences between the independents and the major oil companies. These are a total disparity of capital strength and the different number of linkages with the market. Whereas the business fields and business opportunities of the majors are spread all over the world, the independent company is usually limited to only a few functions. Accordingly, an independent is much more vulnerable than any major company. That is why decisions in the political, regulatory and structural environment of the independents play a crucial role where they are concerned.

The Lisbon strategy offers all small and medium enterprises that approach innovations with entrepreneurial drive and a willingness to take risks the opportunity to expand their business. The goal of this strategy is to make Europe the most dynamic knowledge-based economic area in the world. UPEI is also opposed to the associated obstacles, such as inadequate market integration, over-regulation and hesitant investment decisions. Moreover, it supports extension of the single energy market to Southeast Europe and cooperation with the Maghreb countries.

Saving energy can help reduce dependence on imports and at the same time make a contribution to climate protection.

The top priorities in the energy policy of the European Union are energy efficiency and security of supplies. Both have grown in importance since oil and gas prices have risen and look likely to remain at a high level in the future. The European Commission proposes to reduce energy consumption in the EU by one percent a year by means of energy-saving equipment and vehicles, better insulation of buildings, and energy services in which the independent oil companies in particular are willing and able to play an important role with their local and regional orientation and their contacts with the customer. But energy efficiency also means small and medium suppliers can sell less energy as less energy is consumed. They should therefore expand into the field of energy services, possibly via public-private partnerships (PPP) combining the best of the public and private sectors. Renewable energy sources are to contribute to improving the security of supplies and reducing the greenhouse effect. In 2010 they are to meet at least 12 per cent of the EU's energy requirements. UPEI has an open mind about a greater role for bio-fuels, for example. Members of our organisation played a pioneering part in the market launch of such fuels.



Despite all the efforts to save energy and the additional contribution made by renewable energies, the European Commission calculates that Europe's dependence on imports of oil and gas in the years ahead will increase from 50 to 70 per cent. This observation was reflected in the development of crude oil prices in 2004, which was more like a roller coaster than a continuous trend.

The demand for oil will stagnate and fall slightly in view of the increasing efficiency of means of transport, whereas gas consumption will rise. Gas is increasingly to be used for supplying both the transport and heating sectors. However, the transport of gas through Europe essentially takes place through only four major pipelines. This is a fact that gives rise to many serious concerns about vulnerability and security. The capacity of these pipelines is largely reserved. They supply specific destination regions only and are hardly reversible, which means de facto that many regions depend for their gas supplies on a single partner or supply line for which there is no logistical substitute.

It is difficult to understand why there is a legal requirement to keep emergency stockpiles sufficient for 90 days in the case of oil, but no such requirement in the case of gas. Spain and Hungary have decided to establish emergency gas stocks, but there is still no sign of a common European solution. We must therefore urge the member countries of the EU to fulfil their duties in order to secure energy supplies and help to minimize the dependence of Europe on external energy supply. Security of oil and gas supplies is also the objective of discussions being held by the EU with Russia and the member countries of OPEC (Organization of Petroleum Exporting Countries). The idea is that a permanent dialogue on energy should result in a stable energy area and largely eliminate geopolitical uncertainties.

While the liberalisation of the markets for line-bound energy carriers has been implemented on paper in the member states, in practice it is not yet working properly in a number of countries. Moreover, there is still considerable scope for improvement in the case of other forms of transport, such as the safety of the increasing tanker traffic in the Baltic Sea. For these waters, some shippers of petroleum have gone over to chartering only tankers that call on the help of a local pilot.

Development of world energy consumption to 2030 – a brief overview

According to calculations by the International Energy Agency, the world's primary energy consumption will grow by nearly 60 per cent between 2002 and 2030. Two thirds of the increase will be due to the developing countries. Fossil fuels will continue to predominate, and will account for some 85 per cent of the increase in world energy consumption. Worldwide oil consumption will reach more than 6 billion tons in 2030. Half of this will come from OPEC countries. Worldwide gas consumption will virtually double in the same period, and within the next ten years it will overtake the consumption of coal. In 2030 coal will meet about 22 percent of world energy requirements. Around 2030, nearly half of the worldwide gas consumption will be used for generating electricity. The world's oil and gas reserves are sufficient to satisfy the expected increase in worldwide demand. Although there will be a slight rise in the total capacity of nuclear power stations, the proportion of electricity generation accounted for by nuclear energy will decrease. The contribution of renewable energies to world electricity generation will show a threefold increase from 2 to 6 per cent by 2030. After hydro power, wind energy will become the second-largest source of renewable energy for electricity generation.

To convert world energy resources into available energy supply, annual investments of 568 billion dollars will be required between 2003 and 2030. A genuinely sustainable energy system calls for epoch-making technological advances that permit radical changes in energy generation and use. Consumers must however be prepared to bear the full amount of energy costs, i.e. including environmentally relevant expenditure, before the new technologies can become competitive. This is hardly likely to happen within the next two and a half decades.

In the light of the European political environment mentioned above, members of UPEI are active in the fields of importing, wholesaling, retailing, distribution, logistics and refining. These independents are important because their presence reduces the potential dominance of the major oil companies, to the benefit of competition.

The function of UPEI within Europe is to:
- ensure fair trading conditions for our members
- promote a competitive market
- encourage efficiency of oil supply, retailing and consumption
- represent the views of its members to legislative bodies in Europe
- seek equality of treatment for its members in the creation of laws and regulations
- seek to attain fairness and equal treatment for its members in the trade distribution and retailing of petroleum products in Europe
- work for the internal market

Independent companies which UPEI represents ensure:
- future security of supplies
- realistic pricing of supplies
- choices for the consumer

Independents represented by UPEI believe the following issues are important:
- reliability of current and future supply
- regulating the healthy effect on prices due to lively and diverse competition
- efficiency of current and future supply
- regional diversity
- alternatives in times of crisis
- independent market

This range of issues will occupy most of UPEI's time in the years ahead.

European energy policy covers a number of milestones proposed by the member countries and the EU. UPEI will further strengthen pro-active communication with the European Parliament and the European Commission.

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