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EXPLANATORY MEMORANDUM ON CHAPTER 14: ENERGY

Further to the Position Paper submitted on chapter 14-Energy, the Republic of Cyprus would like to elaborate on the following issues:

A. Security stocks - Council Directive 68/414 as amended

Cyprus' Request

Cyprus requests a transitional period of five years starting from the date of accession for full compliance with the obligation to maintain stocks of petroleum products covering 90 days of the previous year's consumption. A detailed programme of investments and other actions for full compliance with the Directive is hereby submitted.

The prevailing conditions in Cyprus

In Cyprus there is no legal requirement for maintaining stocks of petroleum products. With the exception of the Fuel Oils, for which the capacity is about 90 days, the existing tank farm capacity for the other fuels is sufficient to keep, at all times, only 14 – 25 days' products stocks, including products yields in crude oil. The total average level of stocks in 1999 was about 35 days of the previous year's consumption, a much lower level than the 90 days required by the relevant Directive.

Cyprus maintains refinery capacity of 1.2 millions of MT of crude oil per year.

The existing storage capacity in Cyprus and the stockholding potential available at all times are illustrated below:

Storage capacity in MT	Crude	Mogas	Kero	Gasoil	Fuel Oils
Marketing companies	0	17820	30595	39000	9450
Refinery	105000	3260	2700	360	24700
Electricity Authority	0	0	0	0	222000
Cement plants	0	0	0	0	59280
Total	105000	21080	33295	39360	315430
Stockholding potential *	-	14500	11800	28460	241000
Daily consumption in MT	3200	566	828	1541	2677
Stockholding potential in days	-	25,6	14,3	18,5	90,0

* Including products in crude oil

Justification of the Request

The request for five years transitional period for the building up of oil stocks of petroleum products is associated with the difficulties and high costs that this task involves in the specific circumstances of Cyprus. The present storage installations of the oil companies and the Cyprus Petroleum Refinery are situated in a populated area in Larnaca town.

The Government has decided to relocate the oil installation from the populated Larnaca bay area to a more suitable location, where the tank storage capacity will be increased gradually to enable in due course the maintenance of stocks for 90 days consumption. The action plan involves the erection of a new tank farm, the first phase of which will be completed in 2008. By that date the total tankage capacity in Cyprus, for keeping oil stocks will be about 60 days. Full compliance with the acquis will be achieved at the end of the transitional period by using the option under the Directive of maintaining stocks in another member state. All oil stocks for 90 days consumption will be held in Cyprus by the year 2012 (second phase).

The total investment cost for the re-construction of the oil sector is about EURO 240 million (including tankage, marine receiving facilities, truck loading, LPG tanks, upgrading of the refinery, etc.). Out of these, the investment cost concerning 90 days stocks includes only the tankage and the marine receiving facilities and is estimated at about EURO 180 million. The additional stock that will have to be purchased will cost a further EURO 118 million over a period of 15 years. The investment cost will be financed by the Government Budget and foreign loans. The maintenance of the additional stock will be financed by a levy charged on the prices of petroleum products.

The legislative framework regarding the obligation to keep oil stocks of petroleum products will be enacted by 1.6.2002 and will enter into force by 1.1.2003. The administrative mechanism for the system will be in place by 1.6.2002.

In view of the very high cost and the complexity of the project, particularly the difficulties involved in securing suitable land, the government considers it necessary to follow a gradual approach. In this context, a transitional period of 5 years from the date of accession is considered essential. Although local storage capacity could still be short of 90 days consumption, full compliance with the acquis will be achieved at the end of the transitional period by using the option under the Directive of maintaining some stocks in another member state.

Appendix 1 shows the Action Plan approved by the Council of Ministers.

The corresponding action plan (investment plan and timetable) is shown in Appendix 2.

B. Liberalisation of Electricity Sector – Council Directive 96/92

Cyprus is committed to implement the Directive upon accession.

**ACTION PLAN FOR THE FUTURE RELOCATION OF OIL FACILITIES FROM
THE LARNACA AREA**

- 1) 2000 Official announcement of the intention of the Government for relocation of oil installations by 2015.
- 2) 2000 Launching of refinery upgrading.
- 3) 2000 Official briefing of oil companies about the relocation and initiation of a dialogue for this issue.
- 4) 2000 Initiation of actions to secure suitable new location.
- 5) 2001 Preparation of legislative framework for 90 days stocks, administrative mechanism, creation of a fund etc.
- 6) 2001-2002 Decisions concerning price and taxation policy on petroleum products and liberalisation of oil market.
- 7) 2002-2003 Introduction of legislation on 90 days stocks and setting up a stockholding agency (COSA).
- 8) 2003 Completion of refinery upgrading.
- 9) 2004-2008 Construction of supporting infrastructure at new location (first phase).
- 10) 2008 Completion of storage space for 60 days consumption.
- 11) 2008 – 2012 Operation of installations at both Larnaca and new location.
- 12) 2012 Termination of operation of refinery at Larnaca and completion of storage tanks for 90 days consumption (second phase).
- 13) 2012 – 2015 Initiation and completion of works for restoration of site of existing refinery and oil installations.

Appendix 2

Action plan towards harmonization of Cyprus with the Directive 98/93/EC of 14 December 1998

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Infrastructure																	
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Storage tanks in kMT					240						460						700
Marine receiving facilities																	
Investment Cost in EURO mln																	
Storage tanks					48,92						80,45						129,37
Marine receiving facilities					49,18												49,18
Cost of additional stock	0	0	0	0	0	0	0	0	100,7	2,18	2,21	2,26	0,4	8,88	0,87	0,90	118,4
Rental cost	0	0	0	0	0	0	0	0	2,86	3,07	3,30	3,53	0	0	0	0	12,76
Drafting new Laws																	
Compulsory stocks																	
Foundation of COSA*																	
Enforce Laws																	
Compulsory stocks																	
Foundation of COSA																	
Evolution of compulsory stocks in days																	
Inland																	
Mogas	26	25	24	24	23	22	22	21	55	54	54	53	93	93	92	91	
Kero	14	14	14	13	13	13	12	12	61	60	60	59	93	93	92	91	
Diesel	18	18	17	17	16	16	15	15	69	68	66	64	95	95	93	90	
FO	30	30	30	30	30	30	30	30	63	61	59	58	96	96	93	91	
Abroad																	
Mogas	0	0	0	0	0	0	0	0	35	36	36	37	0	0	0	0	
Kero	0	0	0	0	0	0	0	0	29	30	30	31	0	0	0	0	
Diesel	0	0	0	0	0	0	0	0	21	22	24	26	0	0	0	0	
FO	0	0	0	0	0	0	0	0	27	29	31	32	0	0	0	0	

*: Cyprus Oil Stockholding Agency

Note: The above action plan is based on the assumption that the year 2003 is the expected date of accession