Doing oil business in Denmark

CSO at a glance

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Companies producing oil in Denmark or importing oil into Danish territory – whatever the type of import - are subject to the regulations governing compulsory storage obligations (CSOs). The Danish legislation on CSO is only available in Danish, which may present a problem to foreign companies. This booklet explains the most relevant legislation pertaining to CSOs in Denmark.

Commencement of obligations

A CSO is imposed by the Danish Energy Agency (DEA) on the day that a non-CSO company imports 1,000 tons or more of crude oil equivalent into Denmark or starts to produce more than 1,000 tons of oil annually in Denmark. The CSO is set at zero by the DEA until the sales generating CSO exceed zero in a calendar year (the Reference year).

The importing or producing company is obligated to notify the Danish Energy Agency no later than 14 days after commencement of such import or production.

Reporting obligation

When a CSO is imposed, including a CSO at zero, the relevant company is obligated to submit monthly reports to the Danish Central Stockholding Entity (FDO). The monthly reports must be submitted in the online Oildata IT system no later than the 20th of the following month. Access to Oildata is granted by the FDO following the official CSO registration.

The penalty for incorrect reporting or exceeding the deadline is currently DKK 5,000 for a first-time offence.

In addition to the monthly reporting, CSO companies must have their monthly reports audited once a year in an annual statement by a Danish state authorized public accountant. The annual statement audited by a Danish state authorized public accountant must be submitted to the FDO no later than 15th March in the following calendar year.

In addition, the FDO may occasionally require a company to document its fulfillment of CSO on a daily basis, which means that the company has to submit documentation for this for every single day of a certain month selected by the FDO.

Calculation of CSOs

All member states of the International Energy Agency (IEA) are obligated to maintain stockholdings equal to 90 days' net import volume. Since Denmark is currently a net exporter of oil, Denmark has no stockholding obligation to the IEA.

Under the EU rules, member states must maintain stockholdings equal to at least 90 days' worth of consumption. If a member state has a domestic production of crude oil, the stockholding obligation to the European Union is reduced by 25% of the above-mentioned 90 days' worth of consumption. Thus, Denmark has a stockholding obligation to the European Union that equals 67.5 days' worth of consumption.

The Danish Government has decided to increase the EU obligation by 20%. Thus, the Danish obligation equals 22.3% of 365 days or 81.4 days' worth of consumption. The FDO must hold 70% of the obligation equal to 15.6% or 57 days, while the CSO company must hold 30% of the obligation equal to 6.7% or 24.4 days.

The Reference year is the calendar year, and the storage year begins on 1 July in the following calendar year and ends on 30 June 18 months after reference year-end. If, for example, the reference year is 2020, the storage year would be from 1 July 2021 to 30 June 2022.

Example A

Company A imports 100,000 tons on 15 October 2021 and stores the oil in Denmark but does not sell the oil.

The company must prepare the first monthly report to the FDO in the online Oildata system no later than 20th November 2021 and on the 20th of all the following months in which Company A is storing oil in Denmark. The first annual statement audited by a Danish state authorized public accountant must be submitted to the FDO no later than 15th March 2022.

Since Company A does not sell products to end users (others), the CSO remains at 0 (zero).

Example B

Company B imports 100,000 tons on 15 October 2021 and sells all the 100,000 tons to end users (others) between 15 October 2021 and 31 December 2021.

Company B's CSO in the storage year 1 July 2022 to 30 June 2023 is calculated as follows:

100,000 x 22.3% = 22,300 tons

The obligation is split between the FDO and Company B as follows:

The FDO must store 70%; 22,300 x 70% = 15,610 tons

Company B must store 30%; 22,300 x 30% = 6,690 tons

The company must prepare its first monthly report to the FDO in the Oildata system not later than 20th November 2021 and on the 20th of all the following months in which Company B is storing oil in Denmark or having a CSO of more than 0 (zero). The first annual statement audited by a Danish state authorized public accountant must be submitted to the FDO no later than 15th March 2022.

Product categories

In Danish legislation, the major oil products extracted by crude oil refinement are divided into four product categories:

Category 1: Light distillates, particularly motor and aviation gasoline

Category 2A: Medium distillates, jet fuel and kerosene

Category 2B: Medium distillates, particularly gas and diesel oil

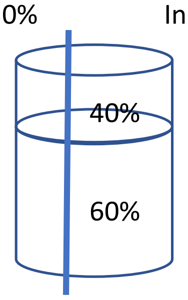
Category 3: Heavy distillates, particularly fuel oil

CSO coverage

A CSO may be covered by physical stocks or by delegation in the form of tickets. In Denmark, a CSO may be covered 100% by national tickets; abroad up to 30% by international tickets or international storage agreements, where a company's own stocks abroad cover CSO in Denmark.

In categories 1, 2A, 2B and 3, 60% must be covered by the specific product in the relevant category. The legislation is flexible about which product may cover the remaining 40% of the obligation. In categories 1, 2A, 2B and 3, 40% may be covered by the other categories.

Abroad, up to 30% In Denmark, up to 100%



Up to 40% may be covered by the other categories. These other categories could be 1, 2A, 2B or crude oil, or tickets of crude oil

At least 60% must be covered by the stock or tickets in the relevant category.

__Example__

If we continue the example of Company B, who has sold 100,000 to others and got a CSO for 6,690. In this example, Company B has sold products in category 1 and got a CSO in category 1 of 6,690.

Limitations on coverage from abroad

Maximum coverage from abroad by tickets or own stock abroad: 30% of 6,690 = 2,007
Minimum coverage from Denmark: 70% of 6,690 = 4,683

Flexibility in CSO coverage

60% (4,014 tons in above example) must be covered by physical stocks or by tickets in the category of the relevant obligation.

40% (2,676 tons in above example) may be covered by:

· Physical stocks or tickets in category 1

· Physical stocks in category 2A

· Physical stocks in category 2B

· Physical stocks or tickets of crude oil

Please note that if a CSO is covered by other products, the standard densities stated in the executive order annex 2 applies. These densities are defined as follows:

· 0.74 for gasoline (category 1)

· 0.815 for jet fuel (category 2A)

· 0.84 for gas and diesel oil (category 2B)

Categories 1, 2A and 2B must be reported in m3 at 15 Celsius, while category 3, crude oil and feedstock must be reported in tons.

Disclaimer

The FDO assumes no responsibility for any actions arising from the above information. All the above information is the FDO's interpretation of the applicable legislation. It is at all times a company's responsibility to keep up to date on current legislation, including its potential interpretations.

For further information, please contact the Danish Energy Agency or the FDO.

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