

# NOCs Global Trading Hierarchy: NEXT THREE MOVES?

BY NEILL ROBERTSON-JONES

Head of Energy & Marine, National Bank of Fujairah

**F**ully monetize the value chain; rethink corporate philosophies; and go back to the basics of trading. Applying these three steps will mean national oil companies (NOCs) can accelerate up the global hierarchy. Over the last three years, many have laid the foundations to emerge as energy trading heavyweights; a role historically dominated by international oil companies (IOCs). Now, they must up the tempo.

Saudi Aramco's bid to be among the world's top three global oil traders reflects the ambitious step change among Gulf NOCs. They have increasingly been advancing and diversifying their upstream dominance into downstream expertise and building vertically integrated businesses that are sometimes direct competition to established global energy traders.

#### FORTUNATE GEOGRAPHY

One golden ticket for Gulf NOCs is geography, notably the UAE's Emirate of Fujairah. The Middle

East's biggest port and the world's second largest bunkering hub lies at the heart of global east-west crossroads, especially the surge of trade flowing towards Asia. Aramco Trading, which expects to see its oil trading volume rise to 6mn b/d next year, has opened its second international office in Fujairah. Plus, ADNOC is building the world's largest underground oil storage project in Fujairah having awarded a \$1.21bn engineering, procurement and construction (EPC) contract to South Korea's SK Engineering and Construction

Co (SKEC). The port has also made excellent progress (in a global context) to have a clean and steady supply of LSFO for when the International Maritime Organization's (IMO) ruling to reduce sulfur limits from 3.5% to 0.5% comes into play on 1 January 2020. All these moves are affirmations of Fujairah's strategic importance – and capability – to meeting NOCs' trading goals.

#### SQUEEZE, SQUEEZE, SQUEEZE

NOCs must maximize the overall value of the integrated portfolio rather than any single element, which is sentiment echoed

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by management consultancy Strategy& Middle East last year. This encompasses standardized management tools and data transparency along the entire value chain to create a holistic, not fragmented, overview. ADNOC are an excellent recent example of how this strategy pays off. As many (surviving) energy companies did after the oil price dramatically fell in 2014, the company has stretched the value of every barrel, squeezed efficiencies internally and opened its metaphorical and literal doors to be more entwined in global energy dialogue and foreign partners. Consequently, ADNOC is leaner, more aggressive and, critically, easier to benchmark to a private business than a government. All play well into broadening an influential trading portfolio, plus the efficiencies add some fat back to the balance books – helpful for trading liquidity.

#### A NEW CULTURAL STATUS QUO

Cultural change can be a tricky and long slog – but it's non-negotiable. Currently, it is still not 100% clear which direction the Gulf NOCs' trading arms are going to take. What we do know is that they will be sizeable and important players who will be welcomed into the market (greater liquidity is a win-win for all). But what of their philosophy to regional and global growth, alliances and risk? The first step to updating NOCs' corporate philosophy is staff. It's very simple:

hire people who know what they're doing. Secondly, cover every base when it comes to mitigating risk. With all the checks in place, red flags of misalignment should be easy to spot. Of course, every company will have a different pain threshold.

#### BACK TO BASICS

Liberalization is a simple and sure way to accelerate liquidity and grow a traded market. NOCs must let go, reduce destination restrictions and reduce official selling prices. Let the market decide the price and supply-demand dynamics. Of course, NOCs by the very nature of their social and state responsibilities may find this balancing act difficult. But it also offers significant value. For one, NOCs have the advantage of being able to manage the whole value chain, from drilling for black gold through to the trading desks and retail.

#### DIGITAL SMARTS

Another step towards simplifying trading is leveraging the 4th Industrial Revolution, notably blockchain. Approximately, if you made a spreadsheet of all the blockchain consortiums worldwide, there are more IOCs than NOCs. NOCs are missing a very relevant trick; blockchain is only going to be become more widespread and more influential in building confidence among traders.

Make no mistake, Gulf NOCs emerging as another Vitol or BP Trading is a major leap. It only takes one big loss on the books to rattle the market and spark doubt, so NOCs must tread carefully and smartly. But their strong track record, plus Fujairah's credentials, means there's no reason Gulf NOCs can't enjoy one of the best seats at the table of global traders in the early 2020s. □