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Adnoc Sets Up New Oil Trading Unit

Abu Dhabi National Oil Co. (Adnoc) has become the latest Mideast producer to unveil plans to set up a new crude and oil products trading unit, amid mounting pressure to maximize value and especially as the battle for Asian buyers intensifies.

Adnoc has for some time been looking to set up a trading arm in partnership with an international oil company, with CEO Sultan al-Jaber saying in November that it was a "very important element" of the national oil company's future expansion, but nothing concrete has been announced until now (IOD Feb.8'18).

The company is looking for a partner that is willing to share its trading expertise and has an interest in Abu Dhabi, Abdulla Salem al-Dhaheri, Adnoc's marketing chief, told journalists on the sidelines of the Middle East Petroleum and Gas Conference in Abu Dhabi.

An obvious candidate is Total, the only Western legacy partner to have a stake in Abu Dhabi's onshore and offshore concessions, after it agreed last month to pay $1.45 billion for stakes in two of the emirate's prized fields (IOD Mar.20'18). The former head of Total's trading and shipping affiliate for the Americas, Philippe Khoury, was this month named CEO of the new Adnoc trading unit.

It remains unclear when it will start trading. But planning is under way and other appointments have been made, according to a person familiar with the matter, who says Adnoc currently sells on an f.o.b. basis but could sell on a delivered basis in the future as its trading operations evolve.

Adnoc insists the new venture will only engage in "non-speculative trading," developing its marketing capabilities and selectively growing its international footprint to help maximize the value of "every barrel of crude oil and refined product" produced and marketed by the company.

Years of low prices, the effects of Opec cuts and an increasingly competitive Asian market have forced conservative Mideast oil producers to consider more creative ways of increasing the value of their main revenue stream .

Iraqi state oil marketer Somo has pioneered recent joint venture trading initiatives to capture bigger profits on the spot market, but the initiatives have not been unequivocally successful (IOD Mar.28'18). The first, a partnership with Russian firm Lukoil's trading arm Litasco last year, led to the formation of Dubai-based Iraq Petroleum Trading (IPT). But it has caused some frustration for the Iraqis, as Litasco is effectively running it. A more recent venture with Chinese firm Zhenhua is targeting sales to China.

An earlier initiative, Oman Trading International (OTI), also based in Dubai, was originally set up in 2006 as a joint venture between state Oman Oil and trading firm Vitol before the Omani government bought out Vitol's 30% stake in 2015 (IOD Jun.9'15).

The Adnoc trading venture compliments Abu Dhabi's downstream investment plans, which include a $3.1 billion upgrade to its 417,000 barrel per day Ruwais West refinery that will allow the plant to run heavier, non-Abu Dhabi crude, freeing up extra volumes of light, sour grade Murban, currently the refinery's main feedstock, for sale on the international market.

Adnoc officials on Monday highlighted the company's plan to increasingly focus on the downstream, including by investing internationally, and especially on the petrochemicals sector, which is expected to witness a 150% rise in demand by 2040.

Simon Martelli, London, and Oliver Klaus, Abu Dhabi