The Fujairah port and free zone began to emerge more than a decade ago as a strategic location for storage and bunkering given its positioning outside the Strait of Hormuz in the Gulf of Oman. While the location is not immune to regional security risks – evidenced most recently by the tanker attacks off the Fujairah coast in May – it presents an attractive option for energy trade and bunkering outside the Hormuz chokepoint. In this context, the UAE has been working to build up the importance of the port and its oil facilities and bolster international prestige, but there is still work to be done.

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A concerted effort is underway to diversify capabilities at Fujairah port, and stakeholders are exploring a range of competitive options to help push the port into global pre-eminence.

Whether Fujairah can rise to a size and status equal to that of the two leading, global ports in Singapore and Rotterdam ultimately rests on the realization of several key priorities: establishing a Murban crude benchmark, which will demand some flexibility and change in the way ADNOC handles and trades its signature crude; introducing a further diversified range of bunkering, storage and refining capabilities at the port; and drawing in still more high-profile, international investors.

Meanwhile, lingering regional security concerns may continue to pose exogenous risks to the port, which could have some impact on bunkering activities, but also the types of investment decisions taken by key stakeholders.

Establishing a benchmark crude would be a boon, but requires further changes

As part of the effort to boost Fujairah's importance in global crude trading, ADNOC has coordinated with the Intercontinental Exchange to establish a Murban contract for its relatively light, low-sulfur flagship crude that trades out of Fujairah and reaches output of up to 1.7m barrels per day (bpd).

A planned futures contract, to launch in the first half of 2020, is a reflection of structural shifts in global trading that have encouraged ADNOC to try to establish a new Middle East benchmark for crude that more closely resembles Brent or WTI. The Murban contract would be a more comparable grade than Dubai and Oman, the sour markers against which all regional exports are currently priced. This could help boost the region’s competitiveness, especially in Asia where demand has been on the rise for lighter, sweeter crudes.

Some notable hurdles remain to Murban becoming a regional benchmark. First, ADNOC would need to drop destination restrictions on its crude, allowing it to trade freely. Second, ADNOC traditionally has sought to preserve Murban quality by storing it in its own tanks, and not accepting ullage in other tanks. However, this could impact both the efficiency of the port, and the ability to create a truly regional benchmark.

ADNOC also will need to consider regional trading dynamics. Other key regional exporters are reluctant to change their pricing systems, yet this would be essential to support regional liquidity and establish a Murban benchmark. This reality could push ADNOC toward considering a crude blend.

So far, ADNOC’s response has been to boost refining flexibility, especially at the Ruwais refinery, to refine heavier grades and free up more Murban for export.

Fujairah must continue diversifying its capabilities to keep pace with market trends

While the establishment of a Murban benchmark would be one critical step toward boosting activity at and the prominence of Fujairah port, stakeholders will also look at a handful of other options to improve crude and product trade and bunkering competitiveness, and to continue expanding physical infrastructure to accommodate a higher volume and diversity of activity.

The introduction of the International Maritime Organization (IMO) 0.5% sulfur content fuel specs from January 1 next year poses one such opportunity for Fujairah to position itself competitively as a leader in regional bunkering activity.

At the moment, both Vitol and Unipec are able to produce compliant marine fuels, and UAE-based Brooge Petroleum & Gas Investment Co (BPGIC) is building a 250,000-bpd refinery scheduled to launch in the first half of 2020 that would also be able to meet the new fuel standards. Blending capabilities already exist at the port, and berths have been allocated for IMO-compliant fuels.

However, it is unclear how much bunkering demand there will be for IMO-compliant fuels at Fujairah, and the port does not publish its bunkering data. Demand will be affected by factors including regional security risks, refining economics, or even emerging regional competition, such as from Duqm port in Oman following its deal with Shell to build a bunkering terminal.

As Fujairah-based refiners test the market for appetite and ramp up their own capabilities to produce compliant fuels, a temporary Singapore-Fujairah arbitrage trade has opened from October as shipping companies start to buy term contracts for IMO-compliant fuels and Fujairah remains under-supplied.

Meanwhile, port stakeholders are looking to other means to boost Fujairah's physical infrastructure and develop a diverse and profitable set of capabilities at the port.

ADNOC is adding a 42m-barrel underground crude storage facility, Aramco Trading opened an office at the port in June and is looking at options to acquire or build storage space, and BPGIC is expanding its local storage and refining business, among other developments.

Port stakeholders are exploring a range of potential value-add investments into refining, bitumen, petrochemicals, and liquefied natural gas or liquefied petroleum gas terminals. These decisions can prove strategic to hedge against more risk-prone activities like bunkering, and will have considerable bearing on the port's ability to attract further interest from key international players, who can bring critical investment to further raise the profile of the port in global trading.

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