The Middle East bunkering hub of Fujairah may have been rattled by the recent tanker attacks in the Gulf of Oman, but officials are adamant that it will be business as usual, as the port and accompanying free zone forge ahead with diversification plans.

Fujairah is trying to compete with other bunkering and oil storage hubs like Singapore, the world’s biggest, and Amsterdam-Rotterdam-Antwerp, the huge oil refining and distillate storage complex spanning the Netherlands and Belgium.

Officials and operators hope to capitalize on Fujairah’s strategic position outside the Strait of Hormuz, a chokepoint where daily oil flow accounts for 21% of global petroleum liquids consumption, according to the US Energy Information Administration.

But the port and adjacent free zone in Fujairah, where two refineries and 17 oil terminals are located, are exposed to the rising tensions between Iran and the US, and have suffered a dip in bunkering activity as higher insurance premiums dissuade vessels from refueling in Fujairah, according to traders.

Iran has threatened to close the strait after the US re-imposed sanctions on Iranian crude oil exports last year, and this year did not renew waivers to eight countries to continue to import oil from Tehran.

Choppy waters

The positioning of Fujairah, one of the seven emirates that make up the UAE federation, is vital to the UAE, OPEC’s third largest oil producer, which pumps about 3 million b/d, mostly from state-owned Abu Dhabi National Oil Company. The Habshan oil pipeline carrying Murban crude for export from Fujairah is the country’s only oil pipeline that lies outside the Strait of Hormuz. Murban is a key oil grade for the UAE.

Officials argue that the port and zone will not be hindered by the regional tensions, while analysts believe that, although Fujairah will see continued growth in oil storage, it is likely to lose some bunkering business.
The port does not reveal bunkering data, but officials say overall throughput at the Fujairah Oil Tanker Terminals grew in May and June on the year. The throughput at FOTT excludes volumes from the Vopak jetty and ADNOC’s single-point mooring facilities, which export Murban crude.

“We have seen a big upturn this year. May 2019 was our second-highest throughput [for oil products] since September 2016, when it was a boom time for the oil industry,” said William List, manager of Fujairah Oil Tanker Terminals.

“It is business as usual within the Port of Fujairah, the additional safety and security measures taken mean we haven’t been significantly hindered by what’s been happening to the vessels [in the Gulf of Oman],” List added.

Six vessels have been attacked in the Gulf of Oman since May. US officials blamed Iran for the last two vessel attacks in June, which was also marked by Tehran shooting down a US drone.

“While the knock-on effect on the bunkering demand in Fujairah is fairly visible, the port seems to continue seeing similar flows of products [including fuel oil] in and out, i.e. trade is not impacted as much as bunker demand is,” said Iman Nasseri, managing director for the Middle East at consultancy Facts Global Energy.

Neighboring Oman, whose ports lie outside the Strait of Hormuz, could potentially attract some bunkering activity in the future, especially the up-and-coming development of Duqm on the Arabian Sea, according to analysts.

Oman, the biggest Middle East oil producer outside OPEC, has its own ambitions to develop bunkering and oil storage hubs. Oman Tank Terminal Co and Occidental Petroleum signed a memorandum of understanding in 2017 to potentially store up to 2 million barrels of Oxy’s crude, which could include US crude grades, at Ras Markaz.

“If you think of [a] potential alternative you can think of Duqm, which could emerge as a competitor. If they are not bunkering in Fujairah they are likely to bunker in the Mediterranean or Singapore,” said Alan Gelder, a vice-president for refining at consultancy Wood Mackenzie.

“Bunkering is a global, competitive business.”
Expand and diversify

“We are working on attracting more investment in petrochemicals, in refining, in bitumen, in LNG, in LPG and to diversify the offered activities,” said Salem Al Hamoudi, director of the Fujairah Oil Industry Zone. “We are increasingly focusing on soft growth of the area and how to emerge as a fully integrated energy hub.”

As an integrated hub, Fujairah is seeking to be more than just a bunkering and oil storage center but also a place where companies trade products. In 2017, Fujairah started publishing weekly product inventories to help boost its status.

Despite analysts’ reservations, there are some positive signals, including concrete steps towards the expansion of Fujairah’s physical infrastructure.

ADNOC is building an underground oil storage facility in Fujairah that can store 42 million barrels of crude.

Aramco Trading Company, a unit of the state-owned Saudi energy giant, opened an office in Fujairah this year and is mulling acquiring oil storage facilities there, the trading unit told S&P Global Platts in June.

Brooge Petroleum & Gas Investment Co., a UAE company, has 400,000 cu m of oil products storage and is building an additional 600,000 cu m of capacity for crude oil, along with a 250,000 b/d refinery that it says will begin its first phase of operations by the first quarter of next year.

“There is increasing interest to invest in additional storage, especially crude and currently we are operating at a very high capacity utilization,” said Al Hamoudi, though he declined to specify the utilization level.

Currently, oil and products storage capacity stands at 10 million cu m (62.9 million barrels), divided into 3 million cu m of crude and the remainder oil products. The UAE’s oil and products exports stood at 2.3 million b/d and 916,000 b/d, respectively, in 2018, according to OPEC. Singapore’s current estimated storage is 22 million cu m, while Rotterdam has 6.75 million cu m.

Storage capacity is forecast to reach 16 million cu m by 2023, Al Hamoudi said. Companies that own storage terminals in Fujairah include Vopak, Vitol and Mercuria.

Chris Wood, managing director of Uniper Energy DMCC, which owns a refinery at Fujairah, was bullish about the zone’s prospects.

“If you look at their ambitions, the investment plans they have around the Free Zone and announcements around crude storage and crude trading, I think they will continue to grow as a significant trading hub for the Middle East,” said Wood.

“We’ve been through this [tanker attacks] once before in the 1980s and it didn’t change the Middle East as far as crude exports and crude storage.”

During the 1980-88 Iran-Iraq war, hundreds of tankers were attacked in the Persian Gulf and the US got involved when Kuwait asked Washington to help protect its tankers. Throughout that war, the Strait of Hormuz remained open.

LNG and beyond

Meanwhile, Fujairah is also eyeing developing an LNG terminal as part of its diversification plans.

“We are promoting the idea of an industrial use of an LNG terminal, with a branch activity serving the offshore demand for ships that require LNG,” said Al Hamoudi.

“We have interested parties to start LNG bunkering in Fujairah. It is a question of time and demand, when the LNG bunkering will be available in Fujairah.”

This is not the first time that an LNG terminal project has been discussed in Fujairah, however. The Abu Dhabi government-owned Mubadala Investment Company had previously mulled setting up an LNG import terminal, but the project was shelved.

Fujairah oil product stockpiles

(million barrels)

Source: S&P Global Platts
Fujairah is not the only place eyeing the role of LNG bunkering hub. Last year, Oman signed an agreement with France’s Total that includes the possibility of establishing an LNG bunkering unit in the port of Sohar.

“An increasing number of new ships are choosing LNG as a fuel and LNG bunkering could be quite a differentiator for Fujairah and make sure they are on the global network of LNG bunkering hubs, that could be one way of attracting volumes,” said Wood Mac’s Gelder.

“LNG as an industrial fuel, that could be a good thing for companies in that region because they should have access to relatively low cost and relatively clean fuels which enhances their competitive position.”

The other two smaller projects Fujairah is focusing on are LPG terminals and a bitumen refinery.

“We are exploring the potential of establishing a bitumen refinery,” said FOIZ’s Al Hamoudi. “Bitumen is a commodity that is required for each country and I believe we are importing some of our local consumption of bitumen. Such a specific project is going to add value to the local and international market.”

**Links in the supply chain**

Then there is the opportunity of IMO 2020, which could provide Fujairah with increased volumes, according to officials. From next January, the International Maritime Organization will reduce the permitted content of sulfur in marine fuel to 0.5% from the current 3.5%.

The two existing Vitol and Uniper refineries in Fujairah can produce low-sulfur fuel oil, and Brooge’s refinery currently under construction should add to this capacity from early 2020.

“Having two refineries in Fujairah both capable of producing compliant fuel oil [0.5% LSFO] and the blending capabilities of the terminals within Fujairah places the port in an ideal situation to capitalize on opportunities to grow the bunker business further,” said FOTT’s List. “Fujairah historically has been known as a blending hub, and going ahead products will need to be blended and we have the flexibility to do all that.”

Putting aside the hostilities in the region, analysts say that Fujairah needs a differentiating factor and a role beyond bunkering to continue to grow. Just as Singapore grew out of establishing a refining and petrochemical hub, Fujairah may need to follow a similar path.

“Singapore has refining and petrochemical projects and that gives them the opportunity for trading not only in crude but also in products and intermediates, which is how you can get a much more diverse portfolio of products moving in and out and that’s what you need to really become a major trading hub,” said Wood Mac’s Gelder.

Aramco’s opening an office in Fujairah and potentially trading from there could be a lodestar for the emirate, its port and its oil zone.

“All of those plans will certainly help Fujairah’s role to expand beyond a major bunkering and storage hub, to something close to Singapore and ARA, towards becoming a major trading hub,” said FGE’s Nasseri.

*Additional reporting by Claudia Carpenter*