GI Consultancy
Gulf Intelligence

MAY 2016

Whitepaper

What is the Outlook for the Establishment of Middle East Oil Products Benchmarks?

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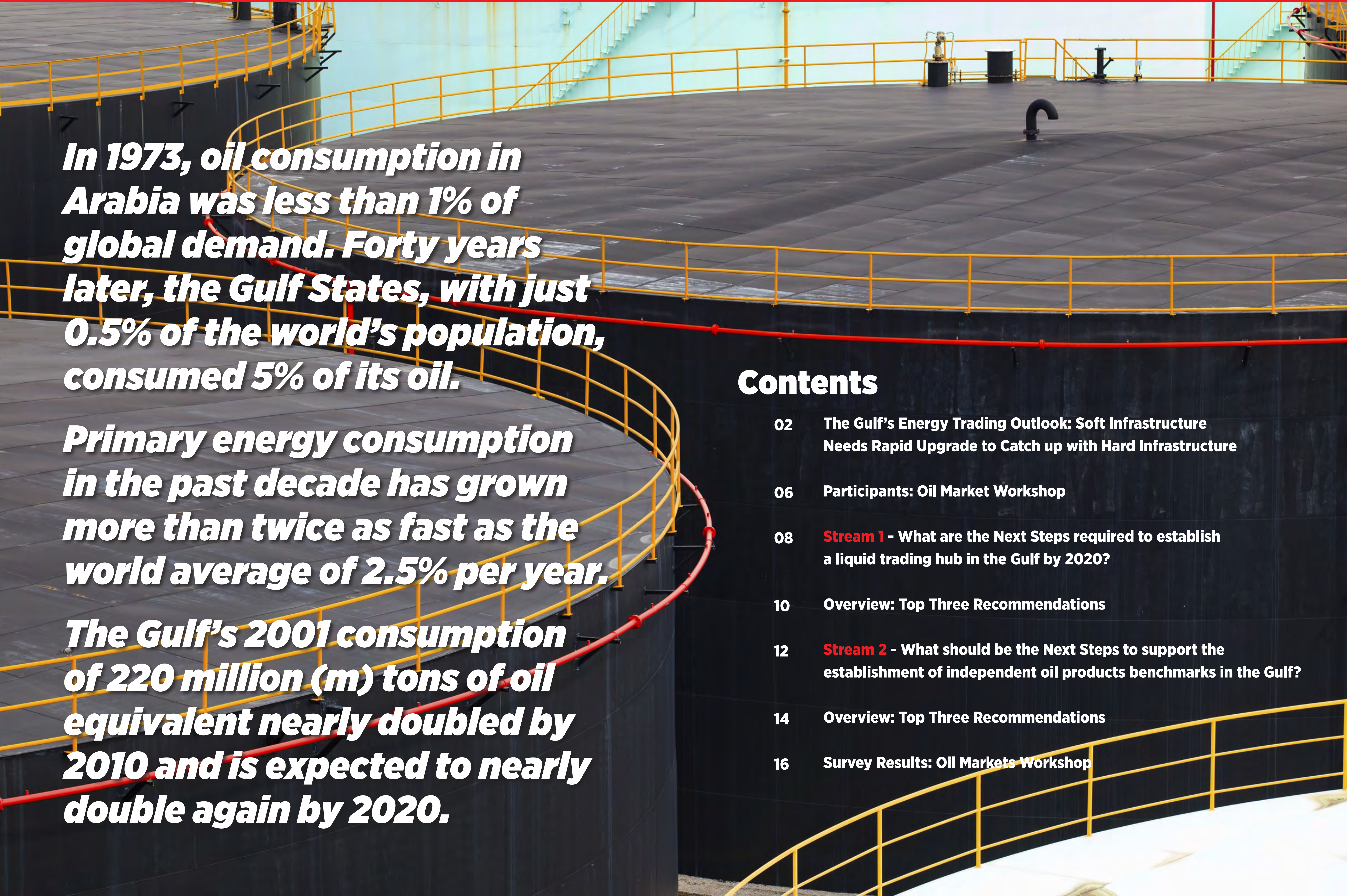

In 1973, oil consumption in Arabia was less than 1% of global demand. Forty years later, the Gulf States, with just 0.5% of the world's population, consumed 5% of its oil.

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The Gulf's Energy Trading Outlook: Soft Infrastructure Needs Rapid Upgrade to Catch up with Hard Infrastructure

In recent years, the Gulf has seen the growth of an array of key features of a world-class oil trading hub. It has become a major logistics hub, with pipelines, vast storage and several deep-water ports. It is supported by growing financial centers and now the majority of banks, oil companies, multi-nationals, national oil companies (NOCs) and trading houses are represented there. The region is also in the midst of a refining construction boom, with more than a million barrels a day of capacity added in the last few years. There is plenty more to come.

Yet, the physical spot markets are still somewhat old-fashioned. In essence, they revolve around benchmarks based in other regions and are not supported by deep and localized derivative markets. Physical trades tend to be point-to-point, without chains of traders and position-taking – both key generators of liquidity. Plus, transparency around pricing and fundamentals data is sporadic.

There is a growing desire to see the market develop, as the domestic downstream markets in the region post some of the strongest growth figures of any in the world and the refining construction boom looks set to continue. The soaring regional demand for jet fuel, naphtha, diesel, gasoline and fuel oil are propelling discussions on the need to establish independent oil products benchmarks in the Gulf.

The Gulf Intelligence Oil Markets Workshop held on April 27th, 2016 and supported by Fujairah and S&P Global Platts was tasked with the challenge to identify and shortlist the most urgent 'next step' recommendations required to tackle two critical questions:

1. What are the barriers to establishing a global energy trading hub in the Gulf region?

2. What steps can be taken to support the establishment of independent oil products benchmarks in the Gulf?

The ultimate drivers of high rates of energy consumption in the Gulf are government policies. In the early days of oil, policy focused on national development. Energy resources were seen foremost as generators of export revenues, which were then invested to advance improvements in infrastructure and economies.

In 1973, oil consumption in Arabia was less than 1% of global demand. Forty years later, the Gulf States, with just 0.5% of the world's population, consumed 5% of its oil. Primary energy consumption in the past decade has grown more than twice as fast as the world average of 2.5% per year. The Gulf's 2001 consumption of 220 million (m) tons of oil equivalent nearly doubled by 2010 and is expected to nearly double again by 2020.

Saudi Arabia's Significant influence

Saudi Arabia is by far the largest of the Gulf states by population, economy and energy reserves, has shot up the ranks of global oil consumers. By 2009, the Kingdom had surpassed Brazil and Germany to become the world's No. 6 oil consumer, despite its comparatively small population, economy and industrial base. By 2014, Saudi Arabia and Russia – another major oil producing and exporting country – were consuming oil in nearly equal amounts: 3.185m barrels a day (b/d) in Saudi Arabia and 3.196m b/d in Russia. While Russia's plentiful natural gas supply allows it to substitute for oil in the domestic economy, oil-based energy prices in Russia are also much higher. For example, a liter of gasoline sold for 86 cents in Russia in 2014, but 12c in Saudi.

SAUDI OIL CONSUMPTION IN PERSPECTIVE

Country	Oil consumed 2014 (m bbl/d)	GDP 2014	Population 2014	Oil consumption per capita (bbl/yr)
Brazil	3.23	US$2,353bn	203 million	5.8
Germany	2.37	US$3,860bn	81 million	10.7
Saudi Arabia	3.20	US$752bn	31 million	37.8
Russia	1.50	US$1,857bn	144 million	8.1

Source: IMF World Economic Outlook 2015, BP Statistical Review 2015

Power generation growth in the GCC countries has been nothing short of dramatic, given that most of the region was un-electrified as recently as 1960. In Oman, large-scale electrification did not even unfold until well into the 1970s. Many residents can remember the difficult days before refrigeration and air conditioning. Residents of the richer states of Kuwait, Qatar and the UAE now consume more electricity, on average, than residents in the US.

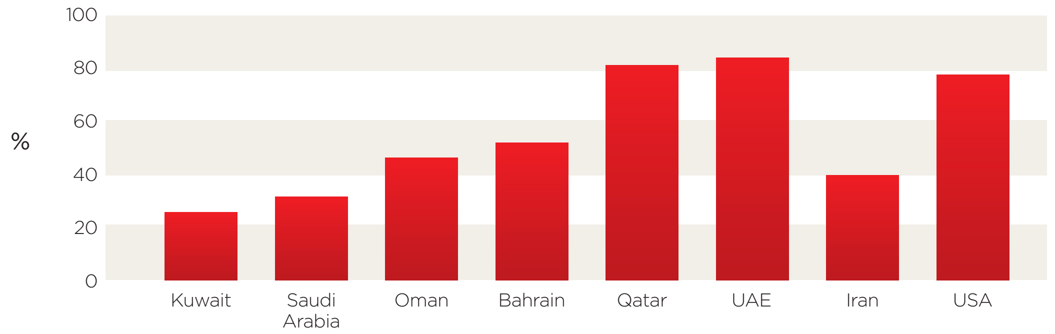
The growth of power generation averaged 10% per year since 1973, slipping to 7% per year between 2000 and 2010, which was slightly faster than the average GDP growth that decade of 6.5%. About 60% of power generated in the GCC countries flows from natural gas-fired plants, versus 40% for liquid fuels, such as crude oil, diesel and heavy fuel oil. Overall, about a third of all natural gas produced in the Gulf states is consumed in regional power generation. Gas demand is exacerbated by its use in producing desalinated water, which is often in co-generation plants that use waste heat to produce electricity.

In recent years, growth in electricity demand has outstripped domestic supply of natural gas in five of the six GCC states. Only Qatar commands a sufficient supply for the foreseeable future. The shortage leaves Gulf states facing higher marginal costs for new power generation and production of desalinated water. In the past, governments had to cope with the cost of building plants, while surplus feedstock was made available as a byproduct of oil production.

Now, policymakers must contend with market-priced imported fuels, the expensive production of unconventional gas, or the opportunity cost of burning crude oil and other costly liquid fuels. Oil demand has risen across the GCC by an average of 9% per year since 1973, growing faster than GDP, on average. Aggregate oil consumption in the six GCC states was less than 500,000 b/d in 1973 and more than 4m b/d in 2014.

Although power demand has been problematic in all GCC States outside Qatar, Saudi Arabia and Kuwait face the highest demand pressure because of their reliance on liquid fuels – crude oil, heavy fuel oil and diesel fuel – for most of their power generation feedstock. Hence, while oil consumption in the remaining GCC states is weighted more heavily toward the transport sector – where oil is considered most valuable – burning of liquid fuels for power generation is still dominant in Saudi Arabia and Kuwait. (See charts)

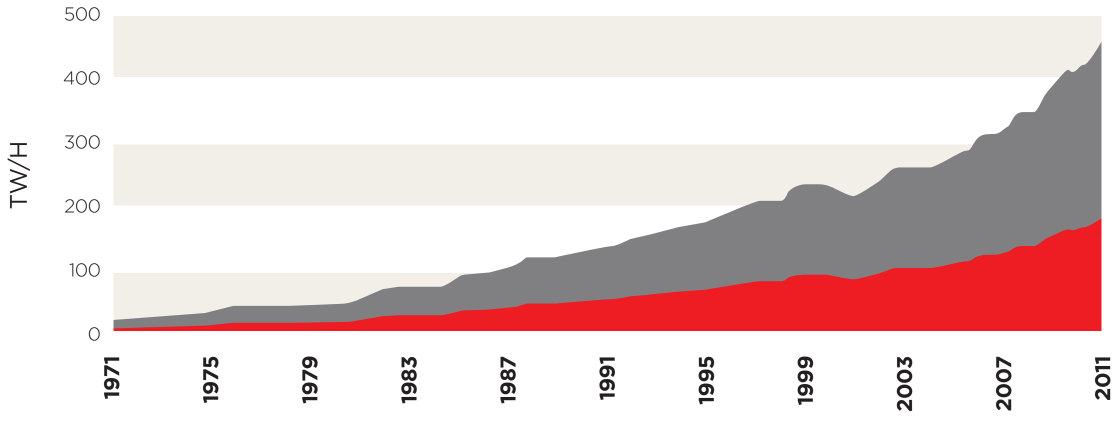
OIL CONSUMED IN TRANSPORT SECTOR AS SHARE OF TOTAL DEMAND IN 2012



Among GCC states, oil is chiefly used as transport fuel in Qatar and UAE, as is the case in most of the developed world
(Source: IEA 2015)

Saudi Arabia consumed more than a quarter of its overall production in 2013. Direct burn of crude oil for power generation reached an average of 0.7m b/d from 2009 to 2013 during the months of June to September, with peak month power sector consumption rising as high as 900,000 b/d. While Kuwait is gradually shifting toward natural gas via imported LNG, Saudi crude burning looks set to top 1m b/d by 2020. Low domestic prices for crude oil – roughly $5/bbl in Saudi Arabia – are a major factor encouraging crude oil demand.

GCC POWER GENERATION BY FEEDSTOCK SINCE 1971

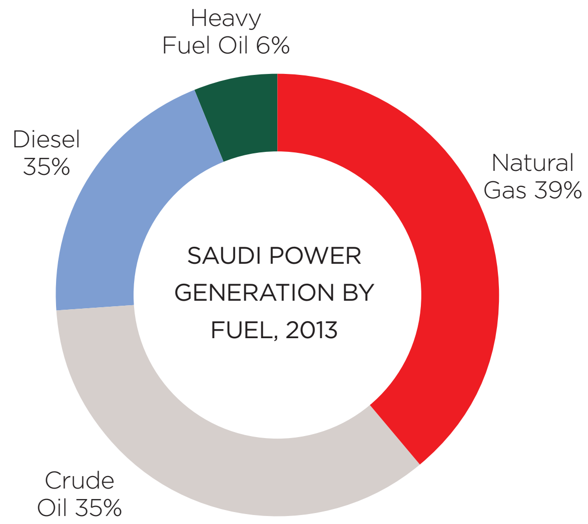


Aggregated total GCC electricity generation in terawatt-hours since 1971, highlighting the share of power generated with natural gas and that generated by liquid fuels (crude oil, heavy fuel oil and diesel by feedstock, 1971-2011
(Source: IEA 2013)

Intensifying domestic crude burning coupled with a 1.4m b/d increase in crude shipments to Aramco refineries inside and outside the kingdom signal that Saudi Arabia is moving beyond its long-held role as the world's market-balancing supplier of crude oil. Recent data show slipping Saudi crude exports, alongside flat or rising production. Assuming that Saudi crude production remains constant at around 10m b/d, the amount of crude available for export could fall below 5m b/d by 2020.

Shifting Dynamics Across the Middle East

There have been several shifts in the global dynamics that will impact the Middle East's oil product market. Investments in downstream infrastructure and subsequent oil product supply in the Middle East, which sits in the heart of the New Silk Road, has become increasingly prominent – especially as European suppliers shrink back after more than a century of dominance.



Saudi power generation by feedstock, with shares given for liquid fuels, 2013
(Source: MEES 2014)

Plus, the lifting of sanctions on Iran in January will likely have a significant impact on the Gulf's oil product supply and access to Asian clients, especially in the fuel oil market. Iran's fuel oil exports in January were up 81% from around 420,000m tonnes in January 2015 and February exports are roughly double the year before. Around half of Iran's estimated 1.2m tonnes of fuel oil exports loading in February are expected to end up in Singapore, with the other half of likely to find a home in the Fujairah bunker fuel market.

State Oil Company of Azerbaijan Republic (SOCAR) is considering exporting oil products to Tehran, which could be incorporated into its plans to trade around 22m tonnes of its own supply this year and about 11m tonnes of non-Azeri oil and products globally – unchanged on 2015. Plus, are opportunities for the Middle East's oil product traders in India's rising gasoline consumption? There was roughly half a million barrels per day of motor spirit consumed in January 2016 – February 2016, according to India's Petroleum Planning and Analysis Cell of the Ministry of Petroleum.

Oil Markets Workshop – April 27th, 2016

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SEAN EVERS

Sean Evers is the Founder and Managing Partner of Gulf Intelligence. Mr. Evers has spent his career building ground-breaking media enterprises, starting with the award winning Punchbag Productions across Britain and Ireland, which secured the top award at the 1992 Edinburgh Festival. In the mid-1990s, Mr. Evers was appointed Cairo correspondent for The Financial Times. In 1997, Mr. Evers was recruited by Bloomberg to open up the company's presence in the Middle East, which began in the UAE. Over the following decade, Mr. Evers expanded the US media company's regional bureau network from Cairo to Tehran – Dubai was designated as the firm's fourth global hub in 2008. Mr. Evers attained a BA in Politics & Economics from the University of Notre Dame in Indiana in 1988 and went on to secure his LLB Law degree at The National University of Ireland Galway (NUIG).

Stream 1 – Workshop
What are the Next Steps required to establish a liquid trading hub in the Gulf by 2020?

Easy access to capital, ever-growing infrastructure, healthy volumes of trade and robust oil price benchmarks underscored by transparent methodologies are the key ingredients needed to deepen the Gulf's global trading footprint.

Fujairah's location south of the Straits of Hormuz in the UAE makes it the region's most strategic spot to bolster the Middle East's global trading presence, according to 83% of respondents to a Gulf Intelligence (GI) Industry Survey in April 2016. Surprisingly, Sohar in Oman and Bahrain did not receive a single vote, with 11% preferring Dubai.

Part of Fujairah's popularity is its offering as a one-stop shop, with the port able to provide supplies, bunkering, crews and so on. Today's 9 million (m) tons of oil storage is expected to climb to 14m by 2020. Fujairah's crude offering is ever-widening as well, such as UAE Murban, Iraqi Basrah Light and Masila from Yemen featuring on the product list. Part of the attraction, for traders especially, is that Fujairah is largely a deregulated market compared to the eagle-eyed regulators monitoring Singapore and Rotterdam.

While Fujairah's tool box is filling up, some elements need sharpening. All stakeholders, including Fujairah, must make an effort to run a tighter operation that

83%

Fujairah is best-placed to become the Middle East's major trading hub, according to 83% of GI Industry Survey respondents.

meets the global standards set by other trading behemoths, notably Singapore and Rotterdam. It is equally worth noting that Singapore has had over a century of practice, from when Sir Stamford Raffles founded modern Singapore as a free port in 1819, to it becoming the world's largest container port for the first time in 1990.

Historically, a hub would need pricing guidance, trade and capacity – boxes that Fujairah has already ticked. But the emirate still needs to elevate its operations to meet the standard global transparency operating practices, which includes regular and easily accessible data sets.

The three winning recommendations of the Oil Markets Workshop address the most effective 'next steps' that could be made to bolster Fujairah's offering as a global hub. All the recommendations are intertwined, from establishing an independent benchmark for fuel oil, to publishing storage data and improving the overall legal architecture.

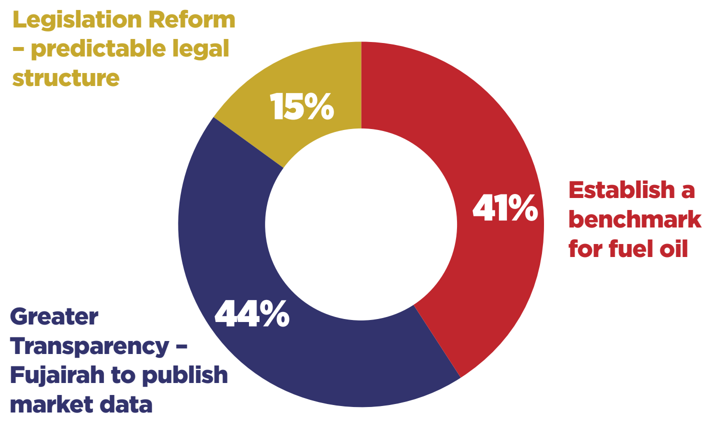
Other top recommendations – coming in fourth and fifth, respectively – was the need to improve the connectivity between third party storage and Abu Dhabi's National Oil Company (ADNOC) at Fujairah and bolstering the region's small trading community.

Linking ADNOC's facilities, which carry Murban crude, with third party storage would help promote transparency, flexibility and volume growth for ADNOC, Fujairah and all the port's customers. Nearly all (92%) of survey respondents said Abu Dhabi would benefit from maximising the opportunity to build a global trading hub in the UAE – an oft-discussed point that has yet to gain traction.

Meanwhile, the limited trading community in Fujairah and the wider Gulf is seen as an untapped opportunity, especially considering the region has an advantageous time zone as it is nestled between Europe and Asia. The tightening regulatory control and lower salaries in Europe should theoretically encourage traders and relevant professionals – brokers, lawyers and accountants to name a few – to migrate eastwards.

So far, Fujairah's proven capabilities as

What is the Most Urgent Recommendation Required to Establish a Liquid Trading Hub in the Gulf by 2020?



the region's preeminent trading hub have triggered a wave of optimism, with 51% of survey respondents saying the Middle East can evolve its trading presence to rival Singapore and Rotterdam within 2-5 years. Others are less bullish, with over a third (37%) expecting it to take five years plus before the Middle East can near the podium hosting Rotterdam and Singapore, as governmental red tape, political quibbles and regional competition drag the timetable backwards.

The pace of the region's growth into a global trading hub remains to be seen, with many saying the responsibility to fulfil the vision lies in Fujairah's hands. As His Highness Sheikh Mohammed bin Rashid Al Maktoum said: "Opportunities are made – they do not just lie around waiting for someone to grab them."

92%

Abu Dhabi would benefit from a global trading hub in the UAE, according to 92% of GI Industry Survey respondents.

Top Three Recommendations

1 Fujairah must publish storage data

Visibility provided by regular and publically available data is a key ingredient of successful liquid trading hubs around the world. The lack of such transparency at Fujairah is thwarting the region's ability to elevate its global prominence. Publishing data reduces market opacity and enables traders and investors to see opportunities and risks more clearly, thus enabling them to develop cohesive risk-aware strategies and ultimately lock in greater profits.

Fujairah needs to encourage its customers to publish weekly inventory data to replicate the data sets that are provided by customers in other major trading hubs, such as an aggregate breakdown of crude, residuals, middle distillates, light ends and so on. Publishing weekly data can also translate into effective marketing for Fujairah and serve as an education for those outside the region without an appreciation of Fujairah's ever-growing capabilities. Traders often push back when the need for greater data transparency is discussed, but such would meet reflects the standard operating procedures of global hubs – a position Fujairah is trying to achieve.

A small number of participants at the Oil Markets Workshop said that traders already tap into the data they need, so data transparency should not be a prerequisite for establishing independent oil products benchmarks and boosting Fujairah's global position. But the majority countered that improving data availability would be highly useful for external players who are not involved in day-to-day trading activities, such as refiners and financial institutions.

Clear data sets will encourage PRAs to establish independent oil products benchmarks and help secure investments.

2 Create a local and independent benchmark for fuel oil

Creating a benchmark for fuel oil by a pricing reporting agency (PRA) would help facilitate the development of a healthy derivatives market and mitigate financial risk. The sliding oil price since mid-June 2014 has meant that back-to-back trading has become increasingly uncommon. Companies have been taking long positions and putting more oil into storage due to the current contango – when the spot price is cheaper than that of forward price.

The Mean of Platts Arab Gulf (MOPAG) is already an important pricing point for the Middle East, Indian Subcontinent and East Africa. All three regions use the price for their physical pricing, which is derived by using the Singapore price minus freight. Historically, this system worked well as all fuel oil would go one way from Europe, the Black Sea and Baltic Sea via the Middle East to Singapore. This is no longer the case, with flows from the east heading back to the west, such as Singapore to the Middle East. Consequently, the freight factor that is included in the assessment of the MOPAG is no longer as reliable a figure to hedge fuel oil that is stored in Fujairah. Generally speaking, all oil volumes are hedged financially, but the fuel oil that is stored and traded out of Fujairah only has one effective hedging instrument – the Singapore swap.

An independent benchmark for fuel oil would help hedge risk and more accurately reflect local activity.

3 Legislative reform: Create a predictable legal structure

At 44 years old, the UAE is still a young jurisdiction and the legal architecture needs fine tuning to bolster energy and trading stakeholders' investment appetite to strengthen Fujairah's global footprint. A more mature legal structure in Singapore and Rotterdam provides security of the product on structured transactions and reassures refiners and investors.

Creating a predictable legal structure enables lawyers and traders alike to improve the risk profiles of transactions, as well as maximize the economic returns. For example, some banks supporting trading and related activities in the Gulf question how the current legal structure would withstand a case involving insolvency. This query has gained traction as energy stakeholders' balance sheets have come under increased strain amid sliding oil prices since 2014 – punctuated by a 12-year low in January 2016.

There is a difference between commodity banks, such as ING and Rabobank, and banks that support commodity-related projects. The latter applies to many local Gulf banks and there are significant opportunities for such financial institutions to expand their commodity-related business alongside Fujairah's growth. But, the banks need a firm legal compass.

Improving the UAE's legal framework will take time, but the process could be accelerated as Europe's increasingly stringent regulations and limited economic growth encourage legal professionals to relocate. A larger community in the Gulf would help leverage the market's appetite to pin down a tighter legal framework.

But, who would the responsibility of such adjustments fall to – would it require tweaks to federal law, or would it be an emirate-specific structure? If it is a case of federal law, this would require a close alignment between Fujairah and Abu Dhabi. Whatever route is pursued, there is little doubt that the intricacies of the legal framework in Fujairah need further attention if the region is to contend on the global stage.

A firm legal compass is crucial to Fujairah's ability to enhance local and foreign traders and banks' appetite.

Stream 2 – Workshop

What should be the Next Steps to support the establishment of independent oil products benchmarks in the Gulf?

Independent and successful benchmarks are underpinned by transparency, robust methodologies and a level playing field that allow price formation to take place in the open, rather than behind closed doors. This gives all market participants robust pricing data and insights on which to base their trading activities. The demand for commodities, including oil products, is steadily shifting from west to east and the Gulf is well-placed at the heart of the global crossroads.

The paradigm shift for oil flows has been particularly obvious in the last eighteen months, with the volumes through Platts' Dubai price assessment process hitting record highs. Last year's total volumes reported through the Platts Market on Close (MOC) process were seven times higher than in 2009.

But fortunate geography and rising appetite does not immediately translate into independent oil products benchmarks. As the Gulf ramps up its refining capacity and energy consumption soars, independent Middle East oil products benchmarks are urgently required, according to 72% of respondents to a Gulf Intelligence (GI) Industry Survey in April 2016. Nearly a quarter (22%) said independent benchmarks would be nice to have, but not critical, while 6% said there are already plenty of global price points.

72%

Independent Middle East oil products benchmarks are urgently required, according to 72% of GI Industry Survey respondents.

Prices made in Singapore are used to value most of the refined products produced, consumed and traded in the Middle East. Even pump prices in the UAE are determined by Platts Singapore. Yet, the netback pricing from Singapore does not reflect trade flows in the Gulf.

Gasoline, diesel, jet fuel and naphtha are the main oil products in the Gulf's trading ecosystem. While Fujairah is continually growing, it is not even close to matching the might of Singapore where 120 companies actively trade refined products. But, establishing independent oil products benchmarks would significantly help leverage the region's position as a serious global trading hub.

It is a critical time for Fujairah to fine-tune its potential. China, the world's largest crude importer, is looking to establish its own crude derivatives contract. Beijing hopes it will evolve into the world's third global crude benchmark, alongside London's Brent and the US' West Texas Intermediate (WTI). If realized, trillions of dollars would flow through the Shanghai International Energy Exchange (INE) and it would be considerably harder for Fujairah's independent benchmarks to gain traction on the global trading circuit.

An awareness campaign that not only highlights Fujairah's rapid infrastructure expansions, but also the key points surrounding trading would be hugely beneficial on several levels – a champion to communicate the region's ambitions.

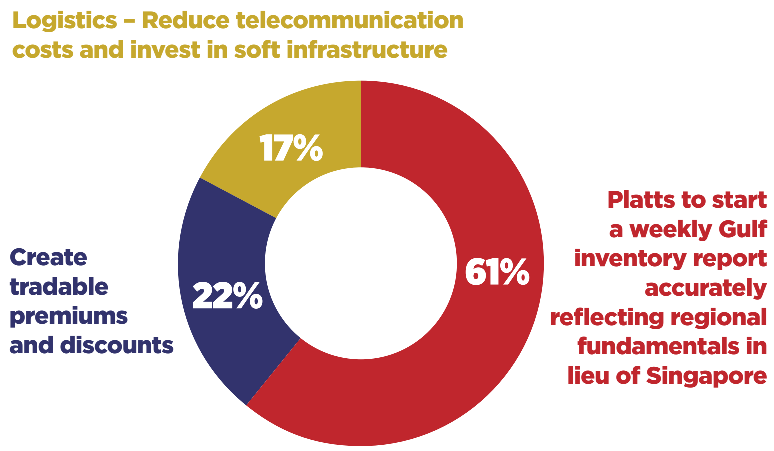
Enhancing awareness would add to the current momentum to establish independent oil products benchmarks in the Gulf, highlight the UAE's appetite to attract trading and legal talent and remind global competition that Fujairah's journey towards global prominence is unabated.

Such a campaign could potentially be done by the price reporting agencies (PRAs). Platts launched a window in Japan for Japanese domestic refined products in late-April, which encompassed a wider awareness campaign, for example.

The Dubai Mercantile Exchange (DME) also plans to list the Middle East refined products on its first platform from May 16, which opens the way for traders to directly hedge fuel oil delivered in the Gulf region and to trade the important spread between the Middle East and Singapore fuel oil markets. A handful of participants said the launch is directionally positive for the DME, but it holds little value for Fujairah's longer-term ambitions as the pricing is pegged to the MOPAG's 180cst and MOPAG 380cst assessments.

The three final recommendations that emerged from the Oil Markets Workshop aim to develop a stronger and more transparent springboard from which independent oil products benchmarks can be launched.

What is the Most Urgent Recommendation Needed to Deliver Successful & Independent Oil Products Benchmarks in the Gulf?



120

The number of companies that actively trade refined products in Singapore.

Moderator
ALBERT W. STROMQUIST

Mr. Stromquist is Founder, Senior Partner and Managing Director of Abu Dhabi-based Lanstrom Advisors – leaders in corporate strategy, public policy and bespoke investments in socially conscionable alternative energy technologies.

Mr. Stromquist earned a BSc in Mechanical Engineering from Worcester Polytechnic Institute and a MSc in Geology from the University of Massachusetts.

Top Three Recommendations

1 A weekly inventory report to reflect the Gulf's fundamentals

The culture of secrecy in the Middle East still has great influence in the traded markets and NOCs, such as ADNOC and ENOC in the UAE, yield considerable clout over energy stakeholders. In order to attract enough investors and trading appetite to evolve into a global trading hub that rivals Singapore and Rotterdam, the Gulf must produce a weekly inventory report that directly reflects the local outlook.

While not a global hub, Fujairah is not a small operation; today's 9m tonnes of storage is expected to swell to 14m tonnes by 2020. Yet, netbacks based on Singapore prices do not bear any semblance to trade flows in the Gulf and pricing should be based on the physical trading that occurs locally.

An independent fuel oil contract was highlighted by the majority of workshop participants as the next natural step; state-owned Saudi Aramco has a thriving fuel oil portfolio in Fujairah, for instance. It is important to note that independent price assessments will not replace MOPAG, but will instead aim to expand Fujairah's offering.

Fuel oil in Fujairah is not integrated with the demand slate of the UAE, or even the wider GCC market, as there is not a significant level of domestic demand. But, the export and bunkering markets are sufficiently differentiated from Singapore and of sufficient scope and scale to justify a unique price discovery in Fujairah – this cannot be done without solid inventory data.

One factor that confuses the outlook somewhat is the acceleration of Iranian products coming into the market this year following the lifting on January 17 of Western-imposed sanctions. For now,

there is still ambiguity surrounding the legality of trading Iranian products, though there is a robust trade in blended Iranian fuel oil in Fujairah.

There needs to be considerably more transparency at Fujairah and by its partners and customers. All those involved in the ecosystem – PRAs, traders, port managers, refiners, lawyers, bankers and so on – need to be confident that they understand the mechanisms and safety nets that make up the market before they can actively support the establishment of independent oil products benchmarks. Strong comparative data is vital, so that all parties can easily investigate the cause and consequence of inventory and pricing, and vice versa, for example.

A weekly inventory report is also crucial to bettering the understanding of energy stakeholders and financial institutions that operate elsewhere, especially as foreign human and financial capital are integral to expanding Fujairah's global prominence.

A weekly inventory report does not translate into a silver bullet. But, it would mark a crucial step in facilitating an ecosystem in which independent benchmarks can succeed.

The culture of secrecy in the Middle East does not have a place in the trading markets and weekly inventory reports are vital to elevating the level of transparency.

2 Create tradable premiums and discounts

The existing MOPAG netback arrangement – prices derived in Singapore minus freight resulting in the Middle East price – can lead to highly volatile premiums and discounts in the Middle East spot markets, which today trade as a differential to MOPAG. By creating a strong and liquid derivatives contract, price exposure to those premiums and discounts could be effectively managed through hedging.

Traders would likely be interested in writing derivatives which would hedge their risk. Industry is likely to support such a development, as it does not stray far from existing practices and it is widely agreed that this is a much needed precursor to a fully independent benchmark in the Gulf.

Premiums will usually rise when the market is backwardated – when the spot price is higher than the forward price – and the steeper the curve, the greater the premium. Conversely, in a contango situation – the spot price is lower than the forward price – the premiums have a tendency to turn into discounts.

Hedging the premium, or discount is one potential solution and only more bids and offers on premiums can make it hedgeable. Plus, significant premium swings – during quiet trading periods especially – inhibit small traders, which could hinder the UAE's ability to broaden its trading community. There have been huge swings in spot market differentials against MOPAG, with the range as wide as $12 - $29 per tonne at points, for example.

Tradable premiums and discounts mitigate risk and are a natural precursor to establishing independent oil products benchmarks.

"A weekly inventory report does not translate into a silver bullet. But, it would mark a crucial step in facilitating an ecosystem in which independent benchmarks can succeed."

3 Logistics – Reduce telecommunication costs, boost soft infrastructure

The hard infrastructure developments at Fujairah over the last decade – expanding tank storage capacity by 75% by 2020 and a jetty to receive very large crude carriers (VLCCs) – have been applauded worldwide for their ambition and tight timetables.

But, soft infrastructure needs more attention. There is an urgent need to scale back the escalating telecommunication costs for energy and trading stakeholders based in the Gulf and to enhance the local pool of trading talent.

A lease line – a private bi-directional, or symmetric telecommunications line between locations – running between Chicago and Dubai is the fastest such connection on earth, but the costs can be crippling. High costs are particularly hindering small and medium-sized enterprises (SMEs) from entering the market, especially as oil prices at roughly $45 a barrel (bl) strain energy stakeholders' budgets.

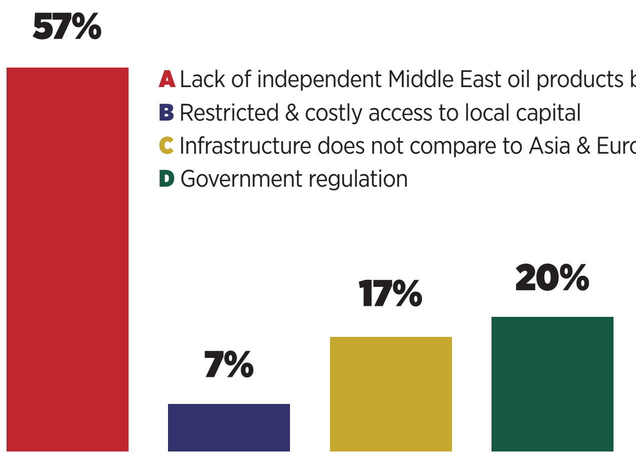
Today's physical commodity market relies on sophisticated infrastructure and speed. Considering the national and regional importance of Fujairah, there is a compelling argument to tackle the high telecommunications costs on a federal, or emirate level.

Plus, the incentives for traders and relevant professionals – the legal community, for example – need bolstering to fully enhance the region's talent pool. Local companies and international firms with local entities need to offer enhanced packages, which could include comprehensive training programmes, to attract both young and experienced professionals to the UAE and wider Gulf.

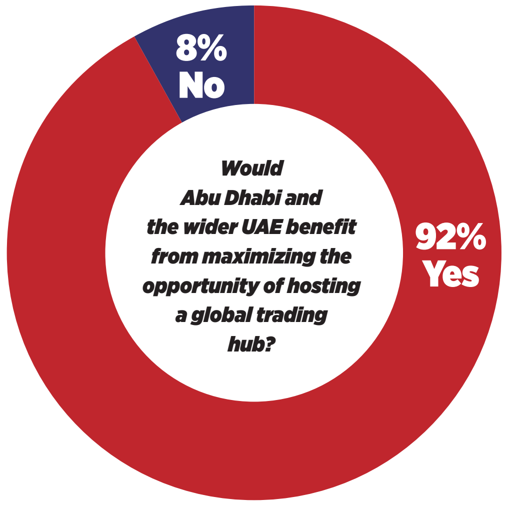
Cheaper telecommunications and a larger trading community are fundamental improvements required to ensure the success of new oil products benchmarks.

Oil Markets Workshop
Survey Results

What is the main obstacle to the UAE's ability to evolve into a mega trading hub that rivals behemoths Singapore and Rotterdam?

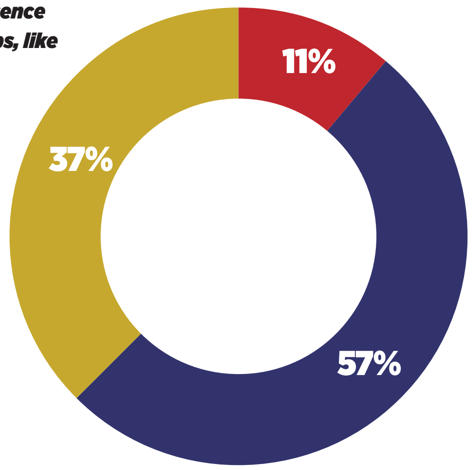


A Lack of independent Middle East oil products benchmarks
B Restricted & costly access to local capital
C Infrastructure does not compare to Asia & Europe
D Government regulation



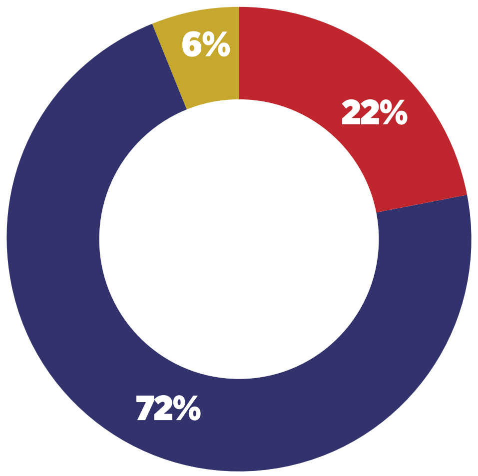
How long will it take for the Middle East to evolve its global trading presence and rival other major global hubs, like Singapore and Rotterdam?

A **1 year** – The trade is there, but needs an independent benchmark
B **2-5 years** – It is a big undertaking & will not happen overnight
C **5 years +** – Politics, governance and regional competition will curb progress



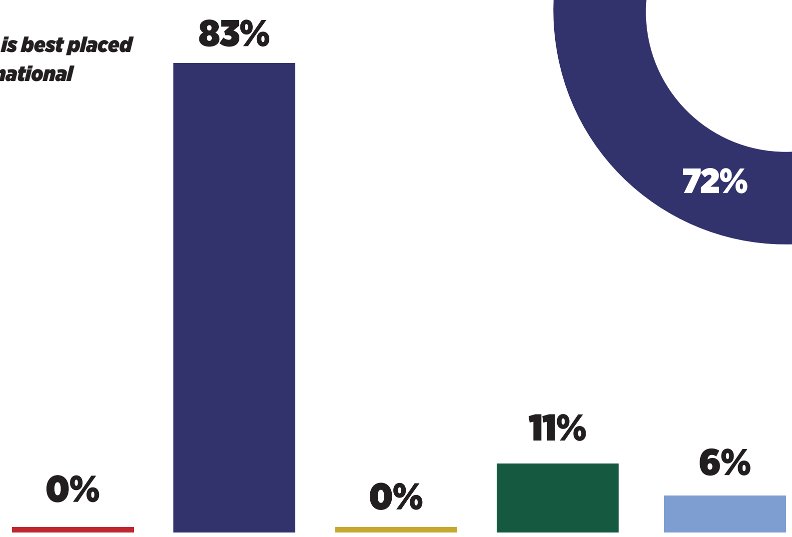
As the Gulf ramps up its refining capacity and energy consumption, independent oil products benchmarks would be..

A Nice to have, but not critical
B Urgently required – it is imperative for price accuracy
C Forget it – there are enough global pricing benchmarks



Which port city in the region is best placed to establish itself as an international energy trading hub?

A Bahrain
B Fujairah
C Sohar
D Dubai
E None of the above



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