Overview of the Middle East’s Bulk Liquid Storage Sector
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Few can argue that The Middle East is one of the most exciting and vibrant regions for the tank storage industry, with continued large scale investments developing at a rapid rate and over 40 million cubic meters of independent tank storage in the region alone. Furthermore the UAE is set to double its capacity in the next few years, with Fujairah now second only to Singapore in terms of bunkering capacity.

Market Outlook

The growth of Fujairah in particular is a key driver in the continued rise of the bulk liquids storage sector in the Middle East. It is perfectly placed to become the key petroleum products hub, and thus will alter global trade flows and most likely strengthen flows into Asia. More than 85% of the 17 million oil barrels per day that pass through the Strait of Hormuz are going directly to the Asian markets. As well as being the second most productive region in terms of bunkering capacity, Fujairah is now ranked as the third largest oil storage and products trading centre in the world, behind Rotterdam and Singapore.

Fujairah is just one of many regions in the Middle East that is driving bulk storage demand. There is more refining capacity being built in Saudi Arabia and the UAE, reaffirming its position as a key exporter. Saudi Arabia has also boosted its output according to OPEC (Organization of the Petroleum Exporting Countries) responding to demand from buyers in Asia.

2015 saw the Gulf Cooperation Council (GCC) States focus on strengthening their oil refining capacity. The bulk of all global refinery projects are coming into the GCC region and it is estimated that around 1 million barrels per day of additional refining capacity will be online by 2017. There are also joint refinery building projects between Kuwait Petroleum Corporation, Saudi Aramco, China, Qatar Petroleum International, Rosneft and the Venezuelan BDTSI company, which will lead to an increase in exports and a decrease in oil imports in GCC countries.

Furthermore, the Kuwait Petroleum Corporation, Petrovietnam and the Japanese oil company Idemitsu Kosan have reportedly agreed to build an oil refinery and petrochemical complex in the north of Vietnam at a cost of $9 billion, with production expected to start in 2017.

Plans and Projects

With the market moving at such a fast pace and the region benefitting from the continued rise of the bulk storage movement, it is no wonder that there are an array of potential builds, projects and plans all set to advance the area even further forward.
Fujairah, as expected, will be playing an increasingly important role in the future of the region, with extra capacity already being constructed. An extra 1.95 million cubic meters is expected to be built by the end of 2015 by Aegean, Concord and METS to mention just a few. This construction work means that the total storage capacity in Fujairah alone, will reach 8.67 million cubic meters.

In addition to this, a refinery is also being constructed in Fujairah, plus two Very Large Crude Carrier (VLCC) berths are being built. Furthermore the VTTI Fujairah Terminal’s tank farm project, which has a crude storage, processing and fuel oil blending facility, will be completed by April 2016.

Oman is another area that is set to expand, with the Port of SOHAR increasing its output from Oman Oil Refineries and Petroleum Industries Company (ORPIC) by an extra 70,000 barrels per day.

ORPIC has also awarded a major project management consultancy contract to Netherlands-based Tebodin for its joint venture project, ORPIC Logistics, in the sultanate. As one of Oman’s largest companies and one of the most rapidly growing businesses in the Middle East’s oil industry, ORPIC has a major role to play in the continued success of the region. The development includes a newly refined products tank terminal, with 14 tanks near Muscat International Airport, along with a 225 km long, 18-inch multi-product pipeline between the refinery in SOHAR and the new terminal. The project is set to take more than 30 months to complete, with an estimated 100,000 man-hours clocked up.

Sticking with projects in the Oman region, ORPIC is building a fuel storage terminal, which will form part of a larger oil distribution centre at Al Jifnain, Oman. The company is investing $80 million in the project, with total investment in the terminal and associated fuel pipeline projects estimated to be around $320 million. The new ‘world-class’ facility will host 12 tanks, with a total capacity of 170,000 cubic meters designed for products including gasoline, diesel and jet fuel.

These examples are just some of the projects that are currently in motion, with many still just in the infancy of design stages, however such rapid growth isn’t unfettered - there are challenges that need to be overcome.

**Market Trends**

Fluctuating oil prices, on a global scale, is one of the industry’s main and most disruptive issues that it faces. Oil is a commodity, and as such, it tends to see larger fluctuations in price, than more stable investments such as stocks and bonds. OPEC is the main influencer of fluctuations in oil prices, controlling 40% of the world’s supply of oil, it sets the production levels necessary to meet global demand. It vowed to keep the price of oil above $100 a barrel for the foreseeable future, but in mid-2014, the price of oil began to tumble. It fell from a peak of above $100 a barrel to below $50 a barrel.

In essence the fall in oil prices was due to a lower demand for oil in Europe and China, coupled with a steady supply of oil from OPEC. The result excess supply of oil caused oil prices to fall sharply.
Political instability in the Middle East can also cause oil prices to fluctuate, especially as the region accounts for the lion’s share of the worldwide oil supply. For example, in July 2008, the price for a barrel of oil reached $136, due to the unrest and consumers’ fears about the wars in both Afghanistan and Iraq.

But anyone following oil prices knows that we are in contango, a somewhat unusual situation in which a futures price for oil -- a promise to buy and sell crude at a certain price in the future -- is higher than the expected future spot price. This market contango is making the storage industry rather favourable at this current point in time, especially for all storage operators on a global scale.

Also altering the progression of the Middle East bulk market is the news that OPEC members have committed to a stable and balanced oil market, agreeing to maintain a current production ceiling of 30 million barrels per day. At the 167th OPEC conference in Vienna, it was noted that the market is 'comfortably supplied' due to the recent build up in stocks and the surplus of oil in both Organisation for Economic Co-operation and Development (OECD) countries and non-OECD countries, which has resulted in stock levels that sit above the five-year average in terms of absolute volumes.

Summary

The Middle East bulk liquid storage sector is in a constant state of flux, with numerous variables affecting the productivity and profitability at any one time. However in its current form, the region is experiencing an almost unparalleled growth, utilising human knowledge and basic geographical advantages to its advantage. It has established itself as one of the most important regions in the world and does not look like it will be slowing down any time soon.

For those looking to understand more about the industry, listen to expert opinions or simply network with the biggest names in the region then a visit to Tank World Expo is a necessity. The leading event of its kind in the region, takes place on 12 & 13 April 2016 at Dubai World Trade Centres, UAE. For more information on visiting the exhibition, booking as a delegate for the conference or becoming a media partner, please call Nick Powell on +44 (0)20 8843 8801 or visit the event website: www.tankworldexpo.co.uk.