The new geopolitics of oil

What the rise of Middle Eastern energy giants means for the Amsterdam-Rotterdam-Antwerp (ARA) port-industrial cluster

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Key takeaways:

- In the *new geopolitics of oil*, the tri-party of state-owned national oil companies, utilities, and sovereign wealth funds from the Gulf Cooperation Council (GCC) countries are increasingly prominent in shaping the oil market.
- GCC members Saudi Arabia and UAE are leading, by using this tri-party of strategic energy instruments in three ways: to become oil suppliers of last resort, enter oil and oil product trading, and expand into renewable markets.
- The ARA region needs to recognise these changing global shifts, and balance energy security policies with strategic engagements with the GCC on oil and oil products, and green hydrogen, ammonia and low-carbon fuels.

Introduction

Today, crude oil satisfies 30% of global primary energy demand.[1] In 2022, the world consumed 99 million barrels of oil per day (mbpd), an amount set to increase to 102 mbpd in 2023.[2] Continued demand and investment growth after 2030 are not guaranteed, but possible due to economic growth in the Global South. Nonetheless, oil will certainly remain a cornerstone of the energy mix in the 2020s.[3] Oil is the world's most traded commodity, both physically around the world, and financially at exchanges in New York, London, Dubai and Shanghai. Oil is also a political commodity. Control over the value chain grants states and companies geopolitical power – the ability to influence the decisions of other states. This is crucial for oil import-dependent Europe, as major shifts in the oil market impact its energy security.

Russia's invasion of Ukraine accentuated existing fractures in global relations, which are key in determining the production, flows, and prices of oil. Russia's near removal as a key oil, natural gas, and coal exporter to the West is unique: never has a multi-commodity exporter been

1 *Global primary energy consumption by* source. Our World in Data, 2023, https://tinyurl.com/yttaa2nk.
2 *Oil 2023*, International Energy Agency, 2023, p. 112, https://www.iea.org/reports/oil-2023.
3 *Fossil demand to continue expanding this decade*, Economist Intelligence Unit, July 10, 2023, https://www.eiu.com/n/fossil-fuel-demand-to-continue-expanding-this-decade/.

removed from major consumer markets and remained out-of-reach for several years.[4] Russian oil, however, did not disappear; it re-routed to China, India and elsewhere outside the Western world. Other producers, such as GCC countries,[5] used this opportunity to increase their supplies into Europe. This shift exposed a schism in the oil market: the growing influence of GCC countries, particularly Saudi Arabia and the UAE, over the market.

Some GCC countries are increasingly leveraging the capital and access to energy markets of their national oil companies (NOC), sovereign wealth funds (SWF) and government-owned utilities to strategically pursue national interest. Their emerging influence in the aftermath of the Ukraine conflict is *the new geopolitics of oil*. With the COP 28 climate conference taking place in Dubai in December 2023, it is important to recognise the new role of Gulf countries in the oil markets of today and renewables markets of tomorrow.

The Rise of OPEC+ and NOCs

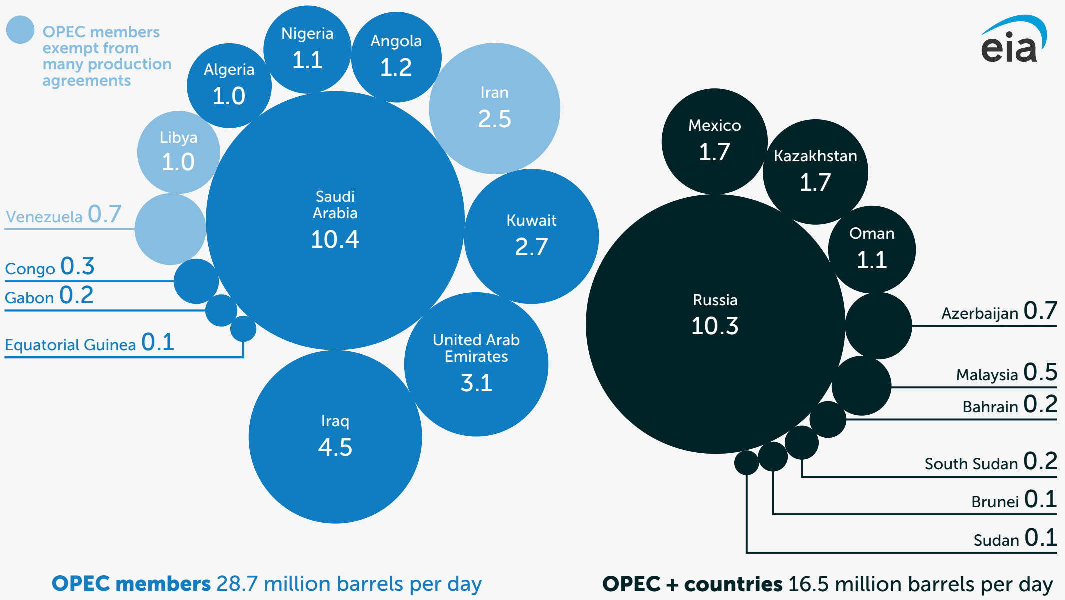
The early global oil market – between late 1930s and early 1970s – was dominated by the Seven Sisters,[6] a grouping of seven Western companies, which owned nearly all production rights in Iran, Iraq, Saudi Arabia and the Persian Gulf: all key oil producers at the time. The influence swung away from the West with the formation of the Organisation of Petroleum Exporting Countries (OPEC) in 1960 and the wave of nationalisation of oil resources in producing countries. After the formation of OPEC and the 1970s oil crisis, during which OPEC producers drove up oil prices, the West regained its footing. This came with the financialization of oil markets in the 1980s in London and New York, and new oil production in the North Sea, which created flexibility of supply, and gave the West more control over the market. Political power of OPEC was curtailed with market instruments, and the Carter Doctrine, US President Carter's 1980 policy to use military force to defend US national interests in the Persian Gulf. The *old geopolitics of oil* is the balance that was created between the West and the OPEC producers in the 1980s and lasted until mid-2010s.

4 The West or Western world here refers to countries belonging to liberal-democratic capitalist economies, such as the members of the Organisation for Economic Co-operation and Development (OECD).

5 GCC members are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

6 Anglo-Iranian Oil Company, Shell, Standard Oil of California, Gulf Oil, Texaco, Standard Oil of New Jersey, and Standard Oil of New York. These have since transformed into Exxon Mobil, Chevron, Shell, bp and others.

Figure 1. Total oil production from OPEC and OPEC+ in 2022 in million barrels per day. Source: US Energy Information Administration. Note: OPEC total is crude oil, OPEC+ total is crude oil and lease condensate.[7]



In response to the low oil prices resulting from the expansion of US shale oil production in the 2010s, OPEC sought more market share to stabilise oil prices. This led to the creation of OPEC+, a cooperation agreement signed between OPEC and 10 countries, key among them Russia, in 2016. The agreement with Russia tipped OPEC's power balance in the market and led to a coordinated decrease in oil output, thus stabilising the prices. Today, 80% of global oil reserves and 38% of oil production is based in OPEC countries, with 50% of oil traded globally being OPEC's exports.[8] When factoring in OPEC+, the share of oil production stands at 59%, while exports at 70% of global oil trade (see Table 1). The formation of OPEC+ has particularly provided Saudi Arabia, UAE, and Russia with newfound means of geopolitical influence.

7 *What is OPEC+ and how is it different from OPEC?* US Energy Information Administration, May 9, 2023, https://www.eia.gov/todayinenergy/detail.php?id=56420.

8 *What is OPEC+ and how is it different from OPEC?*; *OPEC share of world crude oil reserves, 2021,* OPEC, Annual Statistical Bulletin, 2022, https://www.opec.org/opec_web/en/data_graphs/330.htm.

Table 1. Crude oil export volume by country; OPEC and OPEC+ members highlighted in blue; the top 10 countries account for 73% of all oil exports (43 mbpd) in 2022.[9]

Rank	Country	Bloc	Export volume (bpd)
1	Saudi Arabia	OPEC	7,363,640
2	Russia	OPEC+	4,780,354
3	Iraq	OPEC	3,712,420
4	United States	Non-OPEC	3,604,000
5	Canada	Non-OPEC	3,350,200
6	United Arab Emirates	OPEC	2,717,117
7	Kuwait	OPEC	1,878,852
8	Norway	Non-OPEC	1,558,160
9	Nigeria	OPEC	1,388,260
10	Brazil	Non-OPEC	1,346,420
Total volume of exports from top-10 countries			**31,699,423**

Alongside the formation of OPEC, in the 1970s, the nationalisation of oil reserves and production led to the formation of the NOCs. For many years, the NOCs have been and remain key sources in government income of their parent-states. In 2022, NOCs produced more than 50% of the world's oil supplies.[10] For several decades, NOCs, and utility companies closely associated with them, were focused on the development of domestic oil (and gas) production, to market it under long-term contracts to customers abroad. In recent years, however, this has changed dramatically.

GCC members' instruments of energy statecraft

The growing market share of the NOCs coincided with growing ambitions of GCC royal families that own them. Profits from high oil and gas prices flowed into state coffers, and from there into SWFs, the GCC countries' spending vehicles. GCC countries now host four of the top 10 largest SWFs by total assets, with Abu Dhabi Investment Authority (ADIA) 4th, Kuwait Investment Authority (KIA) 5th, Saudi Arabia's PIF 6th, and Qatar Investment Authority (QIA) 10th.[11] Abu Dhabi's more recently created Mubadala comes in 13th. Combined, these five SWFs hold more than $2.2 trillion in assets.

In recent years, SWFs and NOCs opened up to international markets. For example, PIF's international assets under management (AUM) grew from 9% of the portfolio in 2017 to 23% in

9 *Table 5.2: World crude oil exports by country*, OPEC, 2023, https://asb.opec.org/data/ASB_Data.php.
10 Natural Resource Governance Institute, National Oil Company Database, May 2023, https://www.nationaloilcompanydata.org/.
11 Top 100 largest sovereign wealth fund ranking by total assets. Sovereign Wealth Fund Institute, retrieved 18 August, 2023, https://www.swfinstitute.org/fund-rankings/sovereign-wealth-fund.

2022.[12] In the words of QIA's CEO, Mansoor bin Ebrahim al-Mahmoud, in the first major wave of Gulf SWF financing in 2008, portfolios were small, and deals were opportunistic; now, they are "*mature, well established, with specialised teams and a robust asset-allocation strategy.*"[13] Meanwhile, NOCs aim to be integrated NOCs, or INOCs – akin to Western IOCs – with the key difference that their majority shareholders are their governments.

GCC governments are now trying to match their ambitions with capabilities. NOCs are well resourced, both technically and financially, and are mobilising their funds to diversify their energy portfolios from oil and gas to renewables. NOCs are both strategic and opportunistic in their actions; from acquiring assets with key interest to their host state, to entering markets that emerge due to geopolitical shifts. Their structure, strategic outlook and close links with other elements of their country's energy statecraft – SWFs and utilities – enabled GCC governments to capture much of Russia's lost market share in oil markets after its invasion of Ukraine.

Saudi Arabia and the UAE leading the charge

Oil revenues benefited several countries in the Middle East, but none have been as strategic with them as Saudi Arabia and the UAE.[14] They have increased their footprint in oil – and energy markets – with their instruments of energy statecraft: SWFs, NOCs and government-owned utilities. For Saudi Arabia, this is Aramco, PIF and ACWA, respectively the NOC, SWF, and utility. For UAE, this is ADNOC, Mubadala and the ADNOC-owned Masdar. Other SWFs like ADIA, KIA and QIA remain more traditional, for example focusing on real estate in the case of ADIA, or Qatar's liquid natural gas (LNG) expansion in the case of QIA. In the UAE context, ADIA maintains a traditional focus, while more attention is paid to Mubadala and Masdar, and their expansion into renewable energy value chains. In the context of Saudi Arabia and the UAE, three trends are noteworthy: positioning as oil suppliers of last resort, entry into oil trading, and expansion into renewable energy markets.

Becoming suppliers of last resort: Saudi Arabia and the UAE are positioning as crude oil and oil product suppliers of last resort, particularly to India, China, Japan, South Korea, and the Global South. They are leveraging their NOCs' low production costs, as opposed to producers like Canada and Norway, to ensure they can remain price competitive oil suppliers, while other countries shift away from it. Saudi and Emirati forms of governance create regulatory certainty for their NOCs to continue exploration and production. Following the reduction of Russian oil imports in Europe, UAE is now Europe's largest exporter of refined oil products (much of which are refined from Russian crude oil or re-exported oil products).[15] As Europe shuns away from investing in own production and refining capacity, it will become more exposed to these supplies of last resort.

12 England, A., Kerr, S., and Al-Atrush, S., *The new Gulf sovereign wealth fund boom*, Financial Times, January 4, 2023, https://www.ft.com/content/33a985a5-6955-4f44-869f-82e82e620581
13 *The new Gulf sovereign wealth fund boom*, Financial Times.
14 *The Gulf countries want to reshape the Middle East in their image*, The Economist, September 7, 2023, https://tinyurl.com/25urbx9k.
15 *New Oil Map: Impact of Russia's war on Ukraine on supply and demand*, Transport & Environment, 2023, https://www.transportenvironment.org/wp-content/uploads/2023/07/202307_oil_import_report_TE-1.pdf.

Entry into oil trading: In 2022, Shell, BP, TotalEnergies, and private traders Vitol, Trafigura, Mercuria and Gunvor earned over $71 billion from energy trading. While GCC NOCs have long been key oil suppliers and refiners, they have not benefited from oil (product) trading revenues and market influence it creates. This has also changed. Aramco established Aramco Trading Company (ATC) in 2011, while ADNOC established ADNOC Global Trading (AGT) and QatarEnergies established its trading arm in 2020. In 2019, Aramco's CEO Amin Nasser noted Aramco's ambition to become a top three oil trader, challenging both IOCs, and private traders.[16] While Aramco remains far from the goal, it is taking steps to get there. In January 2023 ATC announced the acquisition of Motiva Trading, forming its US-based subsidiary and providing it access to the US' largest oil refinery.[17] AGT has recently opened an office in Singapore, is currently setting up offices in Geneva and Houston, and is considering Rotterdam and London.

ADNOC, meanwhile, attempted an acquisition of Gunvor, which so far has not materialised.[18] However, this and other negotiations between NOCs and private traders are taking place. In the meantime, NOCs are making strategic investments that bring them closer to private traders. For example, ADNOC has a 10% share in Vitol co-owned tank terminal company VTTI, while Mubadala jointly invested with Trafigura in the MMX Porto Sudeste iron ore terminal in Brazil, as well as a joint venture in Spain's MATSA copper, zinc and lead mining operation (now divested). Entry into trading will enable NOCs to complete their presence in the entire oil value chain and have more leverage in global oil markets.

Expansion into renewables markets: The GCC region interprets renewable markets broadly, to include everything from wind and solar, to hydrogen and nuclear, but also carbon capture and storage (CCUS), low-carbon fuels and the mining of metals associated with these energy sources. The majority of Masdar's new investments will be in green hydrogen and hydrogen derivatives, CCUS, low-carbon fuels, nuclear (3 reactors in Abu Dhabi alone), and mining of 'transition' metals like nickel and lithium. Masdar has also acquired shares in North Sea offshore wind, and onshore wind and solar in (south)eastern Europe.[19] In the case of Abu Dhabi, ADNOC's CEO, Dr. Sultan Al Jaber, is also the CEO of Masdar and the leader of COP28, illustrating a set up in which national priorities, geopolitical interests and future economic diversification are coming together. Since its inception in 2009, the International Renewable Energy Agency (IRENA) has also been headquartered in Abu Dhabi's Masdar City. From a deal-making perspective, Saudi Arabia's state-owned mining company, Ma'aden, has recently invested $2.6 billion for a 10% stake of Brazilian mining giant Vale, the world's largest producer of iron ore and nickel.[20]

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16 Raval, A., and Sheppard, D., *Saudi Aramco strives to be 'top three' oil trader*, Financial Times, February 26, 2019, https://www.ft.com/content/4904bc9c-39df-11e9-b856-5404d3811663.

17 *Aramco announces launch of Aramco Trading Americas*, Aramco press release, January 18, 2023, https://tinyurl.com/hj6dcv3t.

18 Wilson, T., Sheppard, D., and Hook, L., *Adnoc and Gunvor deal talks reach impasse*, Financial Times, March 6, 2023, https://www.ft.com/content/71277b55-a298-4f63-9a90-3e0e016ff586.

19 *Dudgeon Offshore Wind Farm*, Masdar, accessed September 9, 2023, https://tinyurl.com/ypce6xyc; Saba, Y., *Abu Dhabi's Masdar eyeing acquisition targets in US, Europe expansion*, Reuters, July 19, 2023, https://tinyurl.com/3kcyxj9w.

20 *The Gulf countries want to reshape the Middle East in their image,* The Economist.

Implications & options for ARA

The shift in influence over global oil markets to countries of the GCC is important for European governments and businesses. From the Seven Sisters to the major IOCs, the West has long dominated the energy market, which maintained market stability for Europe's import needs. However, since the emergence of OPEC+, GCC's government-controlled use of oil and gas revenue to invest in energy value chains is reducing the West's influence in the diversified energy markets of the near future. Without the control of energy sources, be it oil fields and gas fields, or offshore wind parks and hydrogen infrastructure, Europe will be subjected to the new geopolitics of oil.

In search of alternative energy flows after decoupling from Russia, European stakeholders, particularly those in the Amsterdam-Rotterdam-Antwerp (ARA) port-industrial cluster, sought new energy relationships with the GCC region. GCC countries are not only critical in the oil value chain, but increasingly in renewable markets too. Dutch government's signing of a memorandum of understanding with Saudi Arabia on green energy, particularly hydrogen, and Port of Rotterdam's relationship-building with Saudi energy and port stakeholders highlight the new value chains – and dependencies – being created. The following options can help mitigate risks from the dependencies, and secure energy flows:

Understand your GCC counterparts: NOCs, SWFs and utility companies belonging to a GCC country are all part of a close-knit network. They are usually owned by the same royal families, and therefore share interests. The NOCs exercise not only a commercial interest, like Western IOCs, but also the interest of their governments to reshape markets to their advantage, demonstrated by the UAE-hosted COP 28's focus on the Global South. As such, it is important to understand how they function, how they are governed, and how they are best approached, particularly as the ARA seeks energy deals with Saudi Arabia and the UAE.

Take a value chain approach: Aside from crude oil, recognise the importance of oil products and renewable feedstocks, and the need to upgrade infrastructure and production assets in the ARA to sustain these. This requires connecting upstream and downstream investments (also in the GCC) via shipping and trade of new energy carriers, and securing liquidity for new trading platforms and ARA-based price indices for green hydrogen and ammonia.[21] This also means attracting the NOCs, SWFs and utilities to set up their European offices in the ARA region.

Apply own levers of influence: The oil market is global, and depending on market conditions, power swings between buyers and suppliers. Engagement with the GCC region, however, will remain important. OPEC+ allowed suppliers to consolidate power, but Western countries maintain two advantages in their engagement: Western 'assets' and financial markets. Even with the growing wealth of GCC oil producers, they remain dependent on access to Western financial markets, and continue to seek Western 'assets' like culture, sport, skilled immigrants, higher education, technical expertise, or technology.

21 Van Son, L., Arkhipov-Goyal, A., Jacobs, W., den Ouden, B., van den Berghe, K., and van Vliet, R.J., CommodipHy: *The commodification of ammonia and the role of Rotterdam as a global pricing centre*. Research Report, Erasmus Commodity & Trade Centre, 2023. https://tinyurl.com/yvx5akfj.

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