Exclusive interview: Earl Burns Jr, Senior Front Office & Risk Executive

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Earl Burns Jr presently leads his family office (BT Family office), and is a member of the Executive Leadership Council (ELC) as well as an active board member of the Global Association of Risk Professionals (GARP) Energy Oversight Committee. He has more than 25 years' experience in the energy sector globally, serving in various senior market-facing front office, optimization, operating and financial roles. Until 1q 2020 Earl was the senior Risk Executive (General Manager) at Phillips 66; prior to that he ran Americas distillate trading in Houston, also for Phillips 66, as well as living in London for a number of years where he was responsible for all crude trading and supply activities for the company in Europe, the Mediterranean, Africa and Russia.

Earl began his career with Mobil Oil Corporation in a variety of positions in the US, Africa and Latin America, covering financial trading, logistics and sales positions. He has also served as the foreign crude trading manager for BP in Chicago as well as manager, Global Strategy and Commercial Development (Commercial Marine) at ConocoPhillips. Here, he talks to David Baranowski, Director at Human Capital in Houston, about the recent unprecedented trading conditions, with a personal reflection to close.

David Baranowski: How would you describe the extreme trading conditions seen in 2020 so far?

Earl Burns Jr: One of the most interesting things about the traded commodity markets that those of us who have been around them for most of our careers can attest to is that things never really stay the same for long. One of the main reasons for that is because imbalances, whether global or local, work themselves out eventually, and sometimes quite violently.

Such is the case for 2020 to date, particularly in the crude and product traded markets, as it relates to benchmark contracts. The most recent shock was what happened when the May NYMEX TI (CL) contract went off the board at -37/bbl. Briefly, that was due to supply and demand fundamentals, combined with the vagaries of the NYMEX physical delivery mechanism and local logistical constraints, causing the prompt contract price to diverge from ICE Brent Crude and major product benchmark prices.

TI, Brent and major product indices generally move in concert with each other given the conversion relationship, but here the issues were compounded by the tightness in physical storage capability at Cushing, the NYMEX TI delivery hub in Oklahoma. The existence of deep contango economics over the prior prompt trading period had made tank storage a prized commodity, so much so that the ability for an entity to take physical delivery at Cushing via the NYMEX mechanism became near impossible.

Given imminent contract expiry, a lack of liquidity because most commercial market participants had already rolled forward or otherwise exited the contract, and no feasible way for those with long paper positions to settle via taking delivery, the May contract fell to never before seen levels.

DB: Could such a shock have been avoided?

EB: This was certainly a shock and was exacerbated by the local conditions at Cushing as mentioned above;; I will say that the nature of the NYMEX/CME oil contracts and their physical delivery and settlement mechanisms have been in place and apparent to commercially-experienced market participants for years, particularly relative to Cushing and the vagaries of storage and logistics availability regionally. A cascading set of anomalies caused a somewhat disconnected marker to go to levels not anticipated.

Other observations – when it comes to the NYMEX May CL contract going off the board, supply and demand factors and knowledge of the storage situation had signalled to experienced market players that crude needed to price somewhat aggressively anyway in order to clear at the hub. The lack of storage capability meant that significant paper positions had to be liquidated or could not be fulfilled via delivery.

DB: Does that mean significant changes are needed to the mechanism itself?

EB: It should be seriously considered, but not be in haste and should be well discussed with industry relative to overall effects. On the options side, NYMEX/CME announced they are moving to a Bachelier-based options pricing model from Black-Scholes, in order to make provision for negative prices relative to the underlying commodity. ICE (InterContinental Exchange) has made a similar announcement that they will tweak their models accordingly, if and as needed.

Also, there are, of course, also other contract options for commercial players and hedgers who wish to not be subject to the vagaries of NYMEX & associated logistics @ Cushing, and by which physical conversion can take place via the EFP mechanism.

Back to the point – exchanges tend to make necessary changes when they really need to. Sometimes it’s slower than desired and they need a push; this likely will spur some changes. Position limit changes both relative to timing and size are an option that has been discussed, but that would have other potential effects, such as pushing speculative interest down the curve and into deferred futures, shifting liquidity, and potentially affecting commercial hedgers. So, the point is that changes can have their own effects, which means anomalies should be studied and understood with care, and networked with industry before a change is made.

Relative to the trading risk community, it is also revisiting Value at Risk (VaR) models across the board in order to best and most accurately report VaR to senior executives and boards. These changes are prudent but should never be taken to avoid reporting risk altogether.

Finally, as I mentioned, note that there were in fact significant Supply / demand imbalances, although obviously not truly to the extreme of the final “print”. On both a global and regional basis, the price direction signalled that production cuts were necessary, and those were already in train, the market could not reflect this in time for May NYMEX CL trading taking place in April. For June NYMEX CL expiry, crude logistics were not in deficit to the extent that they were the month earlier and this, combined with lower production, led to a smoother expiry for June NYMEX CL in May.

If markets are more volatile and metrics are blowing up, talk about that and do not hide it. Don't tweak your models solely to avoid conversations with the top of the company, because that is not protecting shareholders. If it is measured, it is meant to be managed, so manage it.

DB: Volatility of this kind inevitably attracts the attention of regulators. What should the prudent trading risk executive be concerned about nowadays with regards to regulatory scrutiny?

EB: First, I would note that the traded liquid commodities markets have generally been volatile in recent years. The differences recently are that the absolute size and velocity of the moves has been massive and seasonality now seems to be irrelevant, particularly for clean products. Periods of illiquidity have exacerbated the issue.

That said, I don't think that there is any current regulatory risk that is new or greater due to COVID. There are some areas that may require heightened sensitivity, however. For example, futures that incorporate physical delivery have always been a flashpoint, whether as a result of the contract itself, the acquisition/liquidation of that contract, or the conversion to physical of the contract. Traders have always known this and now the community at large does.

Executives need to broadly understand their physical concentration for key traded grades and products at key locations and where pinch points exist for the industry. Then they can work out where they are perceived to be advantaged versus the market. They need to understand the 'why and how much' relative to their physical pricing profile for key flows, know the rateability of those flows and the pricing decay profile. It will be important to be aware of and understand the reasons for significant deviations. They also need to be aware of exchange position limits and what events may be likely to lead to changes in them, and appreciate that ‘spread’ exposure is no guarantee of safety. I am still dumbfounded about how many times I have heard that from non-trading senior folks. A multiple-deviation move in a regional basis or quality differential versus the underlying can effectively be a flat price move, and happens all the time. To think otherwise is delusional. I have certainly taken that pain in my front office years. Also, be aware of positioning that can potentially be perceived as speculative leveraging, particularly when being structured.

Generally, more market participants lead to more diverse market involvement, more activity, more liquidity, more orderly markets and therefore less regulatory concern. So, the busier the better.

DB: In a macro sense, what should a functional trading executive in risk or compliance be thinking about right now?

EB: First, know the trading books’ sources of value and how they make their money, at more than a cursory level. Stay on top of this particularly as books venture further afield.   You may choose not to be in the weeds as much as your bench leads / region heads, but you need to know your business.

Then, be aware of your underlying exposures and their genesis. As a broad example – It is incomprehensible to me that, say, a risk executive for an entity with significant physical exposure in the Americas could not understand basic NYMEX/CME mechanisms and how their entity may utilise them. Or that the same executive at an entity with significant global crude exposure in any construct could not understand something about Dated Brent, its vagaries, quirks, what a Brent CFD is and why its existence is necessary. Or what an EFP is and its applications.   These are examples, but you get the point.   Embrace it and learn the basics, which starts with the underlying.

Remember you are a control leader and business enabler – you add value by supporting commerciality and providing independent control and assurance to the top of the entity. So, you should not be an administrator. Talk about the risks with your senior management. If markets are more volatile and metrics are blowing up, talk about that and do not hide it. Don’t tweak your models solely to avoid conversations with the top of the company, because that is not protecting shareholders. If it is measured, it is meant to be managed, so manage it.

Respond to the function and your business when they need your help. Don’t make them wait, don’t ignore them, but rather embrace their thoughts and ideas. They likely know a lot more about how to make it better than you do. If change is needed, land the optimal business construct to serve the entity and get on with it.   Your team and the business need your focus and support in times of volatility.

Spend time with your team / your customers and deal with the “big rocks”, which means getting on the floor with your trading level peers when you can. Dwell on administrative minutia later and don’t bother your team with it; eliminate the ‘check the box’ gatherings and meetings if they are only a regurgitation of already known issues by your experts. Remember it is not about you and resist the urge to micromanage non value-added tasks.

We truly are one, even if some choose not to acknowledge it. It is a marriage; it may be tense at times, but we should always be civil, and respectful of each other.

DB: Thanks so much Earl. I really appreciate you taking the time and the insight you provided

EB: Thanks David. In closing, as a very proud and accomplished African American executive who has also proudly served our Armed Forces as a reservist and Service Academy graduate, and who has always given back, I wanted to say that I am both saddened and chastened by the incidents that have affected our community this year involving Ahmaud Arbery, Breonna Taylor, George Floyd, Rayshaun Brooks, and Christian Cooper. All but Mr Cooper paid with their lives.

I say ‘our community’ because I’m not only saying this as an African American, I’m saying it primarily as a human being. When we, as humans, tolerate any of us being treated like this, it reflects upon all of us – no matter what our ethnicity may be, however we may self-identify, whatever lifestyle choices we choose to make. We are evolved beings. We cannot tolerate mistreating each other.

Some people get upset at the term ‘Black Lives Matter’. Black Lives Matter does not mean that Black Lives Matter more than other lives; it also does not mean that law enforcement is not to be respected / appreciated.   It is meant to call attention to the fact that Black Lives Matter just as much as other lives. Because, sadly, evidence for a very long time has been to the contrary, and that is backed up by current events. Modern technology and social media have helped powerfully bring it to the fore recently.

I’m sure Mamie Till is very proud looking down on us right now – she led the way nearly 65 years ago, using the social media available to her at the time to drive positive change relative to treatment of the underrepresented.

We truly are one, even if some choose not to acknowledge it. It is a marriage; it may be tense at times, but we should always be civil, and respectful of each other.

And for those who might ask what I know, from my “ivory tower existence”; know that I’ve lived this exasperation at times. I’ve been singled out and marginalised on occasion, both personally and professionally. From my teens through middle age. For “driving while black” (being pulled over and having my vehicle searched for no apparent reason (having not had a traffic violation since 1996)), and for doing my job well but being told as a sidebar more than once to change something insignificant as a “development area”, with no context – even long after it had already been sorted with me, yet not at all addressed with others.

I’ve witnessed in my career documented positive Diversity/Inclusion/Culture contributions, for the good of the collective, ignored by supervisors or seniors and / or treated with total indifference. I’ve personally experienced other unpleasant scenarios that have no logical basis, particularly given the environment.

(For another perspective, read the excellent article in the Financial Times of 17 June by Kwame Narh-Saam (
https://www.ft.com/content/d4ecc970-cd7f-41db-9411-079fe5f25cc4 – may require an FT trial or regular membership) on his experiences as a person of colour working in the capital markets in London, particularly relative to the struggle to be authentic as a minority when always being asked to change, while others around you aren’t – PS Kwame, I owe you a pint when things open back up and I’m next in London!).

As one who has lived over 2/3 of my career in front office roles, the stark truth is that I have pretty much always been the only face of colour (let alone African – American) in my cohort, particularly the higher up the ladder that I went (and not only Front Office – Compliance, Risk, wherever). I guess I’ve normalised it by now, so Kwame’s experiences resonate with me – as I know he had to do the same in order to survive. But note that my experiences (similar to Kwame’s) not only never broke me (and never will); they made me stronger, and better. This isn’t at all about complaining or being a victim.

It’s about performance delivery – I am proudest of all that in 22 years of Commercial Delivery focused positions (10 years of sales/origination, 12 years of trading), my teams exceeded hard dollar net income targets in 20 of the 22 years in aggregate to date, often by significant margins; we refused to allow bias to get in our way and affect our financial delivery. The teams delivered documented value to stake- and shareholders and made the enterprise wealthier; not only financially, but relative to development of people. At every career stop. As the Executive Leadership Council states: #BlackExcellence in business is real. And proven. And growing.

The point is that it was just as wrong to be forced to interact differently when I was young, uneducated and lower class as it was when I was deeply experienced, highly accomplished and had earned financial liquidity. No one's parents should have to have the 'what to do if stopped by the police' conversation, as most black parents have with their children, and my parents had with me. And no competent professional of an underrepresented group should have to talk to a coach or "safe" mentor about how to be "authentically inauthentic" in the workplace in order to succeed. Bias needs to make an exit. Not only is it not right – it's inefficient and bureaucratic.

So, please make an effort. That does not mean you have to march in the streets or protest, but strive to show empathy and do your best to understand and respect those with the courage to have a voice, even if you don't completely agree with them.

Truly listen actively, which means not automatically dismissing those with a view that may be 180 degrees different than yours. Call out mistreatment, be honest about your feelings on wrongful actions when asked (no matter who is asking), speak freely, and let others know that you have their back. Being subtle is ok if that is all you can make yourself comfortable with. But take the risk.

First and foremost, try to make it better. I love my homeland of the USA and swore an oath to defend it in 1989, which I will always uphold. I also love the UK, where I spent four wonderful years and where many close to me whom I respect reside. But our long-standing biases (and most importantly actions) in English – speaking majority countries must change, and they must change now. Do what you can to help.

In life, just as in commercial business, good fortune always accrues to the bold over time; it may take patience and some gut punches, but it will come. Stand up for what's right, point out what is unjust, and look at yourself proudly in the mirror for doing so.

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