



In Conversation with... Philippe Khoury
Executive Vice President of Trading, ADNOC Group

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A well-known figure within energy trading, Philippe Khoury joined the Abu Dhabi National Oil Company (ADNOC) in April 2018 tasked with establishing and building out the company's new trading function. Here, Damian Stewart, Managing Partner, EMEA & Asia, at Human Capital, sat down with him to discuss progress to date, and what lies ahead



ADNOC's iconic headquarters sit on the shoreline of the Arabian Gulf, in a beautiful yet imposing building that reflects the important status of Abu Dhabi's national oil giant within the nation that it serves. From his office on the 55th floor, Philippe Khoury's new view is nothing less than spectacular, offering a picture-postcard view of Abu Dhabi's dynamic and ever-evolving landscape. And inside the building, change is also afoot.

ADNOC hired former HSBC energy banker Khoury last spring to head up its new unit for trading crude oil and refined products. Khoury's background in the industry dates back to refining and distribution in the early Eighties at Texaco in Switzerland, before Texaco was absorbed into Total to create the second largest refiner and distributor in the market. Moving through wholesale to retail, refining to trading, and spending time in Russia and Africa, by 2011 Khoury was based in Houston and leading Total's physical oil and derivative operations for the Western hemisphere.

He joined HSBC as Vice Chairman, Oil & Gas, in the Natural Resources Group in Hong Kong, and in 2017 was promoted to Vice Chairman, Global Banking, Middle East, North Africa and Turkey. That's when ADNOC came calling, no doubt attracted by his experience across the supply chain that has informed his career in trading: "When you understand the granularity of distribution, you end up reading all your contracts and dedicating a lot of time to clients," he tells me. "Because you have had refining exposure, you understand supply risk, marketing risk, distribution retail margins, collection and exposure. I went from a retail approach to a much more global, broader, higher volume outlook."

Khoury thrived as a trader, and was approached by ADNOC, which began a major transformation in 2016. Under the leadership of its new CEO, Dr Sultan Ahmed Al Jaber, the company set out to modernize its business, taking a more active approach to managing its assets and unlocking value.

"We're moving from being a supplier that customers collect products from, to becoming a more customer and market-centric shipping, storage and trading organization," explains Khoury. "By changing our approach to shipping and the delivery of products, we'll be able to capture additional margin, while also making it easier for more customers to access and buy our products. By investing in global storage, we'll be nearer and can be more responsive to new and existing customers and their needs. And by entering trading, we can capitalize on the company's growing crude and refined products portfolio and more nimbly take advantage of changing market dynamics, as well as better manage our flows, assets and risks," he says.

Big strides have already been taken. In August 2019 the company incorporated its new trading arm, ADNOC Global Trading, which is a partnership with Italian energy company Eni (20%) and Austria's OMV (15%).

The decision to go down the joint venture route followed a separate decision to open up the capital of ADNOC's refinery to partners: "We had a process involving a number of contenders looking to acquire equity in ADNOC Refining," says Khoury. "As part of that process, it was agreed that the partners in the refinery would together create a trading JV that would optimize the flow around that refinery."

He adds: "We could have limited the JV to the refinery and done a separate JV for the trading, and that would have been more of a commercial JV than an equity JV. We explored that route but found that it had more complexity and potentially more competing interests that could be difficult to manage, between the partners and between the asset owner and the flow owners. So, we decided this was the best way to stay aligned." A further advantage of the trading JV is that it allows ADNOC to tap into existing experience, processes and IT systems of its new partners, providing a two-year advantage on the alternative organic route.

Eni and OMV will take stakes of 20 and 15 percent respectively in the refining unit, with the trading joint venture focusing on the direct sale of products from the refinery at Ruwais to customers globally. It will be based at the Abu Dhabi Global Market (ADGM) and physical and derivative trading is expected to begin next year. ADNOC Refining has a total capacity of 922,000 barrels per day and is the world's fourth-largest single site refinery. Taking into account future growth plans, its capacity is expected to increase to process crude and condensate amounting to around 1.5 million bpd.

In September, ADNOC made its next bold move when it completed a 10% investment in global storage terminals operator VTTI, allowing ADNOC to secure additional storage access in global export markets as well as at the port of Fujairah, the regional bunkering and storage hub in the United Arab Emirates.

It was ADNOC's first ever outbound investment: "The rationale was basically to have exposure to storage in geographies where we feel that our flows will require a presence in terms of storing, price information and access to markets," says Khoury. "We also want to acquire capabilities, so we have a lot of projects in downstream in and outside the UAE, which would necessarily require access, and we can leverage our partners' experience and knowledge to either develop greenfield or take brownfield opportunities, which will allow us access to those markets and add the capabilities to operate those terminals."

Next on the agenda is an ambitious plan to change the pricing mechanism of ADNOC's flagship crude grade, Murban, which will be listed as a futures contract on a new exchange in Abu Dhabi. The company currently uses a retroactive pricing mechanism for its crude and the new forward pricing mechanism will use a market-driven futures contract as its price maker, enabling customers and the market to better price, trade and manage their crude requirements. The Intercontinental Exchange (ICE) has partnered with ADNOC and nine of the world's largest energy traders and, subject to regulatory approval, will begin trading the new Murban futures contract in H1 2020 from a new exchange, ICE Futures Abu Dhabi (IFAD), in Abu Dhabi Global Market (ADGM).

"When you look at arbitrage crude coming from the US or West Africa, going to Asia,

similar grades almost all pass in front of our window," says Khoury. "So, the Murban is not only at the right quality but it's also at the right location. If, on top of that, we give it the right pricing mechanism, we believe we can make it a global currency – starting as an index and becoming a benchmark over time." He adds, "Today, our clients that buy Murban or Abu Dhabi grades discover the price after they have lifted the oil. We want to offer them the opportunity to hedge and mitigate that exposure, to manage their margins and also to give them crude pricing, so that they can measure the quality differential through a common benchmark."

Certainly, there is no shortage of ambition at ADNOC, as it works to accelerate the pace of its transformation into a far more commercial, integrated global energy company. "It's now all about delivery," says Khoury. "We're establishing the processes and procedures that will allow us to start trading in 2020, and hiring the talent that's needed to launch, grow and develop what has the potential to be one of the world's largest energy trading entities."

He is well aware of the challenges that come with building a trading culture within a state-owned oil company, particularly in a country where crude oil truly is the nation's lifeblood. ADNOC is proving to be extremely proactive, sharp and willing to transform from the inside out, but acquiring the right talent to expedite the transition will not be easy.

"When you transform flow into an asset class, you need to dedicate knowledge, talent, systems, processes and procedures, so that it can become a business," says Khoury. "I can see that ADNOC, under the leadership of His Excellency Dr Sultan Al Jaber, is extremely capable of changing itself to adapt to the environment. When we start our trading, we will start with large volumes every day, so we are born big, but young. And to bridge between our youth and our size, we need talent, so we are fast seeking to plug the talent deficit in trading by looking to get the best from the market, while also developing local Emirati talent."

The UAE's Emiratisation drive remains an important consideration. "The talent is apparent in Abu Dhabi," says Khoury. "Our local colleagues are extremely able and well-trained, but this is a new business. We have all this talent pool here but to build knowledge and experience of trading takes time. You can't transition from an engineer to a trader overnight; you have to go through operations, middle office, credit, risk management, before you end up owning a trading book."

He adds: "That's why we are bringing in talent that has that experience and putting it next to Emirati talent, and, over time, we aim to develop and train a new generation of Emirati traders. I don't see any reason why, in a very commercial country like the UAE, we wouldn't have great traders, it's just a question of time and gaining experience."

Khoury has only been in Abu Dhabi for 14 months, but already he says he wouldn't swap it for another location – it is beautiful, safe and central, he says, and combines an intense work environment with a relaxed community, very plugged into the rest of the world.

“If I need to trade Singapore, timezone wise we are much closer than London or Geneva,” he says. “And if I need to trade Europe, it's probably much better than being in Houston or in Singapore.”

Khoury adds: “We have a natural position, so it's not a surprise that lots of people are putting their trading organisations in the UAE. With the arrival of IFAD, and the growth of ADNOC Global Trading, we are going to have a lot of clearing houses, brokers and other financial institutions gravitating towards Abu Dhabi, and ADGM in particular. We feel that Abu Dhabi is on the path to becoming a very powerful international trading hub.”

Khoury has worked in Geneva, Moscow, Paris, London, Houston, Hong Kong, Dubai and Abu Dhabi over the course of his lengthy career in the industry. Today, he is confident that Abu Dhabi sits at the heart of a new chapter for global energy trading. He concludes: “We are an oil producing country that is committed to supplying the energy that the world needs. In doing so, ADNOC is becoming a more progressive company that is more adaptive in its approach to supply and trading. We are at the start of an exciting journey.”



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