

Regulation of Downstream Oil & Gas

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Overview

- The UAE is among the world's ten largest oil producers and is a member of the Organization of the Petroleum Exporting Countries, the Organization of Arab Petroleum Exporting Countries and the Gas Exporting Countries Forum.
- This Practice Note provides an overview of the legal framework for the UAE's downstream oil and gas sector, for the purposes of this Practice Note, limited to the refining of crude oil, processing of natural gas and the marketing and distribution of oil and gas products.
- Given the maturity of the UAE's oil and gas industry and ever-growing domestic energy needs, it has well-established downstream infrastructure serving both domestic and export markets.

Definitions

- *ADNOC*: Abu Dhabi National Oil Company.
- *ENOC*: Emirates National Oil Company.
- *MOE*: Ministry of Energy of the UAE.
- *MOEW*: Ministry of Environment and Water of the UAE.
- *The Bureau*: Abu Dhabi's Regulation and Supervision Bureau.

Practical Guidance

Overview

Under article 23 of the UAE Constitution, the natural resources of each Emirate are considered the public property of that Emirate. Consequently, each Emirate is responsible for regulating the oil and gas industry within its borders.

Abu Dhabi, Dubai and Sharjah each have a Supreme Council responsible for oil and gas policy development and coordination including the downstream segment.

There is no general legal framework in the UAE applicable to the downstream sector. The development of downstream infrastructure is under each Emirate's control and there are a number of health, safety and environmental regulations, which impose standards that affect downstream operations.

The downstream sector in the UAE has traditionally been dominated by state owned entities but ADNOC's new downstream strategy, discussed in greater detail below, indicates that there will be new opportunities for international companies to participate in the industry in future.

Domestic market

In Abu Dhabi, ADNOC operates in all areas of the oil and gas industry and manages downstream operations. ADNOC group activities include refining, processing, marketing, supply and transportation through its subsidiaries ADNOC Gas Processing, ADNOC Sour Gas, ADNOC LNG, ADNOC Refining, ADNOC Fertilisers, ADNOC Industrial Gas, Borouge (a joint venture with Austria's Borealis), ADNOC Distribution and ADNOC Logistics and Services.

Downstream activities in Dubai are carried out by ENOC which is wholly owned by the Dubai Government and operates in both Dubai and the northern Emirates (but not Abu Dhabi). One of its subsidiaries, ENOC Processing Company, runs the Jebel Ali refinery in Dubai. In addition to its operations in the UAE, ENOC now has operations in over 10 countries in areas such as supply trading and processing, terminal operation, marketing and retail.

Sharjah LPG Corporation (in which the Sharjah Government holds 60%) processes output of the Sajaa, Moweyid and Kahaif fields in Sharjah, producing liquefied petroleum gas (LPG) for markets in Sharjah and Dubai.

Refining and processing

Legal context

While the MOE and the MOEW are responsible for regulation at a federal level, each Emirate controls its own infrastructure for the refining and processing of crude oil and natural gas.

There is no regulatory regime specific to refining and processing in the UAE, rather these activities fall within the various energy, environmental and health and safety laws and regulations applied in each Emirate.

Further, as the Ruler of each Emirate ultimately owns the land in that Emirate, the construction of refineries, processing plants and associated infrastructure requires a grant of rights from the relevant Ruler. The respective Rulers also possess powers of compulsory acquisition to facilitate land access.

Approvals would be required from the relevant Emirate to construct a refinery or processing plant and, at a federal level, from the MOEW in accordance with Federal Law No. 24/1999 on the Protection and Development of the Environment Law.

For example, in Abu Dhabi, the Regulation and Supervision Bureau for the water, wastewater and electricity sector in the Emirate of Abu Dhabi (the Bureau) has the power to issue regulations for various purposes pursuant to Abu Dhabi Law No. 2

/1998 on the Regulation of the Water and Electricity Sector in the Emirate of Abu Dhabi. In 2009, The Bureau issued, the Fuel Storage Tank Regulations, which provide requirements for prevention, and early detection of any fuel releases from fuel storage tanks in order to minimize the effects of any accidental leakage on the environment and to public health. All licensed operators and other relevant sector parties must comply with all relevant regulations issued by the Bureau.

In addition to existing environmental regulations, the federal UAE Government is also developing a codified National Oil Spill Contingency Plan. This will be implemented by the MOEW and will provide clear guidance on the responsibilities of the affected parties in the event of an oil spill.

Abu Dhabi

In Abu Dhabi, ADNOC Refining operates the Ruwais and Abu Dhabi refineries, which produce over 40 million tons per year of refined products for the local and export markets and have a total processing capacity of 922,000 barrels per day.

ADNOC Refining supplies a diversified range of petroleum products, including LPG, naphtha, gasoline, jet fuel, gas oil and base oils, fuel oil, and petrochemical feedstock and propylene, in addition to specialty products such as Carbon Black and Anode Coke.

It also operates a 1,900 km pipeline network across Abu Dhabi, which delivers refined oil products to oil ports for exportation, or to other ADNOC Group companies for further processing.

Fujairah

In 2007, Vitol acquired a majority stake in the refinery and storage facility based in Fujairah in the UAE with capacity to refine up to 82,000 barrels per day. Abu Dhabi Government owned Mubadala Investment Company is also looking to build a new refinery in Fujairah.

The Port of Fujairah Ordinance 1982, which establishes laws governing the port, also applies to the handling and storage of bulk oil cargos.

Third party access

Land on which infrastructure is built is ultimately held by the Emirate and access to the land and infrastructure by third parties may be granted as a matter of contract by the owner or operator of that infrastructure.

Third party access to oil and gas infrastructure in the UAE is not specifically regulated, and there are no standard rights for a new customer to require the operator/owner to grant capacity or expand its facilities in order to accommodate new customers.

Marketing and Distribution

Distribution

ADNOC Distribution is responsible for ADNOC's fuel service station business which operates across the UAE (other than Dubai). In 2017, ADNOC listed a 10% stake in ADNOC Distribution on the Abu Dhabi Stock Exchange as part of its strategy to raise additional funds for the business.

ENOC and UAE Government owned Emarat also manage and operate service stations across the UAE (other than Abu Dhabi).

Fuel price regulation

The MOE deregulated fuel (gasoline and diesel) prices across the UAE in 2015 when it adopted a new policy linked to global prices. Prior to this, state subsidies kept prices at some of the lowest in the world.

The MOE and the Ministry of Finance (together with representatives of ADNOC and ENOC) now review prices on a monthly basis.

Trading

In April 2018, ADNOC established a non-speculative trading unit as it looks to expand revenue streams and increase its sales of crude and products.

The Dubai Mercantile Exchange (DME) is the premier energy-focused commodities primary international energy futures and a commodity exchange in the Middle East. The DME's flagship contract is the DME Oman Crude Oil Futures Contract, which is the explicit and sole benchmark for Oman and Dubai crude oil Official Selling. The DME is located within the Dubai International Financial Center (DIFC), a financial freezone designed to promote financial services within the UAE. The DME is regulated by the Dubai Financial Services Authority (DFSA) and the DME Rulebook establishes trading rules. The DME is a joint venture between Dubai Holding, Oman Investment Fund and CME Group with additional equity owned by financial institutions and energy trading firms such as Goldman Sachs, J.P. Morgan, Morgan Stanley, Shell, Vitol, and Concord Energy.

ADNOC downstream strategy

In May 2018, ADNOC announced a new downstream strategy to expand its refining and petrochemical operations at Ruwais and undertake highly targeted overseas investments to secure greater market access.

The strategy includes a planned USD \$45 billion investment in conjunction with a number of new strategic partners and ADNOC welcomed prospective partners to engage in bilateral negotiations.

For example, in July of 2019, ADNOC signed a comprehensive strategic framework with Indonesia's energy company, PT Pertamina, to explore opportunities for collaboration across the oil and gas value chain in the UAE, Indonesia, and globally.

Comparison with other systems

- As a result of the high level of state participation, there is no effective competition in the oil and natural gas sector and generally limited regulation of areas such as pricing and third party access.
- This is common across the Middle East, which has high levels of state participation in general, but contrasts with regions such as the European Union, which have developed more open and competitive frameworks and sophisticated regulatory regimes in relation to price and third party access.

Related Content

Legislation

United Arab Emirates

- UAE Constitution
- Federal Law No. 24/1999 on the Protection and Development of the Environment

Abu Dhabi

- Abu Dhabi Law No. 2/1998 on the Regulation of the Water and Electricity Sector in the Emirate of Abu Dhabi

Regulation

- The Fuel Storage Tank Regulations, issued by the [Regulation and Supervision Bureau \(2009\)](#)^[1 p.7]

Authors



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Education

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Memberships

- Solicitor of the Senior Courts of England and Wales

Biography

- Tony focuses on business recovery and turnaround issues. His experience extends to construction, financial services, insurance and asset leasing industry sectors.
- Tony advises on contentious and non-contentious matters, including the restructuring and refinancing of companies and groups of companies involving debt-equity swaps, bank supported workouts and structured settlements of unsecured liabilities. In addition, he has advised on credit rating issues for banks and substantial companies, as well as on counter-guarantees in relation to substantial project finance initiatives.
- He advises lenders and insolvency professionals in relation to factoring arrangements. He also acts for insolvency professionals and purchasers on business and asset sales. Tony is best known for his work in the financial services insolvency sector, where he regularly advises insolvency practitioners, regulatory bodies, banks and counter-parties.



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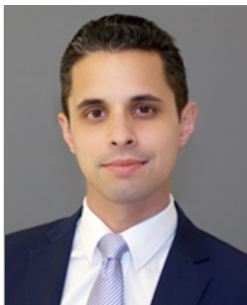
- JD, York University Osgoode Hall Law School, Toronto, Canada
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Biography

- Nazanin Aleyaseen is a senior member of the International Arbitration team. She regularly advises and represents international and UAE-based companies in DIAC, DIFC-LCIA, ADCACC and ICC administered arbitration proceedings as well as ad hoc proceedings. She has full advocacy rights, and advises and represents clients, in disputes before the Dubai International Financial Centre Courts.
- Ms. Aleyaseen is also a partner in the Dubai office's Labour, Employment and Workplace Safety practice which is recognized and ranked by Chambers Global in 2014 and 2015. She acts as exclusive employment counsel to multinational corporations with operations in the MENA and GCC region.
- Before settling in Dubai in 2008, she practised in Toronto, Canada and has published several articles relating to litigation and arbitration as well as employment and labour law.



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Education

- JD, Georgetown University Law Center, Washington DC, USA
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Memberships

- Bar of California

Biography

- Armando Arballo is an associate in the firm's Los Angeles office. Mr. Arballo's practice centers on complex dispute resolution, with a focus on construction litigation and restructuring and insolvency matters.
- He has experience in matters involving construction, oil & gas, employment and complex commercial litigation. Mr. Arballo has participated in many components of civil litigation and commercial arbitration, including authoring pleadings and motions, drafting and reviewing discovery requests, and facilitating settlement negotiations.

Notes

1. ^{^ [p.4]} <http://rsb.gov.ae/assets/documents/492/regsfuel tanks2009.pdf>