ORAL ANSWER TO QUESTION
PETROLEUM PRODUCTS - IMPORTATION

The Leader of the Opposition (Mr P. Bérenger) (By Private Notice) asked the Minister of Business, Enterprise and Co-operatives whether, in regard to the importation of petroleum products, he will, for the benefit of the House, obtain from the State Trading Corporation, information as to –

(a) the procedure adopted for the chartering of vessels and negotiating of freight rates and insurance, indicating if tenders are called for, or intermediaries are involved and commissions paid, and

(b) if, since 2006, imported products have had to be resold to foreign buyers, or otherwise disposed of, and if so, the reasons therefor, indicating the amount of losses incurred and demurrage fees, if any, paid in each case.

Mr Gowressoo: Mr Speaker, Sir, in regard to part (a) of the question, I am advised that the State Trading Corporation (STC) started to import 25% of the country’s requirements of petroleum products as from 1983. This percentage was increased to 50% in 1984 and, as from 1985, the STC has been importing 100% of the country’s requirement in respect of both white oil and black oil.

In 1983, the mode of purchase was through direct negotiation between Government of Mauritius and Government of Kuwait. Our first contract was a negotiated one on a CIF basis with Kuwait Petroleum Corporation. In 1984, again, STC had imported from Kuwait Petroleum Corporation on a CIF basis.

In 1985, STC started to import the total requirement of the country through an open international tender. The purchase was made on a CIF basis. Purchase of petroleum products was made with traders who were mostly international oil
majors. However, award of contract was also made to traders viz Vitol S.A Ltd., Addax BV Geneva Ltd. and Gallana.

The procedures for tender exercise were as follows -

1. Tender documents prepared by the STC were approved by State Law Office.
2. Thereafter, tenders were floated by the STC through advertisement in the local newspapers and sent to foreign Embassies in Mauritius for onward transmission to their respective countries.
3. Offers received at the STC, on the closing date, were opened in the presence of the Board of Directors of the STC and representatives of the tenderers.

(Interjections)

Mr Bérenger: The hon. Minister is wasting the time of the House!

Mr Gowressoo: It is the procedure, Mr Speaker, Sir.

(Interjections)

Mr Speaker: Order! Order, please!

(Interjections)

I’ll allow the hon. Minister to explain. He is explaining, but he will not take the whole time to explain the whole gamut for the last 25 years.

Hon. Minister, please be very short in the explanations that you are giving and then come to the gist of the question.

Mr Gowressoo: Mr Speaker, Sir,…

(Interjections)

Mr Speaker: Order!

Mr Gowressoo: I continue, Mr Speaker, Sir.
4. An Evaluation Committee comprising the Financial Manager, the Marketing Manager and Administrative Manager appointed by the Board examined the offers and submitted a report together with recommendations to the General Manager of the STC.

5. Consequently, the report was submitted for Board’s approval.

(Interruptions)

Mr Speaker: No! The hon. Minister is talking about which period? What is the period?

Mr Gowressoo: Mr Speaker, Sir, insofar as the question is concerned, nothing is mentioned about the period. There is no indication of period here.

(Interruptions)

Mr Speaker: Yes, but then I have told the hon. Minister. If he is going to take the whole period since 1983, then it will not serve the purpose of the question. He has to be to the point, succinct. Come to the point and explain.

Mr Gowressoo: Yes, Mr Speaker, Sir, I have another point.

Mr Speaker: The hon. Minister has the right to say that tenders have already been called in the past and this was not done. There is no need for him to say that there was an assessment by the Committees, etc. and what the Committee did.

Mr Gowressoo: Mr Speaker, Sir, it is the procedure. So, I’ll finish with No. 5.

5. Consequently, the report was submitted for Board’s approval and subsequently for the approval of the award of contract by Government.
However, in 2006, further to a visit made by our Prime Minister in India where he met his counterpart, following discussions between the two Prime Ministers it was proposed that STC would import petroleum products from Mother India where bulk purchases are made. The High Commission of India in Mauritius was contacted through the Ministry of Foreign Affairs and the request was made through diplomatic channel. The High Commission of India in Mauritius made requests to Indian companies *viz* Indian Oil, Bharat Petroleum Corporation, Hindustan Petroleum Corporation and Mangalore Refinery and Petrochemical Ltd. (MRPL).

At first the two entities, namely Bharat Petroleum Corporation and MRPL responded, but only MRPL was ready for further discussions.

A delegation led by the then hon. Minister of Industry, Small and Medium Enterprises, Commerce & Cooperatives…

*(Interruptions)*

**Mr Speaker:** No, no! I think that in 2006 the STC departed from the previous procedures. I’ll give some way leave for the hon. Minister to explain.

**Mr Gowressoo:** Thank you, Mr Speaker, Sir. As I was saying, a delegation led by the then hon. Minister of Industry, Small and Medium Enterprises, Commerce & Cooperatives proceeded to India and had discussions with the following counterparties among others -

- Minister of Petroleum (Hon. Moorli Deora),
- Chairman of ONGC - Oil & Natural Gas Company Ltd., and
- Director of MRPL

After having considered the technical, financial and operational issues, the Government of Mauritius approved a one-year contract for the supply of one
million tonnes of petroleum products during the period of August 2006 to July 2007. A CIF contract was drawn with MRPL. The CIF price refers to Platts quoted price plus premium. Premium relates to Suppliers Margin plus Insurance plus Freight.

The first year contract resulted in a saving for premium to the tune of MUR350 m, i.e. a saving...

(Interruptions)

Mr Speaker: I don’t want any…

(Interruptions)

Well, all right, I am noting time which is being wasted.

(Interruptions)

There is no need for the hon. Member to interrupt the Minister.

(Interruptions)

Order now, hon. Member!

Mr Gowressoo: That is, a saving of Rs 1.4 billion up to 31 July 2010. This saving, Mr Speaker, Sir, was arrived at when comparing the premium to that of other traders and also taking into account the trend for premium over the years.

During the first year of contract with MRPL, Mr Speaker, Sir, the latter had gone through TRANSCHART, a chartering Agency for Government of India under the care of the Ministry of Shipping. Thus, Pratibha Shipping Company Limited, Mumbai obtained the contract for transportation of white oil and EIGER Shipping (subsequently taken over by ST Shipping Transport PTE Ltd of Singapore) was awarded the contract for fuel oil by MRPL. The services obtained from the two shipping companies were to the satisfaction of the State Trading Corporation. Subsequently, Government decided to renew the contract with MRPL for a period of three years starting 01 August 2007 up to 31 July 2010.
Mr Speaker Sir, during the discussions of the new contract, MRPL informed that it was not its business to provide Shipping services and that the 1st year contract was an exceptional one. MRPL first recommended to STC the services of Pratibha Shipping Company Limited, Mumbai and ST Shipping Transport PTE Limited of Singapore.

It is a known fact that a FOB contract is to the advantage of the purchaser as he has control over freight and insurance. Thus, the Board of the STC, upon recommendation of management, decided that the three year contract with MRPL be signed on a FOB basis. The STC maintained the same shipping companies i.e., Pratibha Shipping Company Limited, Mumbai for white oil and ST Shipping Transport PTE Ltd of Singapore for fuel oil. These companies had acquired experience in transporting petroleum products to Mauritius and were aware of the port regulations and frequency of shipments. The most important factor to note is that the rates provided by the shipping companies were more competitive than that of the Mauritius Shipping Corporation Ltd. and Gallana Petroleum Ltd. from whom quotes were sought to be used as a benchmark.

The Freight rate applicable in 2006/07, CIF contract was indicated to be USD 21.43 per metric ton for white oil to USD 21.00 per metric ton for the 2007 to 2010 contract. This new rate is USD 0.43 per metric ton more competitive than that of the previous year resulting in an overall saving of around MUR 9.9 m. In such circumstances, Mr Speaker Sir, the STC has not resorted to the services of intermediaries and thus no payment of commission was effected.

(Interruptions)

Mr Speaker: Order! Order! Order!

Mr Gowressoo: Mr Speaker, Sir, for transparency sake, I am tabling copies of Contract of Affreightment with ST Shipping Transport PTE Ltd of Singapore and Pratibha Shipping Company Limited, Mumbai for the period 2007 to 2010.
You will recall, Mr Speaker Sir, I invited on two occasions the hon. Members of the Assembly to consult the contract with Mangalore Refinery Petrochemicals Ltd. at the seat of the STC …

(Interruptions)

Mr Speaker: Order!

(Interruptions)

Mr Gowressoo: …but no one from the Opposition has shown interest.

Mr Speaker: The hon. Minister is making a statement. Whether the hon. Member agrees is a different matter. He must let him say what he wants to say, so far, it is relevant.

Mr Gowressoo: Mr Speaker, Sir, regarding insurance, it is to be pointed out that STC has always been purchasing tenders on a CIF basis. The first contract with MRPL was also on a CIF basis. However, in July 2007, STC entered into contract for the supply of petroleum products on a FOB basis. STC had to arrange for an open marine insurance policy to cover for transportation on the product.

In this connection, STC contacted SICOM Ltd. with which the Corporation usually deals for insurance matters. The rate offered by SICOM were .055% on CNF. Upon recommendation of MRPL, a quotation was also sought from new India Assurance Company with which they usually work. New India Assurance Company offered a rate of .00416% of the CNF as is charged to MRPL for providing an open marine insurance cover for importation of petroleum products to be made from Mangalore for a period of one year to be reviewed at the end of every year taking into account the claim experienced. The Corporation awarded the contract to New India Assurance Company as it was far more competitive.

In regard to part (b) of the question, Mr Speaker, Sir, the House may wish to note that since our contract with MPRL in 2006 to date, we have received 96 consignments of petroleum products and out of which 93 consignments were
beyond reproach. This shows the seriousness of suppliers and the good quality of products sold to STC by MRPL and transported by the two shipping companies. However, there have been three instances whereby products for fuel oil have been reported to be partly off specifications. One shipment of 37,234 metric tons of fuel oil was received in February 2009. Out of the 37,234 metric tons some 15,332 metric tons was catalytic cracked fuel oil. Out of the remaining 21,902 metric tons, 3,946 metric tons CST 180 (Straight Run) and 17,957 metric tons CST 380 (Straight Run) for CEB were discharged and used. Some 5,581 metric tons of CST 180 of catalytic cracked fuel oil were used for local consumption by industries.

With regard to the balance of 9,751 metric tons of catalytic cracked fuel oil, these could not be used for bunkering purposes because of high level of sediment. These 9,751 metric tons of catalytic cracked fuel have been sold to Astra Oil Trading in Singapore at a price of USD 121.55 per metric tons. The shortfall of USD 1.5 m. i.e., MUR 49 m. has been claimed from ST Shipping Transport PTE Ltd of Singapore. The total amount claimed by oil majors amounted to MUR 14 m. and this has also been claimed from ST Shipping Transport PTE Ltd of Singapore. The claim by oil companies due to high sediment content included claim for loss of business. There is a team at the STC following on a day to day basis the insurance claim.

Another vessel, Ribe Maersk, of fuel oil arrived on 16 March 2009. This vessel had a total quantity of 22,734 metric tons made up of 10,762 metric tons CST 180 (Straight Run) and 11,972 metric ton CST 380 (Straight Run).

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11,972 metric tons of CST 380 (Straight Run) meant for CEB were as per norms and product specifications. However, out of the 10,762 metric tons of CST 180 (Straight Run), 7,465 metric tons discharged to CEB were reported to contain a high level of sediment. The CEB had to pay more in terms of maintenance and labour cost to remove sludge from its filters. The CEB, subsequently, claimed an amount of MUR 6.9 million and which was paid by STC to CEB on 03 June 2009. The balance of 3,327 metric tons discharged in Shell’s tanks were used for local industries and no claim was received from the oil companies.

Further to the two shipments where level of sediments was reported to be high, meetings were held at the level of my Ministry in presence of the STC. Two representatives of MRPL and representatives of SGS Mauritius, ST Shipping Transport PTE Ltd of Singapore, Managing Directors of oil companies and representatives of my ministry and the STC met on Saturday 21 March 2009.

Further to the meetings held with the different stakeholders, it was found that there were more probabilities that the ship owners were responsible for the high content of sediment in the fuel oil. It was reported that the vessel had not been properly cleaned and had been carrying different products prior to shipment to STC. The sludge content in the vessel could be reliable evidence for high level of sediment. Consequently, claims have been lodged to of Singapore Transport Pte. Ltd. A total amount of USD 2.5 million has been claimed and which includes costs of claims from oil companies for loss of business and payment made to CEB and demurrage fees. The demurrage costs amounted to USD 192,975 for both vessels, that is, Pretty Jewellery & Ribe Maersk.
In regard to the third consignment, Mr Speaker, Sir, I am informed that one vessel Atlantic Eagle arrived on 11 July 2009 with the following quantities of Fuel Oil:

- Fuel oil 180 CST (Catalytic Cracked) 19,945 metric tons
- Fuel oil 380 CST (Straight Run) 12,438 metric tons

The 12,438 metric tons fuel oil 380 CST (Straight Run) have been duly discharged to CEB and are being used. With regard to the 19,945 metric tons of fuel oil 180 CST (Catalytic Cracked) some 4,200 metric tons have been discharged for local industries.

The remaining 15,745 metric tons were reported to contain high level of sediment and which oil companies do not want to use for bunkering purposes. These 15,745 metric tons have been sold to Mabanaft Pte Ltd. in Singapore at a discounted rate of USD 105 per metric ton. The overall shortfall on this consignment amounts to MUR 63 million.

The high sediment content was reported to MRPL and the High Commissioner of India in Mauritius. The latter had a meeting in my office and reported the matter to the Minister of Petroleum in India, hon. Moorli Deora, who had invited STC representatives to MRPL. We have requested representatives of MRPL, SGS India, SGS Mauritius and representative of ST Shipping Transport PTE Ltd to be present in Mauritius for discussions on the issue. I am informed that the representatives of MRPL and SGS India are already in Mauritius and a meeting is scheduled for tomorrow. Thank you, Mr Speaker, Sir.

Mr Bérenger: The hon. Minister has acknowledged that since the beginning of the year, we have had three consignments, three vessels, that have caused problems, that have brought to Mauritius products that could not be used because
of contamination, excessive sediment contents and so on. In the first two cases, can I ask the hon. Minister – because we are nearing more than Rs50 m. claim – for how long has the claim been put in?

Mr Gowressoo: Mr Speaker, Sir, as per my knowledge, out of 96 consignments only three consignments have got problems. Regarding the two consignments where we found that this problem occurred, Mr Speaker, Sir, as I said in my reply, we had discussions. We called the MRPL…

Mr Speaker: No, no! The question is simple. Since when has the claim been put in?

Mr Gowressoo: Mr Speaker, Sir, that is what I am explaining.

Mr Speaker: No, no!

Mr Gowressoo: As soon as we happened to know the problem, we called the representative from Mangalore, ST Shipping and then we had discussions in our office to find out who is responsible for the problem. Even the insurance companies from both MRPL and the ST Shipping came to Mauritius and we had discussions. Since March we are following and we have set up a team to look after this problem day-to-day, Mr Speaker, Sir.

Mr Bérenger: It is a very technical matter and, of course, I stand advice on such technical matters, but it is going to be very difficult to prove that the
contamination was caused by the ship. Is that the course of action that we are following?

Mr Gowressoo: Mr Speaker, Sir, regarding the ship, we have a SGS certificate - because it was inspected before loading takes place - informing us that the ship was not clean; even then the ship carried the products to Mauritius. In this case, we cannot find any difficulty for the insurance company to refund this amount, Mr Speaker, Sir. As I have said, we are following this issue very closely and I am sure, because the products was insured, the insurance company has to pay.

Mr Bérenger: The hon. Member himself said that before he used to buy CIF from reputable, international, professional firms. Now that we are being told, according to the Minister, that the ship was not clean, is that not acknowledging that we are no longer tendering for the services for chartering vessels, checking the state of the vessel and so on? We have chosen two companies and now the Minister himself says that the vessels were not clean. Who is going to be held responsible for those millions of rupees that we are paying?

Mr Gowressoo: Mr Speaker, Sir, as I have said, it is the insurance company which is going to pay. This is a risk in business. The shipping line has insured its ship for this business, Mr Speaker, Sir.
**Mr Bérenger:** The Minister is trying to give us the impression that everything is going well and so on. Is he aware that these recent days STC has been sending desperate messages to different possible buyers? If I can quote one of the latest one sent by the State Trading Corporation –

‘We are having a parcel of about 15,800 metric tons of fuel oil with the sediment contents like the above the requirement of what our local industry needs. The cargo is on board the vessel Atlantic Eagle (which the hon. Minister referred to) which was chartered by ST Shipping and we need to find a buyer for the fuel oil (...)

We bought, now we resold *en catastrophe*.

“Well you will need to arrange with ST Shipping for carriage of the product to your port of delivery, as it will not be practical for us to discharge and reload the product. Your prompt consideration will be highly considered as vessel is idle. Awaiting for instructions.”

And, in the meantime, of course, demurrage is being paid. Can I ask the hon. Minister, whether he will give us the total sum - the insurance, the claims are in - that the consumers, through STC, have paid for these faulty products that have not been used and for demurrage fees?

**Mr Gowressoo:** Mr Speaker, Sir, may I ask the hon. Member, if we have such quantity of product which is not according to the norms, according to the specifications, what should we do? We remain silent and stay in our office? We have to write letters everywhere, to get clients, customers to purchase and sell the products, Mr Speaker, Sir! So, this is the way. As I have said, regarding the amount for this consignment, we have not had discussions up to now with the MRPL, the ST Shipping and the other insurance companies. Once we will finish
having discussions, meetings, then we will be able to tell the House how much we have lost. But, I can assure the House that these products have insurance cover, Mr Speaker, Sir.

**Mr Bérenger:** When the STC lost billions – not millions this time - of rupees on this hedging saga, the Minister said: ‘Yes, it is normal that consumers pay for this hedging mess’. Is he going to say again that, with this present mess, the millions of rupees that are being paid for products that we cannot use, that we have to resell at a loss and for demurrage paid, it is normal that consumers pay for that also?

**Mr Gowressoo:** I have not said that it is normal, Mr Speaker, Sir. That’s why I have set up a team to look into it day-to-day, Mr Speaker, Sir. So, where is the…

*(Interruptions)*

**Mr Speaker:** Order! Order!

**Mr Bérenger:** Before, the practice - as it evolved in time - was the best possible practice, that is, international tenders for the basic product Free on Board (FOB) plus insurance freight and everything; and different international reputable firms would come in, and Mauritius would get the best deal. Now, we have ended up in this mess. After this mess, which consumers are going to pay for again, will Government go back to the best practice of international tendering on a CIF basis?

**Mr Gowressoo:** Mr Speaker, Sir, as I have said, before 2005, the CIF tenders were launched. Who got the tenders, Mr Speaker, Sir? It was the traders! I can table a copy of the business done with Vitol and MRPL. MRPL, the supplier, that is, the refinery, sells to Vitol and Vitol sells to Mauritius. That’s why, Mr
Speaker, Sir, we have always informed the House that we have a saving of Rs1.4 billion for this transaction.

(Interruptions)

Mr Speaker: Order!

(Interruptions)

Order! Hon. Barbier, please! Order!

Mr Bérenger: Mr Speaker, Sir, my last question will be: billions have been spent, have been wasted in the hedging saga. Now, we want to know how many millions of rupees are going to be paid for by the consumers. The explanations put forward plead guilty by themselves, but we do not know the full story. The Minister cannot give me a global figure, how many millions of rupees, through this mess, consumers are going to be made to pay for. Will Government agree, at least, to the Director of Audit being appointed to look into this mess and report?

Mr Gowressoo: Mr Speaker, Sir, the question is not on hedging. So, we cannot discuss about this question. But, what we have received is a saving of Rs1.4 billion…

(Interruptions)

…from not buying from traders. As I have said in my reply, the insurance companies will take into consideration the loss. I am sure that the insurance companies will be able to pay for the loss.

Mr Dowarkasing: The hon. Minister has replied that it is going to be the insurance company that is going to bear the cost of all these losses. If the insurance company is going to bear the cost, why is it that the STC has said letters everywhere, begging different parties to buy this consignment?

Mr Gowressoo: Mr Speaker, Sir, this is opinion of the hon. Member.

Mr Bhagwan: The Minister has not replied...

(Interruptions)
Mr Speaker: Order! The hon. Member has put the question and has received the answer. He should keep quiet now.

Mr Bhagwan: The Minister has not replied to the question asked by the hon. Leader of the Opposition. Is Government, the Minister agreeable to appoint the Director of Audit to look specifically into this case of losses at the STC?

Mr Gowressoo: Mr Speaker, Sir, as I have said, there is a team who is taking care of the insurance day-to-day. Let all the meetings be held, and then we can find out.

Mr Bérenger: I have one last question, as usual, Mr Speaker, Sir. We have had a number of sagas, apart from the hedging one. This morning, we heard about milk on the radio; there is also rice; all sorts of occasions, like Amul, where millions have been wasted. Now, we have this mess. Will Government agree that consumers are right to claim that fundamental changes must take place at the STC, like at the MBC, without further delay?

(Interruptions)

Mr Gowressoo: Mr Speaker, Sir, we are not talking about…

(Interruptions)

Mr Speaker: Hon. Bhagwan, let the hon. Minister answer!

Mr Gowressoo: Mr Speaker, Sir, we are not talking of ‘lanatte’ in sugar; we are not talking of Illovo deal.

(Interruptions)

Mr Speaker: The hon. Minister has no right to go astray. He has to answer.

(Interruptions)

What are they doing? Can you tell the House what they are doing?

Dr. David: They are talking of issues, which have nothing to do with the main question.

(Interruptions)
With hedging and milk problems.

(Interjections)

Mr Speaker: Order!

(Interjections)

Hon. David, can you behave yourself in this House, please?

(Interjections)

Order! Order! The question of the hon. Leader of the Opposition was whether, with all that is happening at the STC, is it time to have a change? The question is relevant. It is not for the Minister to judge the relevancy of the question; it is for me to judge the relevancy of the question. Now, the hon. Minister of Business, Enterprise and Co-operatives can answer.

Mr Gowressoo: Mr Speaker, Sir, as I have said, I have put a team to look into the matter.

Mr Speaker: Time is over!

(Interjections)

Order now! And you want me to be tactful with these kind of people!