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Alan Duncan

Risky oil supply deal pays off for Vitol

Javier Blas in Benghazi, Libya SEPTEMBER 6 2011

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It started with a phone call from Qatar. “Are you interested in selling a cargo of crude from the Libyan rebels and, in exchange, supplying them with fuel?” a Doha-based official asked.

Vitol, the world’s largest oil trader, said yes.

Over the following five months what started as a one-off deal to swap crude for gasoline and diesel rapidly evolved into a \$1bn business that fuelled [the ragtag Benghazi-based rebel army’s progress towards Tripoli](#), the capital.

“The fuel from Vitol was very important for the military,” says Abdeljalil Mayuf, an official at the rebel-held Arabian Gulf Oil Company in Benghazi.

The deal could have come from the script of a Hollywood war movie, and included secretly sending oil tankers to terminals only a few kilometres from the fighting between supporters of Colonel Muammer Gaddafi’s regime and the opposition.

But taking those risks has catapulted Vitol, a publicity-shy company largely unknown outside the oil industry, to a leading position in post-Gaddafi Libya. “We expect to play a role in the future [of Libya’s oil industry],” Ian Taylor, Vitol chief executive, says.

The wartime trade was as ambitious as it was dangerous. For Vitol, which it is owned by its employees, the risk was heightened because it supplied most of the fuel without upfront payment.

The rebel's plan to swap crude for refined products collapsed in early May after an attack on its oil fields interrupted the flow of oil. With little access to cash, the rebels at one point owed the trading house more than \$500m.

"It was a gamble, but it was a reasonable gamble," says Mr Taylor.

Other trading houses, including Geneva-based Trafigura and Gunvor, also supplied the rebels with small amounts of fuel. But bigger companies, including BP, Royal Dutch Shell, Total of France and Eni of Italy refused to take the risk of selling to the rebels.

Nuri Berruien, the newly appointed chairman of Libya's National Oil Company, says that only four companies offered to supply fuel to the rebels, but adds Vitol tendered "the best terms" as it offered a line of credit and did not ask for war insurance.

A number sympathetic countries gave their backing to the deal. Qatar, a strong supporter of the Libyan revolution from the outset, helped facilitate contacts as the initial messenger but soon moved to the sidelines. Western countries also supported the deal, although both Vitol executives and Benghazi-based oil officials are adamant that they did not participate in the negotiations.

The US Treasury, for example, granted a "general licence" authorizing US companies to buy Libyan crude, subject to sanctions, from Vitol. Washington also released \$300m of frozen assets to the rebels to pay for the fuel, according to the state department.

London also encouraged the trading house to supply the rebels, while a covert "Oil Cell" at the UK Foreign Office did its best to prevent Col Gaddafi from obtaining fuel or selling crude in the international oil market.

Alan Duncan, international development minister and a former oil trader, advised the cell. Mr Duncan had links to Vitol and Mr Taylor in the past, but London said the deal between the trader and the rebels was inked before the unit was set up. However, critics say that Mr Duncan should not have been involved due to its previous links to Vitol.

After more than five months of dealings, the trading house has sold the rebels more than 30 tankers of gasoline, diesel, fuel and liquefied petroleum gas, keeping rebel forces moving, petrol stations filled and power stations running.

It has exported two tankers of crude oil. One in May to Tesoro, a US-based refiner, which bought 1m barrels for its refinery in Hawaii. And a second of 850,000 barrels to Saras, an Italian-based refiner, in June.

This last shipment was the most audacious operation of the deal.

Benghazi oil officials called the trading house urgently when they discovered crude in the storage tanks of the Zuetina terminal, about 100km south-west of Benghazi, after they retook it from forces loyal to Col Gaddafi. While skirmishes continued only a few kilometres from the terminal, Vitol arranged a tanker to pick up the crude.

“It was dangerous as it was very close to be fighting,” says Mr Taylor.

●Glencore, which is the world’s largest commodity trader but trails Vitol in oil, is now also seeking to supply Libya’s new government, *writes Jack Farchy in **London***. The London-listed company last week signed a contract to supply refined oil products to the National Oil Company, according to a person familiar with the deal, contingent on the removal of UN sanctions.

“We can expect sanctions to be lifted pretty imminently,” the person said.