Allegations of missing cargoes. Disappearing ships. Clandestine trips to Iran. The extraordinary rise and fall of FAL Oil

A Gulf family’s oil troubles

BY STEVE STECKLOW AND HUMEYRA PAMUK
DUBAI, MARCH 25, 2013

At their peak around five years ago, the Al Sari family owned the largest independent oil trader in the Gulf region, with branches in London and Singapore, and a fleet of dozens of ships.

These days, their FAL Oil Co trades more in controversy than oil.

It owes a consortium of lenders nearly $900 million, including about $200 million to Standard Chartered PLC. It is contesting a worldwide asset freeze granted
by a London court to the Royal Bank of Scotland. And it is suing its home government of Sharjah - one of seven emirates that make up the United Arab Emirates - in a rare public fight over a disputed $750 million fuel-oil bill. The company even hired a British debt collector to chase the emirate for payment.

These are just some of the many bitter courtroom battles being waged by FAL Oil, once a pillar of business here in the UAE. Many of the details have not been made public until now; the colourful claims and counterclaims include allegations of missing oil, disappearing ships and clandestine trips to Iran. Last year, the U.S. State Department sanctioned FAL Oil for allegedly selling petroleum products to Iran in 2010, something the firm denies but has not challenged legally.

The remarkable fall of FAL Oil sheds light on the sometimes murky world of oil trading. It also shows how the distinction between family and business is often blurred in the Gulf.

The clan behind FAL Oil may have crafted an escape hatch for their troubled oil-trading business, Reuters has learned. The family is now operating a similar, private oil-trading company that one of the Al Sari sons said they acquired about six months ago from a public UAE firm the family controls and whose shares trade on the Dubai Financial Market. But as of last week, there was no public disclosure of the transaction on the exchange’s website, which lists company filings.

In an interview, Majid Abdalla Juma Al Sari, whose family owns FAL Oil and who serves as its managing director, said the clan’s net worth has fallen in recent years from about $3 billion to “north of $300 million.” Paying back FAL Oil’s mounting debts remains “our aspiration,” though the

OLD MODEL: Little has changed inside the offices of FAL, even if the Al Sari family has begun trading through a new company, Horizon Energy. REUTERS/STRINGER

$900 million
Approximate amount FAL owes lenders
the likelihood of doing so is unclear because of the Sharjah litigation, he suggested.

FAL Oil is “just a skeleton now,” he said, and is in the process of “winding down.” He added: “We are no longer actively in the oil-trading business.”

But his family hasn’t stopped trading oil. Calls to FAL Oil’s office in Sharjah are now answered by another Al Sari-controlled firm, Horizon Energy Co LLC. It’s engaged in essentially the same business as FAL Oil, and shares some of the same employees and trading partners. Horizon Energy recently signed deals with oil companies in Pakistan, Bahrain and Yemen, which have all done business with FAL Oil.

Al Sari said FAL Oil and Horizon Energy are separate companies, and that “no assets have been shifted” between them. He also said his family controls both businesses. A London-based spokesman for FAL Oil said that “Horizon Energy Co LLC has no structural relation with FAL Oil, but is a company under the broader umbrella of the Al Sari family.”

Al Sari and the spokesman gave several conflicting accounts about Horizon Energy’s link to the publicly traded company, raising questions about how the family acquired it.

Some oil industry traders and executives also question whether Horizon Energy has been dealing in Iranian oil – which Al Sari denies. “It’s absolutely baseless,” he said.

**“PROBLEMS, PROBLEMS, PROBLEMS”**

FAL Oil is part of a labyrinth of private companies, known as the FAL Group, controlled by the Al Sari family. Its patriarch, Abdalla Juma Al Sari, served as Sharjah’s police chief from the late 1960s to the late 1980s.

In 1969, he launched an oil-delivery trucking business in Sharjah. Eventually, he and his two sons expanded into trading oil.

Mohamed Osman, who began working for Al Sari in 1978 and managed the oil-trading operation, said the family’s businesses initially specialised in bunkering – selling marine fuel to ships. They purchased oil from Saudi Arabia, Bahrain and Iran, and resold it to India and Sudan, he said.

In 1990, the Al Saris bought out a partner and created FAL Oil – an acronym for Fuels and Lubricants. The firm acquired a fleet of tankers and built oil-storage facilities at the mouth of the Strait of Hormuz, a strategic shipping lane, enabling it to respond to demand quickly. It soon became a key oil supplier to Pakistan.

By 1995, FAL Oil had a fleet of 15 barges and tankers and was looking to buy more. “We don’t take profits and distribute, we just take it and put it back in the company,” Abdalla Juma Al Sari, who served as chairman, told Reuters at the time.

That same year, FAL Oil announced an unusual plan to open Sharjah’s first oil refinery. The idea was to purchase a used refinery in Canada, dismantle it and ship the parts to Sharjah.

The Al Sari family ultimately bought three mothballed Canadian refineries. In one case, the massive equipment was hauled by rail more than 600 miles to a Vancouver dock before being shipped to the Middle East. There, hundreds of workers went to work reassembling the pieces.

Technical issues and cost overruns led to repeated delays. “They had problems, problems, problems,” said Dermot James Walsh, a Toronto real estate consultant who helped FAL buy the old refineries.

Says Majid Al Sari: “We miscalculated that to relocate a refinery can cost you as much as building a brand-new refinery.”

The project was scrapped. Majid Al Sari called it “a total disaster,” and said losses ranged between $100 million and $150 million.

Despite the setback, FAL Oil kept growing. By the early 2000s, it was a regular supplier of fuel oil and diesel to Pakistan, India and Sri Lanka, and was a major seller of marine fuel. By 2007, it was trading more than 18 million tons of oil products annually, Al Sari said.

Among FAL’s customers was a state-owned utility, the Sharjah Electricity & Water Authority, or SEWA. In 2009, FAL Oil stopped making deliveries following a dispute over the supply of SEWA’s fuel.

That summer, with temperatures averaging over 40 Celsius (104 Fahrenheit),...
Sharjah suffered power outages that lasted from hours to several days. The utility scrambled to find other suppliers.

The dispute coincided with the crash of the Dubai real estate market, which hit other Al Sari holdings. The family controls Gulf General Investments Co, or GGICO, a publicly traded firm with properties in some of Dubai’s major residential developments. That company posted large losses, and its stock plunged.

After unsuccessful talks with SEWA, FAL Oil filed court claims against the utility in Sharjah. It was a highly unusual move in a region where disputes with governments normally are avoided or settled privately. The case involved not only the fuel bill, but also discounted land that Sharjah had given to Al Sari companies in partial payment for oil, according to officials with FAL Oil and SEWA. SEWA filed counterclaims against FAL Oil.

A SEWA official told Reuters, “Our disagreement is with prices, which were inflated, manipulation on the deliveries and on the quality of some of the shipments.” Majid Al Sari disputes those allegations.

With no settlement in sight, FAL Oil began falling behind in its payments to banks that had financed its ships and trading business. In late 2011, Pakistan State Oil Co. blacklisted FAL Oil from participating in tenders after FAL failed to deliver an oil shipment, according to both parties.

The spokesman for FAL Oil said the Pakistan case “is currently in an arbitration stage. There are claims made by FAL upon PSO as well.”

To persuade SEWA to settle, FAL Oil hired Atradius, a British company that provides credit insurance and collects debt, according to Al Sari and documents seen by Reuters.

In a letter to SEWA’s acting director general dated Oct. 4, 2011, Colin Hatton, Atradius’ head of special risk management, wrote that the matter was “potentially significantly serious.” He claimed that “SEWA and by implication the Government of Sharjah could be deemed technically insolvent and lose their insurance coverage if they didn’t pay the debt. Hatton argued that Atradius had an obligation to disclose the situation to various parties, including major reinsurers.

In another letter three weeks later, Hatton compared the dispute to a “similar situation” involving Saudi Arabia’s health ministry. In that case, he wrote, “leaked” information to the news media led to inaccurate reports that the entire country had lost its insurance coverage. “As you might imagine this had an immediate impact,” Hatton wrote.

In an emailed response to Hatton, the SEWA acting director asked that “your company refrain from any action that may constitute ‘defamation of character’ of a government entity” and warned of possible legal action.

Hatton declined to comment to Reuters, saying “that would put me in a rather difficult position.” A spokeswoman for Atradius and a spokesman for FAL Oil also declined to comment, citing confidentiality agreements. The dispute between the two firms remains unresolved.

AN IRAN CONNECTION

The SEWA dispute wasn’t the family’s only headache. In January 2012, the State Department punished FAL Oil for allegedly providing more than $70 million in refined petroleum to Iran in 2010. Those sales, the United States alleged, violated Washington sanctions aimed at curbing Iran’s nuclear-development programme. FAL was barred from receiving U.S. export licenses and loans of more than $10 million from U.S. banks.

Majid Al Sari denies the allegations, but said FAL Oil did not contest the action because its U.S. lawyer advised the firm it likely would lose.

Meanwhile, a London court recently heard allegations that a ship that Al Sari says his family still has title to — but no longer controls — made secret trips to Iran last year.

The case involves the Royal Bank of Scotland, which had financed two oil tankers for the family. In January 2012, two Al Sari-controlled companies stopped making loan payments on the vessels, according to a judgment last November by the High Court of Justice in London. The bank made efforts to collect its money — about $12 million — and began looking for the ships.

According to the judgment, RBS discovered last June that one of the tankers, the Sharjah Pride, had apparently switched off its tracking equipment and since June 26 “had been reported as calling at (the port of) Bandar Imam Khomeini, Iran, eight times.”

For safety reasons, large ships are required to operate electronic equipment known as an Automatic Identification System, or AIS, which broadcasts its location, destination and other data. The United Nation’s International Maritime Organisation says a ship’s tracking transponder “should always be in operation” unless it would jeopardise a vessel’s safety, such as in waters frequented by pirates.

The bank questioned the ship’s whereabouts, but FAL Oil “consistently failed to provide any adequate explanation,” the judgment states.

In August, following “complaints” by the bank’s law firm “about apparent sailings to and from Iran,” FAL Oil told RBS that it no longer had “operational control” of the Sharjah Pride, the judgment states. Majid Al Sari told the bank the ship was now controlled by a UAE firm, Golden Crown, which had agreed to buy the vessel but hadn’t paid for it. “Mr. Majid Al Sari also claimed that Golden Crown had stolen oil from FAL Oil,” the judgment states.
The High Court granted the bank's request for a worldwide freeze on the assets of FAL Oil and three other Al Sari family entities.

Ali Marashi, Golden Crown's managing director, told Reuters that Golden Crown bought the Sharjah Pride in November 2011, and “the full amount toward purchase ... was totally settled with FAL Oil.”

He said his company had sold the vessel five months later to a third party he declined to identify. He said he had “no idea” about any subsequent trips by the ship, and also denied his firm had stolen any oil from FAL Oil.

In interviews with Reuters, FAL Oil's Majid Al Sari said he still held the title to the Sharjah Pride but didn't know whether the ships had gone to Iran last year. “The documents are still in my name, and we still own the vessel,” he said.

Reuters obtained a copy of a bill of sale, dated Nov. 22, 2011 and signed by Al Sari, in which one of his family's companies transferred ownership of the Sharjah Pride to Golden Crown for $14.25 million. “The receipt whereof is hereby acknowledged,” the document states.

Shown a copy, Al Sari said, “This was signed by me, but as of today this is null and void because no funds have changed hands.”

In a separate case, FAL Oil has accused a UAE-based storage facility of failing to pay for two cargoes of oil worth a total of $119.5 million that were delivered last spring, according to Al Sari. The storage firm, VTTI Fujairah Terminals Ltd, is partly owned by Swiss-based trading giant Vitol.

Vitol says it is the true owner of the cargoes, and it has commenced proceedings in the English High Court to confirm its title to the oil. A Vitol spokesman said: “The matter is subject to proceedings in Fujairah and London. FAL's claims are unfounded and we are confident they will be dismissed.”

Al Sari said Vitol has “failed so far to provide any title to that oil,” adding: “Which they will not be able to show you because I hold the title.”

FAL Oil has accused Osman, their long-serving general manager, of being complicit in the alleged oil theft. The accusation resulted in his week-long detention last year by Sharjah authorities, Al Sari and Osman say.

Osman, who left FAL Oil last summer, said he has not been charged and denies any wrongdoing. He said he is challenging the accusation.

**A DIFFERENT HORIZON?**

As the litigation swirls, the Al Saris have resumed oil trading through a Sharjah-licensed company called Horizon Energy Co LLC. Majid Al Sari said the family owns 100 percent of the firm.

An entity by the name of Horizon Energy Co LLC was listed as a wholly owned subsidiary in the 2008 consolidated financial statements of another company: GGICO, the Dubai conglomerate that owns real estate. The Al Sari family has a controlling stake of just over 50 percent in GGICO, but the company is publicly traded on the Dubai Financial Market.

In interviews with Reuters, Majid Al Sari and a spokesman for FAL Oil gave a series of different accounts of whether or not the GGICO subsidiary and the identically named Sharjah oil-trading firm are one and the same.

On Feb. 12, Al Sari said the oil-trading Horizon Energy was a separate entity from the GGICO unit. “This is a different Horizon,” he said. He added that the oil-trading firm was called Horizon Energy LLC, which he said was unrelated to GGICO's Horizon Energy Co LLC.

The FAL Oil spokesman in London told Reuters on Feb. 25, “They are different, unrelated companies.” He said the GGICO unit “is now dormant due to the recent unfavourable economic landscape.”

The spokesman also produced a copy of the oil-trading Horizon Energy's trading licence, dated last November, showing it was owned by two Al Sari family entities.

But a copy of the same firm's trading licence, dated two months earlier, obtained by Reuters, shows that it was then owned by a GGICO subsidiary called Emirates Lube Oil Co Ltd. Those two companies were replaced by two Al Sari family-owned companies in the November trading licence.

Shown a copy of the September licence, the spokesman confirmed that Horizon Energy had indeed been owned by GGICO.

In another interview on March 11, Al Sari said GGICO's board last September or October approved giving his family full control of Horizon Energy's trading business, and GGICO had been compensated. He also said GGICO had notified the Dubai Financial Market of the ownership change in a regulatory filing.

“All of this was done transparently and
very openly,” he said.
He promised to provide the related documentation to Reuters, but didn’t. The spokesman later said the records were “highly private and confidential” and couldn’t be made public. The stock exchange last week couldn’t locate a copy of the regulatory filing, according to people familiar with the matter.

These days FAL Oil, which once had about 120 employees and another 200 support personnel, is a shell of its former self. Al Sari said it now has about 20 to 30 employees.

Over the past two years, its shipping fleet has shrunk from some 45 vessels to a handful, he said. One ship was seized last summer by Singapore authorities because of a delinquent bank loan and sold at auction to another Al Sari family company.

The movement of some FAL ships also has raised suspicions among some oil industry traders and executives about the origin of the oil onboard.

According to a Reuters analysis of AIS ship-tracking data from the past year, on several occasions FAL vessels appear to have switched off their tracking devices as they sailed toward the narrow Strait of Hormuz, which separates the Arabian Peninsula from Iran. Many FAL ships have spent days or weeks lingering around a FAL storage tanker anchored miles off the UAE coast.

Al Sari said the ships have operated far offshore to save on insurance and denied they have done any business with Iran or made any trips to Iranian ports. He said some ships had turned off their tracking devices “as a precautionary measure for the piracy issues.”

The family’s fleet may have little choice but to remain offshore. In January, the emirate of Fujairah said it was banning a number of vessels owned by Al Sari companies from using its port because they were operating in restricted areas. Sharjah took even stronger action, banning several tankers owned by Al Sari companies and “any vessels” owned by the Al Saris or their agents, for “unauthorised anchoring” in restricted areas, according to a Feb. 26 notice signed by Sharjah’s harbour master.

A Sharjah port official said the action was prompted by environmental concerns, such as potential oil spills. Said Al Sari: “This is major harassment.”

Nevertheless, the family’s Horizon Energy is currently doing just fine, according to the FAL Oil spokesman. The company “is rapidly expanding its client base” and has recently signed several new contracts, he said. Officials with Yemen’s Aden Refinery Co, the Bahrain Petroleum Co and Pakistan State Oil all confirmed they are now doing business with Horizon Energy.

Added the spokesman: “Horizon Energy has a successful business model in place and a strong future ahead.”

Edited by Simon Robinson

FOR MORE INFORMATION
Steve Stecklow, Senior Correspondent
steve.stecklow@thomsonreuters.com
Humeyra Pamuk, Gulf Energy Correspondent
humeyra.pamuk@thomsonreuters.com
Simon Robinson, Enterprise Editor, Europe, Middle East and Africa
simon.robinson@thomsonreuters.com
Michael Williams, Global Enterprise Editor
michael.j.williams@thomsonreuters.com