

To ask the Honourable Minister of Industry, Commerce and Consumer Protection -

Whether, in regard to the supply of petroleum products through Emergency Procurement for an amount of Rs 14 billion, he will for the benefit of the House, obtain from the State Trading Corporation, information as to the -

- (a) names of the respective suppliers for Clean Petroleum Products and Dirty Products Petroleum Products, respectively ;**
- (b) period covered by the contracts;**
- (c) relative prices, premium and freight rates for Clean Petroleum Products and Dirty Petroleum Products, respectively; and**
- (d) basis on which negotiations were held with lowest bidders?**

Madam Speaker,

The contract for the supply of Petroleum Products between the State Trading Corporation (STC) and Mangalore Refinery and Petrochemicals Limited (MRPL) expired on 31 July 2019. In this respect, on 25 March 2019, the STC launched a tender for

the supply of 915,000 Metric Tons of Clean Petroleum Products (CPP) and 325,000 Metric Tons of Dirty Petroleum Products (DPP) for the period 01 August 2019 to 31 July 2020, on both FOB (Free on Board) and DAP (Delivery at Place) basis.

Eleven (11) bidders submitted their offers, out of which nine (9) were for Clean Petroleum Products (CPP) and eight (8) were for Dirty Petroleum Products (DPP).

Following the evaluation exercise, the most competitive substantially responsive bids were from Vitol Bahrain E.C for Clean Petroleum Products and PetroChina International (Singapore) Pte. Ltd for Dirty Petroleum Products.

In parallel, on 03 May 2019, the STC also launched tenders for Contract of Affreightment (COA) for the transport of petroleum products should tender for the supply of the products be allocated on a FOB basis.

On 22 May 2019, the Board of the STC approved the award for supply of Clean Petroleum Products to Vitol Bahrain E.C

and to PetroChina International (Singapore) Pte. Ltd for Dirty Petroleum Products.

However, on 31 May 2019, the Supreme Court, in the case of *STC v Betamax Ltd*, set aside the arbitration award of the Singapore International Arbitration Centre and provided guidance on the application of the Public Procurement Act (PPA). In the wake of the judgement of the Supreme Court, the STC sought the advice of the State Law Office on the procurement proceedings to be followed by the STC. The SLO advised that the STC has to follow the provisions of the PPA.

On 7 June 2019, STC had a meeting with the Central Procurement Board (CPB) to discuss the procedures to be followed under the PPA. A timeline for launching of the tender for supply of petroleum products was defined as per the provisions of the PPA and the process worked out to last over a period of about 6 months.

Considering that the contract for procurement of Petroleum Products with MRPL would expire on 31 July 2019, and to

avoid any shortage of Petroleum Products, the Board of the STC on 10 June 2019, approved that:

- a) STC annuls the tender exercises for the supply of clean and dirty petroleum products launched on 25 March 2019 and for Contract of Affreightment for these products launched on 03 May 2019;
- b) STC carries out an Emergency Procurement for the period 1 August 2019 to 31 January 2020 in accordance with section 21(3)(b) of the PPA – *“life or the quality of life or environment may be seriously compromised”*;
- c) negotiations be carried out with the lowest substantially responsive bidders in the tender exercise launched on 25 March 2019 which are Vitol Bahrain E.C for Clean Petroleum Products and PetroChina International (Singapore) Pte. Ltd for Dirty Petroleum Products; and

- d) the Panel for the negotiations be composed of representatives from the Ministry of Industry, Commerce and Consumer Protection, the Ministry of Finance and Economic Development, the Central Procurement Board and the State Trading Corporation.

On 17 June 2019, STC attended a meeting at the Central Procurement Board (CPB) to discuss on the process for the Emergency Procurement exercise. CPB informed that in line with the Provisions of the PPA, they cannot participate in any negotiation exercises. This would tantamount to being judge and party.

However, in line with circular 15 of 2008 issued by PPO, CPB agreed to assist STC and guide them on the negotiation process. The CPB further requested the STC to prepare a Strategy paper for the negotiations and to submit same for clearance. Given that MRPL has been the supplier of the STC since 2006, it was proposed that MRPL also be invited to participate in the negotiation process; CPB had no objection to the proposal as this would enhance competition. Following

discussions with the CPB, the Strategy Paper was finalised and approved by the CPB on 21 June 2019.

Madam Speaker,

With regard to part (a) of the Question,

I am informed by the STC that the negotiating panel held meetings with Vitol Bahrain E. C and MRPL for Clean Petroleum Products and with PetroChina International (Singapore) Pte. Ltd and MRPL for Dirty Petroleum Products at the seat of the STC on 25 and 26 June 2019.

The negotiation panel recommended that the contract for the supply of CPP for the 6 months' period be awarded to Vitol Bahrain E.C and that the contract for DPP be awarded to PetroChina International (Singapore) Pte. Ltd.

Madam Speaker,

As regards part(b), the contracts are for a six months period, from 01 August 2019 to 31 January 2020.

Regarding part (c) of the question, there is a Confidentiality Clause in the contracts between the STC and the two suppliers, which prohibits disclosure of sensitive and commercial information to third parties. However, in a spirit of transparency, I wish to inform the House that prices of petroleum products fluctuate constantly everyday on the international market. The basis of pricing in the contracts is Platts postings which are widely known and available.

As regards the freight rates, I wish to inform the House that as the contracts with the two suppliers are on a DAP basis – Delivery at Place basis - freight rates are not available as they are included in the supply price.

With respect to premium, as per the Confidentiality Clause in the contracts, the figures cannot be disclosed.

With regard to part (d) of the question, the premiums quoted by the most competitive substantially responsive bidders in the tender exercise launched on 25 March 2019, were used as starting point for the negotiations.

After negotiations, the suppliers agreed to reduce their premiums for both clean and dirty petroleum products by around Rs 40 M for the six months' period.

I also wish to inform the House that compared to the proposal of MRPL for the supply of both clean and dirty petroleum products, procurement from the two selected suppliers namely Vitol Bahrain E.C and Petrochina International Singapore PTE Ltd, represents a savings of around Rs 309 M for the six months' period.