Markets

How a Giant Oil Trader Stumbled in Postwar Iraq

By Christian Berthelsen and Andy Hoffman
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- Gunvor alleges too few barrels, millions in diverted spending
- Brothers with Iraq ties say they honored terms of the contract

A damaged silo at the Bai Hassan oil field, west of Kirkuk on Oct. 19, 2017. *Photographer: Ahmad al-Rubaye/AFP via Getty Images*

An unusual opportunity to export Iraqi fuel oil two years ago sounded like such a big moneymaker for Gunvor Group Ltd. that owner Torbjorn Tornqvist began sending millions of dollars to two brothers he'd met 11 days earlier. But within a year, the partnership had devolved into suspicion, bitterness and finally a lawsuit.

The Swiss company spent $120 million on the deal, according to the U.S. lawsuit filed in July. The brothers allegedly provided fake documents, lied about access to refinery output and misappropriated cash for entertainment and travel, resulting in $33 million of losses, Gunvor claimed. The men say the contracts were legitimate, the terms were honored, and Gunvor knew the risks.

The dispute offers a rare glimpse into the opaque world of energy trading and the hazards of navigating deals in postwar Iraq, even for an experienced commodity trader like Gunvor, which last year traded the equivalent of 2.7 million barrels of oil a day and generated $63 billion of revenue.

“This is the wild west -- or I should say the wild east,” said Jean-Francois Lambert, a former commodities banker at HSBC Holdings Plc who now works as a consultant. “Trading houses have tried to do business in Iraq, and I’m not sure many have been successful.”

A full explanation may never be known publicly about what went wrong between Geneva-based Gunvor and the brothers, Lawrence and Arman Kayablian. A federal judge in Virginia ruled Oct. 19 that their contract requires disputes be settled in confidential arbitration, and dismissed the case.

Quick Deal

What’s clear is Gunvor moved quickly to sign a deal with two men it hardly knew. While the trading house has done some business in Iraq, the lawsuit shows the company accepted assurances and documents provided by the Kayablians.

The Swiss commodity trader’s losses were “relatively negligible,” Seth Pietras, a company spokesman, said in a statement. Gunvor sued, he said, because “fraudulent behavior should be vigorously pursued.” As the dispute heads toward arbitration, the company “is very confident in its position,” Pietras said.

In an emailed response to questions from Bloomberg, provided by their lawyers, the brothers said they “never claimed anything more than what was written in the contract from the government of Iraq, which Gunvor had a copy of from the beginning of negotiations, and the transaction with Gunvor was based on that contract.”

It’s easy to see why Gunvor was initially drawn to the opportunity. Iraq has the third-largest oil reserves in the Middle East. After the 2003 U.S. invasion damaged wells and refineries, the country began a long recovery, and has more than doubled production since 2010 to a record 4.6 million barrels a day.

However, the recovery has been chaotic and the postwar oil industry has been difficult for foreigners to penetrate. It took years to oust Islamist militants from huge swaths of Iraq. The country remains notoriously corrupt and one of the world's most violent.

Back in 2016, crude prices were rallying from a 12-year low when a Geneva lawyer reached out to Gunvor with a pitch: A small company called Amira Industries, run by the Kayablians, had contacts in Iraq willing to sell fuel oil -- a petroleum product used in ship engines and power plants.

At the time, Gunvor revenue was down and the fourth-largest independent energy-trading house in Switzerland was still recovering from a major restructuring.

Partner Buyout

Two years earlier, Tornqvist had to pledge about $1 billion to buy out his partner, Gennady Timchenko. The Russian oligarch was close to Vladimir Putin, and Gunvor severed ties hours before Timchenko was blacklisted from the U.S. financial system. The firm sold assets, pursued financing arrangements and even weighed selling itself to competitors.

According to the Gunvor lawsuit, almost any deal to secure Iraqi supplies would be profitable, so the company was eager to meet the brothers. The Kayablians, through their attorneys, said they were born in Fairfax, Virginia, grew up mostly in Baghdad and have been working in Iraq for more than a decade.

"With the right connections, with the right information, you can get access to a source of supply that your competitors may not," said Lambert, the commodity consultant. "With traders, you need to move fast."

Among the companies the Kayablians run is Amira, named for the aunt who raised them and an offshoot of a family business founded in Iraq in the 1960s that manufactured water heaters, air coolers and some steel products, their lawyers said in the email. The brothers left Iraq in 1991 and returned in 2003, though they live mostly in Beirut, the lawyers said.

Lawrence Kayablian, 44, started in the oil business in 1996, and his family has exported petrochemicals and helped some western companies arrange oil deals in Kurdistan, according to the lawyers' email.

First Meeting

When Tornqvist met the brothers in Geneva on April 1, 2016, the Kayablians were a couple of unknowns looking for a cash-rich partner to fund fuel-oil purchases for export, according to the lawsuit. The company agreed to meet the brothers because they were represented by a broker from London investment bank Hannam & Partners LLP who had made the initial introduction, the lawsuit claims. H&P declined to comment.

On April 12, Gunvor paid Amira $3 million to buy fuel oil from the government-run Dora refinery south of Baghdad. Over the next year, Gunvor sent even more cash despite growing frustration over what it characterized as costly delays, smaller-than-promised deliveries and a lack of information, according to the lawsuit.

Documents provided by Amira were fake, Gunvor said in the court filing. It also became clear, after discussions with employees at an Amira unit in Iraq, that there was no way the Kayablians could get access to as much fuel oil as they claimed, because 60 percent of Dora's output was sold to the Iraqi government, with the rest offered in tenders to private buyers like the Kayablians, the lawsuit alleged.

Costly Delays

On the first cargo loading, Gunvor got 50,000 metric tons of fuel, half as much as the 90,000 to 100,000 tons the brothers had promised, according to the lawsuit. The tanker, Cape Tallin, hired by Gunvor to transport the fuel to export markets, allegedly sat for months in port waiting to load, running up costs, and similar delays occurred with later cargoes.

The Kayablians, in their lawyers' email, said the deal to buy Iraqi fuel oil was legitimate, the sales agreement was drafted mostly by Gunvor, and the contract specifies that quantities for shipment could change. "These are normal events related to availability of the fuel oil, which fluctuated based upon the supply and demand issues," they said.

Gunvor also alleged Amira never provided a full accounting of how money was spent. One document the brothers provided to the company in June 2017 specified $1.1 million for "entertainment," $1.2 million for "travels," $1.5 million for a "renewal fee," $1.9 million for "head office expenses" and $4.5 million for what Amira described as "supervision," according to the lawsuit.

The Kayablians said the contract -- in addition to specifying purchases of fuel oil -- authorizes spending on logistical costs, from taxes to transporting the product by truck from the refinery to the port.

"Gunvor had visibility into the entire transaction from a financial standpoint, or they would not have continued with the transaction for over one year," they said.