How One of the Tiniest Oil Markets Cost Trafigura Over $1 Billion

A small but profitable fuel-supply business concealed a ballooning web of credit exposures.

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Buildings in Ulaanbaatar, Mongolia.

Photographer: SeongJoon Cho/Bloomberg

Trafigura Group is a giant of commodity trading. On any given day, it handles enough oil to supply the entire needs of France three times over. Its global reach stretches from US crude oil export infrastructure to fuel stations in more than 20 countries across Africa, Asia and Latin America.

Yet in a distant corner of its empire, far from the attention of top executives in Geneva and Singapore, a crisis has been brewing for some time.

This week, the company admitted it faces a loss in Mongolia of up to $1.1 billion, linked in part to suspected fraud by its own employees. Trafigura alleges that staff manipulated payments while concealing a mountain of overdue debts, allowing the exposure to run out of control for years without raising any red flags.

For people inside and outside Trafigura, the revelation was a bombshell. Most shocking was the scale of the likely loss relative to the size of Mongolia's oil market. There are over 100 countries that use more oil than Mongolia, according to data from the US Energy Information Administration, among them Luxembourg and Nepal. Its consumption of about 35,000 barrels a day is worth roughly $1 billion a year. For Trafigura, Mongolia made up less than 0.3% of all the oil it traded.

Read More: Trafigura Faces $1.1 Billion Hit After Mongolia Fraud Probe

This account is based on interviews with eight people with direct knowledge of Trafigura and its activities in Mongolia, who asked not to be identified due to the sensitivity of the subject. This week, Trafigura Chief Executive Officer Jeremy Weir said the company was "bitterly disappointed" by the situation and was confident it was isolated to the Mongolia business, and the company's investigation is still ongoing.

Jeremy Weir.*Photographer: Stefan Wermuth/Bloomberg*

This week's announcement, confirming an earlier report by Bloomberg, represents a painful sequel to last year's revelation that Trafigura had fallen victim to a massive alleged nickel fraud.

The debacle is shining another harsh light on the company's internal controls, and raises questions about why it took almost a year to fully disclose the situation. For outsiders, it reinforces commodity trading's fast-and-loose reputation, coming months after some of the biggest players — including Trafigura itself — pleaded guilty to corruption charges in the US.

Speaking privately, nine bankers, including at some of the company's key lenders, said they were astounded by the size of the potential loss, and want to know how Trafigura will prevent it happening again. Still, the loss is unlikely to affect the company's ability to borrow money, several of them said.

"The key question, as always, is how quickly and effectively one learns from mistakes and implements corrective measures," said Jean-Francois Lambert, a consultant and former commodity banker. "Not merely by reshuffling or dismissing staff and launching a lengthy recovery process, but by strengthening the company's governance, internal processes, and controls."

The Landmark building, in Ulaanbaatar.*Source: Google*

Profitable Niche

For years, Trafigura had enjoyed a profitable niche in Mongolia, which relies entirely on imports for its gasoline and diesel — largely by rail from Russia, as well as sometimes from China.

The company supplied about a third of Mongolia's oil products, with a particularly large position in diesel. Rosneft PJSC and Gunvor Group were its main competitors. The operation turned over a few hundred million dollars every year, with profits typically in the tens of millions, according to people with knowledge of the matter.

It was a small but sweet business for the world of commodity trading, where razor-thin margins are often 1% or less.

In Ulaanbaatar, Trafigura's employees worked from the Landmark, a glass-clad building at the edge of the central business district that overlooks a new park built by mining giant Rio Tinto Group. Next door sits the Soviet-era Bayangol Hotel.

Trafigura's main oil trader in Mongolia was Jononbayar Erdenesuren, who had been at the company since 2012. Jononbayar was known in Ulaanbaatar's close-knit business world for his hard-charging approach to business and for the parties he threw for friends and contacts.

Being landlocked makes the Mongolian market vulnerable to disruptions, and in late 2023 the country was gripped by a fuel shortage. Citizens rushed to queue for petrol and diesel, and the government started to scrutinize the state of oil inventories in the country.

Some people familiar with the matter suggested that the crisis helped lead to the discovery of Trafigura's financial hole in the country.

But the trading house was also going through its own period of scrutiny after the nickel fraud. And as the company looked more closely at its largest credit exposures, one tiny market stood out.

Fuel on Credit

Selling oil in Mongolia is complicated. International companies like Trafigura don't have import licenses and so can't supply the local market directly, instead relying on local distributors. For Trafigura, the main counterpart was a company called Lex Oil LLC.

The Mongolian company would take Trafigura's oil products and sell them on to fuel retailers. Crucially, Trafigura supplied the oil on credit, with an agreement that Lex Oil would pay in the future after making deductions for customs and freight duties.

Further complicating the picture: the wholesaler itself also provided credit to its own customers, while hedging transactions added another layer of complexity. The result was an ever-changing exposure to Lex Oil and its network of buyers in Mongolia.

What Trafigura's accountants in Singapore and Geneva had not properly understood was that those exposures had ballooned in size to many hundreds of millions of dollars even as the bills hadn't been paid when they were due, a person familiar with the matter said.

A person who answered the phone at Lex Oil's office said that no one was available to answer Bloomberg's questions, and the company didn't respond to an emailed request for comment.

The issue was finally identified late last year. Trafigura says that it found "deliberate concealment of overdue receivables" by its staff, but the alleged misconduct wasn't limited to hiding the debt. The company also said its employees manipulated data and documents to misstate the calculations for charges like customs and freight. It believes this had been going on for approximately five years.

Trafigura didn't name any employees in its statement, saying just that it was taking "appropriate disciplinary action." Jononbayar is among employees who have been suspended, according to people familiar with the matter.

A representative for Jononbayar declined to comment, saying he is still an employee of Trafigura and is bound by a confidentiality agreement.

Eight Months

As the size of the problem became apparent, Trafigura's board brought in forensic accountants. The company's senior management got involved and Jose Larocca, one of the top executives, flew to Mongolia in February to meet with Lex Oil.

Bloomberg reported the same month that Trafigura had an issue in its Mongolian oil business and faced hundreds of millions of dollars in potential losses. The company said at the time it had recently agreed debt repayment schedules with oil products customers in Mongolia and that it had "a good track record of successfully recovering debts from counterparts in emerging markets."

Even after the report, more than eight months would pass before Trafigura disclosed the full extent of the problem.

The response in Mongolia contrasts with its actions over the nickel fraud, when Trafigura moved to take legal action against the alleged fraudster, Prateek Gupta. It won a freezing order, but nearly two years later has yet to recover any funds. (Gupta has disputed Trafigura's version of events, arguing that the trading house was complicit in his actions.) Meanwhile, the court case has shone a harsh light on Trafigura's own processes and exposed internal communications that the company might have preferred to remain private.

Its head of nickel and cobalt trading left the company, and several other senior metals executives departed over the coming months, though

Trafigura has said repeatedly it did not believe that anyone at the company was complicit in the nickel fraud.

One reason the company didn't take immediate legal action with the Mongolian oil loss was that it had not yet got a clear account of the facts of the case, a person familiar with the matter said. Its investigation is still ongoing, the company says.

In June, when Trafigura published unaudited results for the half-year ended March, the word "Mongolia" wasn't even mentioned. The company did report a sharp increase in overdue receivables, but incoming Chief Financial Officer Stephan Jansma explained that higher commodity prices and interest rates meant that "importing countries from time to time will have issues in their payment profile."

The disclosures "reflected management's estimate of potential losses at that time across a number of counterparties and countries," a Trafigura spokesperson said on Thursday. "With an external investigation underway, we were not in a position to provide any commentary on Mongolia."

On any given day, Trafigura handles enough oil to supply the entire needs of France three times over.*Photographer: Jeremy Suyker/Bloomberg*

Annual Accounts

By late September, Trafigura was preparing to close its annual accounts, as Weir announced he would hand over as CEO to gas boss Richard Holtum in January. It was time to decide what to do about the headache in Mongolia.

The company had already taken some action. It stopped new business in the country, suspended Jononbayar, and terminated the contract of its Singapore-based head of Mongolia, Mikhail Zeldovich. (Zeldovich declined to comment.)

And it still hopes to recover some money from Lex Oil, whose debt represents more than half of the $1.1 billion, according to a person familiar with the matter.

“A substantial proportion of the total exposure has been acknowledged as a debt owed to Trafigura by our principal counterparty in Mongolia. We intend to hold the counterparty to their repayment obligation,” Trafigura said.

Ultimately, the company decided to record a “conservative” provision of $1.1 billion in its financial results, and to publicly confirm the alleged misconduct.

Some bankers heard about the prospect of a provision on Mongolia during informal conversations with Trafigura employees in September, according to people familiar with the matter. But even lenders who were expecting a charge were shocked by the $1.1 billion figure.

“In September 2024, no employee at Trafigura had the knowledge or the authority to discuss the quantum of a total provision in respect of our Mongolian oil business,” the company said.

It’s unlikely that any large lending relationships will be affected, said Orhan Gunes, a commodity financier who now runs trade finance platform TradeQraft.

“The critical issue is that after this and the nickel case they’ve used up their credits for such things, and I think they are aware of this,” he said. “Trafigura has very sound risk management tools and professionals so they will take serious precautions.”

— *With assistance from Anna Shiryaevskaya*

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