

Top Petroleum Inc - Notes on Crude Sales:

The procedures for crude oil business are straight-forward when both the buyer and seller are genuine. There are, however, certain basic terms and procedures to know and follow to avoid problems and frauds.

The procedures involved in crude oil business varies, however, they all appear to be very simple when both the buyer and seller are genuine.

Beside of the price discounts, procedure is very important in facilitating a crude oil deal, so, sellers (and buyers) have laid down procedures.

Proof of Product (POP) and Proof of Fund (POF)

For crude oil business to proceed, there has to be Proof of Product on part of the seller, and Proof of Fund on part of the buyer.

To avoid unnecessary hassles, it is very logical that the seller makes an offer of what he or she has; then either the buyer works with it, or, walks away. If the seller does not have what the buyer wants, the buyer could go to the next 'store'. It is that simple.

*Buyers generally prefer to buy light grades to heavy grades because the light grades are lower in sulphur content, easy to refine, produce bigger volumes of diesel and other end products of crude oil.

There are four major things one will need in order to do this business. They are namely:

1. **Funds:** One will need funds to buy crude. Currently Brents pricing is around \$50 per barrel so a Buyer will need a minimum of US\$50,000,000 for 1 million barrels. You will also need about \$5 million for expenses.
2. **Petroleum seller:** One will need a crude oil seller or supplier where to purchase from. This one is not a major problem as long as one has the funds.
3. **Tanker:** One will need a tank to store the crude oil. If you want to build a petroleum storage tank, then you may as well rent one.
4. **Petroleum buyer:** this is also not a major problem. The reason is because there are many buyers of crude oil aggressively searching for available crude oil to buy mainly in USA and Europe. As long as cars and factories are concerned, crude oil will always be in high demand.

Main Ways of Selling Crude Oil

They are namely: CIF, FOB, TTT and TTO.

Cost, Insurance and Freight (CIF): It is a method of selling petroleum where the seller does everything from loading and sending the crude oil to the place the buyer wants. This kind of method is usually hard to find and most sellers do not like dealing this way.

Freight on Board (FOB): This kind of method is usually hard to find and most Buyers do not like dealing this way.

The most widely used method for selling crude oil is TTT and TTO.

Tanker Take Over (TTO): In this method, the buyer takes over the vessel to his destination, offloads the crude oil and brings it back.

Tanker To Tanker (TTT): It requires the buyer to get a vessel while the oil is transhipped and everything is settled.

See more info below on the main ways of selling

Method of Payment for Crude Oil

Method of payment is usually through swift, or, wire transfer. This can either be done through bank to bank by means of MT799; irrevocable Letter of Credit may also be used for payment, etc.

The Price of Crude Oil

One should bear in mind that crude is sold in barrels. The minimum amounts of barrels most sellers are willing to supply are usually 2 to 4 millions of barrels monthly. The price is usually the same with the one set by OPEC. We offer Brents pricing on our offers and 1 million barrels minimum.

Definitions

1. Proof of Product (POP)

This document serves as a clear indication that the owner of the oil commodity has a true possession of the product.

This document must also indicate that the seller has the commodity for sale as at the time of transaction. This document can be issued in hard copy but it is mostly delivered through electronic means (email). The buyer should make it a point of duty to carry out his due diligence by confirming the product before proceeding on any transaction with the seller.

Key requirement for a genuine deal is a letter of allocation from the Crude Oil Marketing Department. The seller should be able to provide this to show the buyer he has a product for sale.

Fraud in the oil and gas business is not only committed by Nigerians, it is committed by people all over the world. Insist on a proof of allocation in the form of a letter of allocation from the relevant government ministry, or, agency in charge of petroleum in any country. Failure to do this will only waste your time and money and you will be working for international fraudsters unknowingly.

Once you have a genuine copy, it is always easy to confirm, but make sure the letter is from a genuine agency with the authority to allocate crude oil, or, its by-products.

2. Proof of Fund (PF, or, POF)

Proof of Fund is a financial instrument that indicates to the seller that the buyer of the crude commodity is capable of buying the product. It shows that the buyer is financially capable to handle transactions of such huge magnitude. It is usually issued by the buyer's bank, if the buyer is credible enough, his/her Bank should not be hesitant to issue this to the seller. Commonly acceptable instruments are:

- a. Letter of Credit (L/C, or, LOC)
- b. MT 799
- c. Bank Guarantee (BG)
- d. MT 103

3. Sales and Purchase Agreement (SPA)

The SPA serves as a legal document which is presented by the seller of a supposed crude oil commodity through the seller's agent to the buyer, or, his/her agent, or, mandate for the buyer to sign, seal and return back to the seller.

It is a legal document binding on both parties once signed and it incurs a penalty if one party defaults in fulfilling his side of the purchase contract. Most likely it has the terms agreed by both seller and buyer present in it. A copy of this document is given to the banks of both parties as the deal proceeds while copies are also kept for security reasons. Since the SPA is a legal document, care should be taken before it is signed since many people defraud others with it. It is often times presented in soft copy and is printed out and filled by the other party.

Avoidable Scams Associated with SPA

It is a well known fact that people tend to perpetuate fraud through legitimate means of making money; especially when it is internet related and hence reducing trust and making it difficult to seal a deal in this industry. Buyers must be very careful with the issue of signing of an SPA. Once an agreement is reached by some parties and the SPA has been duly signed, some fraudsters fault the agreement deliberately and demand a penalty fee of \$100,000 or more from the buyer thus forcing the buyer to pay for a deal that never occurred; this is usual with many desperate facilitators and agents, so one should be careful when entering any deal to avoid scammers.

4. Letter of Intent (LOI)

The LOI is a legal document that is issued by the buyer of an oil commodity. This document indicates the buyer's interest, it also specifies the specification and conditions upon which the buyer would want to transact the business. Many times, buyers issue LOI's only to find out that the seller, or, his agent is not genuine, or, does not have the supposed product at hand. A lot of hungry facilitators do this when they are still struggling to get a supplier. They commit the buyer only to start hustling for a seller. Also note that the LOI has an expiry date but it can be re-issued.

5. Facilitators

A facilitator in the oil and gas field is more, or, less like a middleman in the world of commerce. A facilitator is someone who searches for both buyers and sellers of an oil commodity; he in many cases looking for agents to companies, or, individuals who need a particular oil product available for sale.

A facilitator spends both time and money trying to get both genuine and serious buyers and sellers. A facilitator serves as a link between the buyer and the seller, every document for initiating a deal goes through him/her and he/she forwards to appropriate party involved.

The work of a facilitator is very stressful and sometimes discouraging when he/she comes in contact with un-serious persons, sometimes the chain of facilitators and agents to a deal make everything tiring. The success key for a facilitator is patience and persistence.

The fee of a facilitator is much lower than that of an agent but it is something compared to the effort. A facilitator could earn up to 50 cents per barrel depending on the chain of people involved. So his pay is dependent on the number of barrels the buyer is willing to buy. In a case whereby a facilitator is dealing with another facilitator, they come to an agreement on how to share the 50 cent. What stops most facilitators from brokering a deal is greed. Everybody wants to make it big at the first strike, they forget that they would have more deals to broker. Most times a deal never pulls through because of this, but if they have understanding, things would just flow well.

6. Mandate

A mandate could be likened to the spokesman of the seller in most cases. The seller gives him authority to act on his behalf. He gets more commission than the facilitator; say \$1 in most cases but determined by the Seller.

Sample Procedures of Crude Oil Business

Tanker Take Over (TTO) Procedure

1. Buyer and seller sign the Sales/ Purchase Contract Agreement with Banking coordinates.
2. Buyer's bank PRE-ADVICE LETTER OF CREDIT to Seller's bank.
3. Seller Bank posts 2% ACTIVE PERFORMANCE BOND (if previously agreed on) upon receipt and confirmation of buyers PRE-ADVISED LETTER OF CREDIT.
4. Buyers bank places OPERATIVE LETTER OF CREDIT in favor of seller for total cost of cargo and commission to agents and facilitators.
5. Seller confirms OPERATIVE LETTER OF CREDIT and issues ATB to Buyer's independent inspectors within 72 hours.
6. Buyer's inspectors go on board vessel within 72 hours after the confirmation of the buyers LC, to conduct Q & Q, inspection report made available to Buyer.
7. Re-assignment of cargo is done in buyer's name and CPA issued, signed by Buyer and returned to the Seller within 4 working days of receiving a positive Q & Q report. All Original documents handed over to the buyer's bank.
8. Buyer's Super cargo goes on board within 3 days after the re-assignment and CPA signed.
9. Payment via swift made to the various accounts in the SPA within 72 hours of Super cargo going on board and Vessel sails afterwards:

Tanker-To-Tanker (TTT) Transshipment Procedure

1. Buyer and seller sign the Sales/ Purchase Contract Agreement with Banking coordinates.
2. Buyer's bank issues via SWIFT, a PRE-ADVICE of the Irrevocable, Transferable, Divisible and Confirmed Letter of Credit, which will be issued to seller's bank in favour of seller.
3. Seller Bank posts 2% ACTIVE PERFORMANCE BOND upon receipt and confirmation of buyers PRE-ADVISED LETTER OF CREDIT.
4. Buyer places an Irrevocable, Transferable, Divisible and Confirmed Letter of Credit to Sellers bank in favour of seller.
5. Seller confirms Buyers Irrevocable, Transferable, Divisible and Confirmed Letter of Credit, issues NOR (NOTICE OF READINESS), LONGSIDES within 72 hours with Buyer's Vessel and Transships the Cargo to Buyers vessel.
6. Buyer's inspectors go on board vessel within 72 hours to conduct Q & Q, inspection report made available to Seller.
7. Payment via swift made to the various accounts in the SPA within 72 hours of Submission of Cargo Documents, Inspection Report, Discharge Certificate and Masters report to Buyers Bankers and Vessel sails afterward:

Cost, Insurance and Freight (CIF) Procedure

1. Seller signs and seals the contract and dispatches to the Buyer in form of email.
2. Buyer countersigns the contract and dispatches a duplicate copy to the Seller in form of e-mail.
3. Buyer and Seller deposit same at their respective Banks.
4. Seller's vessel issues Notice of Readiness (NOR) to buyer's port of discharge and copy all parties involved.
5. Buyer's bank issues via SWIFT, a Non-Operative, Irrevocable, Transferable, Divisible and Confirmed Letter of Credit to seller's bank in favor of seller. This is to be done within 3 banking days after the issuance of NOR.
6. Seller's bank issues a 2% PB (If previously agreed on) to buyer's bank which automatically activates the Buyer's LC and the Buyer's LC becomes Operative.

Upon confirmation of the activated LC, Seller's loaded vessel within 48 hours departs for buyer's port of discharge.

Seller's bank valid shipping documents which shall include the following:

- A). Notarized Commercial Receipt naming Buyer, contract number, goods and quality indicating transfer of the title.
 - B). Shipping advice indicating, designated vessel name, loading port, estimated loading time, estimated time of departure, estimated time of arrival in destination port (FULL ETA).
 - C). Signed commercial invoice indicating the contract number and the name of the carrying vessel. (3 originals and 3 copies)
 - D). Quality and Quantity certificate issued at the loading port.
 - E). Charter Party Agreement and Full Set (3 originals and 3 copies) of clean on-board Bills of Lading made out to order; bank endorsed and marked "freight pre-paid", indicating the name of the carrying vessel with the Buyer as the "Notifying party".
7. Seller's loaded vessel arrives at the buyer's discharge port and Buyer conducts Q & Q inspection at buyer's expenses. Any seller who is willing and ready to do the above is for real.

NOTES

If the seller claims that the cargo has been cleared, then he should be able to give CPA (Charter Party Agreement), ATL (Authority To Load), Q88 vessel details.

Other things to look out for:

- * Seller's Export Schedule
- * Transport / delivery confirmation
- * Port/Terminal confirmation of lifting schedule
- * Export declaration of customs
- * Seller's Authority to re-sell