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Zondo Commission – SAA contractor’s role expanded without following procurement process

A company contracted by South African Airways (SAA) in 2016 to provide fuel to some of its major route stations has failed to live up to its obligations to the national airline. This despite being roped in in a quest for SAA to achieve transformation by securing a portion of its fuel business for a black-owned entity.

On the other hand, when engaged to help curb an SA Express (SAX) crisis at one of its fuel stations a year later, the same company’s contractual deliverables had expanded without proper procurement processes being followed.

According to SAA fuel manager Mark Vaughan, the last time EML Energy supplied fuel as expected was in October last year. Vaughan was testifying before the commission of inquiry into state capture on Tuesday.

The SAA board took a resolution in early 2016 to obtain 15% of all its local jet fuel from a small black-owned entity, in a quest to break the monopoly held by major oil refineries. Not only did this way of doing business ultimately cost SAA more, but there was no accountability on EML’s part, despite the company failing in its service outputs.

EML was one of eight companies that won tenders to supply a portion of 40-million litres of jet fuel per month to SAA at OR Tambo International Airport for the year between July 2018 and June 2019.

The move, however, would still prove profitable to the large, established refineries, as any small black-owned competitor would rely on their supplies to be able to service SAA. Thus SAA stood at a disadvantage as the fuel it would get from the smaller entity would be priced higher, owing to the premium to be added to that bought from the larger industry players.

“Because the small companies would be purchasing that fuel from the oil majors and I believe that the oil majors wouldn’t be able to give a discount any further to a small owned entity, so they would definitely have to put a mark-up in order to cover their costs and to make profits,” Vaughan said.

He added that EML did not produce its own jet fuel but sourced it via first Total, and later Shell. According to the contract, the company was meant to supply two million litres of fuel per month.

The inability of EML to meet its fuel deliverables did not reach crisis point, as SAA stated cutting down on unprofitable routes over the period that the company was contracted. But if the case had been different and demand been higher, the shortfall would have caused a serious problem.

EML was also the focus of the inquiry on Monday, when the evidence of airports co-ordinator for SAX Estelle Loock testified.

A potential crisis in 2017 at the one of the smaller airports, Pilanesberg Airport in the North West, prompted Loock to explore the possibility of getting EML on board. The supplier for Pilanesberg at the time had been found to be supplying fuel of questionable quality.

Loock was entrusted with finding the solution to the problem, and requested a quote from EML for the monthly supply of 8 500 litres of Jet A1 fuel for Pilanesberg. Loock's supervisor David Allenby suggested EML, telling her that EML was already in talks with SAA over a fuel supply service. Once the quote was in, she handed over the process to the procurement division of SAX, headed by Sam Vilakazi.

"Only at the later stage when it was sent to my divisional manager, that I was aware that there was a contract signed," Loock said. According to the contract, EML's role was to be expanded to the point where the company would supply to SAA fuel stations at a higher rate, resulting in a R67-million-per-month deal for EML.

The problem with this was that only two services were required, "on the technical side of the refuelling and defuelling and on the Pilanesberg side of fuel supply," explained Loock.

"However, this contract contained every single station that SAXE operated in, which was a concern. I was aware that there was an SAA agreement at the ACSA airports, however all those were included in this agreement."

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