Interview with Abdulkadir A. Hussein of HASS Petroleum Group

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Editor's Note: *Amid the chaos that is associated with Somalia and despite the many obstacles to peace and tranquility in Somalia, Somalis are known for their business entrepreneurship, among them are individuals who have contributed greatly to the greater good of humanity. In one such case WardheerNews has had a rare opportunity to interview Hass Petroleum Group, which is a prominent business leader in East Africa and the great lakes region. Hass Petroleum Company, which began organically in a field dominated by multi-national oil giants is making great strides. Hass recently contracted China State Construction Engineering Corporation (CSEC), the world's largest construction company to construct Hass Towers, an iconic 67-floor mixed-use development in Nairobi, which will be the tallest building in Africa. Hass Towers is expected to open its doors in 2020. WardheerNews is humbled to share this interview with Garaad Abdulkadir Ahmed Hussein, Director of operations and new business development at Hass Petroleum Group. We previously published this interview on October 31, 2011 for our well-regarded readers. Abdelkarim A. Hassan has conducted the interview for WardheerNews.*

WardheerNews: Could you give us a brief background about "Hass Petroleum Company"?

Garaad Abdulkadir Ahmed Hussein: Thanks Abdelkarim, Hass was founded in 1997 by two brothers, the late Abdirizak Ali Hassan and Abdinasir Ali Hassan. The HASS Petroleum Group is a regional Oil Marketing Company (OMC) with significant presence in East Africa and the Great Lakes region. From its humble beginnings as a fuel re-seller, the company is now one of the most renowned oil marketers, with fully fledged operating business units in Kenya, Tanzania, Uganda, Southern Sudan, Rwanda, Burundi and the Democratic Republic of Congo (DRC).

With its corporate headquarters in Nairobi, Kenya, the company's core business is the importation, distribution and marketing of petroleum products in countries where we have registered business units. The company also has invested significantly in retail outlets - petrol stations - and sizable oil storage terminals. The company's recently commissioned oil terminal in Dar es Salaam, Tanzania has an installed capacity of 34 million liters, and serves our southern corridor markets of Tanzania, and the neighboring landlocked countries of D.R.C. - Katanga Province, Rwanda, Burundi and Zambia. The northern corridor markets - Kenya, Uganda, Southern Sudan, and D.R.C. (North-East provinces) - are served by imports via Kenya's Mombasa port.

WDN: It is often reported that investing business in Africa in general and East Africa in particular is risky, primarily due to political vulnerability, government interference, a maze of bureaucracy and corruption. What are your experiences on these concerns?

Abdulkadir: We are Africans, investing in Africa. We do not see the region's risks as being much different than many of the emerging markets. Admittedly, there have been problems in the authoritarian single party regimes of the 80's and 90's when there was rampant corruption, and serious public sector mismanagement of resources. However, most of these countries have made much progress since then, notably Kenya, where a new constitution has been put in place via a referendum, and subsequent enactment of the people's wishes. The new constitution has very checks and balances between the three arms of government - the executive, judiciary, and legislature. The region's improved socio-economic and political stature is evidenced by the sizable foreign direct investment inflows in many sectors of the economy. China and India are notable for their enhanced FDI in East Africa and the Great Lakes region

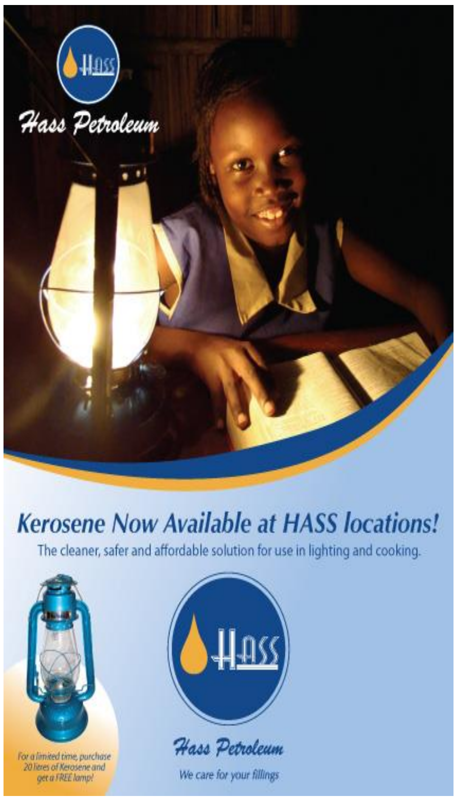
Risk is a relative concept that is related to the returns on investment. Whereas Egypt and Tunisia were considered "safe havens" just over a year ago, look at where the Arab Spring has taken their ratings, Bahrain - the country with almost the largest density of banks in the world - is not the near risk-free country it was for a long time until the recent upheavals. In a sense, there are different risks in our region, but there is no doubting the fact that the Asian demand for Africa's agricultural and mineral commodities is making a major breakthrough in our economies. HASS Petroleum operates in D.R.C., and Southern Sudan - relatively high "risk" by conventional standards - and we have enjoyed reasonable growth, and returns. It is also a source of some satisfaction in that the company has contributed to the development of these war-torn countries in their search for economic and political stability.

WDN: HASS expanded its business in Tanzania, the Great Lakes region, and Southern Sudan. Could you elaborate on the factors behind HASS Petroleum's growth from a simple petroleum reseller to a regional importer and exporter of fuel and lubricants within a short time?

Abdulkadir: The Company was managed fairly prudently by the founder-owners in its humble beginnings when it used to buy products in-country from the multi-national oil majors for onward re-export by trucking from the Kenya oil pipeline terminal at Kisumu to the northern lake region of Tanzania. This was also at the time when the oil sector was being liberalized in the East African countries, which enabled new local entrants venture into the oil marketing business. Prior to this change, the industry was fully controlled by the oil majors - Shell, BP, Mobil, Caltex, Agip, etc. These majors sourced products from their refineries in the Arabian Gulf, controlled the available tanker vessels for moving products across oceans, and had the distribution infrastructure in the local market countries in the form of oil terminals, and branded petrol stations run by their appointed dealers selling to consumers on prices "set" by the parent majors.

In East Africa, this supply regime is *called "kuku, vifaranga, na mayai"*, meaning, "chicken, chick and eggs"! This anomaly was corrected by liberalization of the oil sector, and it is one of the few such measures that affected western commercial interests, as most majors complained about the likely compromise in standards, etc. The founder-owners were also very focused in their core business of oil marketing, and towards that end engaged local professionals to run the business units. The company through progressive recruitment is now run by a team of highly qualified professional managers with extensive industry experience in their various disciplines.

Historically, the Kenya market is mature, and therefore fairly difficult for newcomers to penetrate. This explains the strategy of the company's initial entry into the northern Tanzania market as it offered the greatest potential for growth. At the time - 1998 - by some luck and coincidence, the El Nino rains had cut off the northern lake region area of Tanzania from their traditional supply route of Dar es Salaam. Most of the bridges and railway lines were washed away by the torrential floods of the El Nino rains. The opportunity to supply from Kisumu, a Kenya pipeline terminal, also on Lake Victoria, could not have come at a better time! The rest is history, as they say. Not long after this, our first service station was opened in 2002 in Kisumu. This was quickly followed by upgrading the company through the acquisition of a petrol importation license in 2003, enabling us to source products from the international oil market, thereby eliminating the local multi-national middlemen in our supply chain. In 2004, we entered the Uganda market, rapidly followed by Rwanda, Burundi and Southern Sudan - almost as the pioneer oil marketing company. Today, Uganda is one of our biggest markets, where we own and operate 20 modern petroleum stations. In Tanzania, the newly constructed 35 million liter Hass oil terminal in Dar es Salaam was commissioned in 2010. This facility serves our southern corridor markets of Tanzania, Rwanda, Burundi, Zambia, and the Katanga Province of D.R.C.



WDN: Most businesses in East Africa were traditionally run by Asians, but with the arrival of the Somali entrepreneurs, the power seems to be shifting. This has raised the alarm among the Asian business community who see the emerging Somali-owned businesses as a threat. Could you tell us about these concerns and whether they are warranted?

Abdulkadir: Unforeseen "liberalization" of the general business in East Africa, and Kenya in particular, has upset the Asian apple-cart - the traditional "duka wallas" of Kenya. The near monopoly of the importation of textiles, furniture, electronic goods, etc. by the Asian business community for decades was challenged by the entry of the maverick risk-taking Somali "businessmen" - essentially moneyed, but no expertise or allegiance to any specific type of business line. This wrought havoc on the traditional order of things, and the Asians' perception of the threat is real, though a much needed addition to the robust competition that served the consumers well. This change in the order of the old norm is in place, and the Asian business community has learned to live with it, and where feasible provide better quality goods, etc.

The Kenyan economy has a significant depth and breadth that can absorb these changes in the composition of market players. Over the last few years, Somali entrepreneurs have moved into the more capital intensive real estate sector, and seem to be doing fairly well. However, in terms of the total real estate capacity of the Kenyan economy, this new players form a very tiny proportion of the sector. But within the Somali community, this is certainly a new field, and they seem to be catching up fairly well. This is evidenced by their "upward" mobility in investing in the up-market areas of Nairobi and Mombasa-as opposed to the earlier developments in the economically "regressive" old suburbs like Eastleigh. In their foray into the real estate development, the Somali entrepreneurs are showing a deepening of their economic entrenchment in Kenya. The Hawalas are a class of their own, and cater substantially to the Somali clientele. One hopes they shall transform into formal Islamic banks as some have done in Djibouti.

WDN: Petroleum, the core business of HASS, is also utilized by land-locked Ethiopia, with its population of over 80 million. Is this country likely to be in your expansion plans?

Abdulkadir: Yes indeed, we are looking at Djibouti, Ethiopia, and Somaliland with considerable interest. We have in fact set up HASS Petroleum in Somaliland in the very recent past, and are in the process of supplying our maiden consignment of product in the next few days. We are studying the Ethiopian market, and should be completing the feasibility study on the proposal for this venture soon for presentation to our Board, for the review process that precedes all our major investment plans. Different countries present different challenges: legal, regulatory framework, financial, taxation, investment incentives, etc. that requires thorough study, comprehension, and discussion by senior management and finally the Board. I believe we shall expand into the Horn region progressively in the course of the next year or two.

WDN: HASS did not start its business in an under-served sector, but on the contrary in a crowded field dominated by the traditional multi-national oil giants. Can you shed some light on how HASS navigates through this stiff competition from the well established industry giants with global reach?

Abdulkadir: HASS has made great strides through much hard work over the last 14 years. Initially the founder-owners were directly involved in the business on a hands-on basis. Subsequently, these market successes were consolidated by anchoring the company with prudent Sharia compliant financing facilities, and the engagement of highly qualified, and experienced managers to run the business. The company succeeded in managing the stiff competition both because despite the presence of giant multi-national oil marketers. These multinationals had high overheads that disadvantaged them in pricing downstream; however we could provide very personalized service to our customers at the highest level in our firm, as opposed to the bureaucracy of the oil giants that would deal with the customer as "a statistic". The liberalization of the petroleum sector also exposed the "cartel" behavior of oil giants' agreement on prices to consumers, whereas the new situation was based on robust competition that offered the consumer diversity in the available choice of suppliers.

WDN: HASS owns gas stations in the East African and Great Lakes countries. Can you comment on how much the retail sector represents on the overall business and how profitable it is?

Abdulkadir: Petroleum is a low-margin business, and therefore thrives on high volumes. In normal circumstances, the down-stream retail sector would provide better margins than the wholesale level. However, the high price of oil in the world market has pushed many of the governments in the countries we operate in to introduce price controls on petroleum products. This has eroded profitability significantly, not to mention the effects of the weakening local currencies against the U.S. Dollar. We own or lease, and operate 60 stations spread over the region.

WDN: HASS nature of business involves storage and transportation of hazardous commodities in bulk, and requires costly infrastructure that includes robust storage facilities, and reliable inland delivery mechanisms. Can you explain how HASS copes with the aforementioned logistical challenges?

Abdulkadir: Indeed, the petroleum business is not only working-capital intensive, but also requires sizable investment in storage and distribution infrastructure. In Tanzania we own the huge 34 million liter terminal in Dar es Salam, and inland terminals in Mwanza, and Musoma. We also own an inland terminal in Lubumbashi, D.R. Congo to support our market there. In Southern Sudan, we own a storage terminal for stocks for that market. Kenya has a common user facility, the Kenya Pipeline, that receives, holds, and pumps stocks for all member oil marketing companies.

The company also owns a transport unit, Fleet Logistics Company, as an in-house transport solution provider. The company's fleet of 70 tankers is supplemented by 170 leased tanker trucks to haul the product volumes from loading terminals to the various markets in the region. This "customized" transport solution is an important synergy in enhancing our product delivery to the markets on a timorous basis.

WDN: East African money markets, like their counterparts in the West, have been battered by rising local inflation, the turbulence in the world financial markets, and the volatility in the global oil sector. Can you tell us how HASS balances itself on the fine tight-rope that is squeezed from the bottom by local inflation, and the effects of unpredictability of oil prices in the world market?

Abdulkadir: HASS operates in markets in the East African and Great Lakes region. These countries are suffering significant inflation and depreciation in their forex rates against the US Dollar-the accepted medium of exchange in world trade. We are not immune or insulated from these turbulent times in the world economy. We are subject to these vagaries of the economy and can only manage our exposure to the extent that the business cycle permits. Some of our markets like the D.R. Congo are fairly "dollarized", and the exchange loss is thus minimal. Governments in these LDCs have been quick to introduce price controls to protect consumers and rarely taking account of the investors need for return on investment. This is a political decision, which we must learn to live with, and constantly engage with regulatory authorities to obtain a reasonable operating environment. Whereas banks offer hedging against future exchange rate adversities, we have engaged our Middle-Eastern bankers to solicit an Islamic-Sharia compliant banking arrangement that can offer some safety valve for our bottom line. Consultations are in progress with the banks' Sharia Boards to determine whether this is feasible.

WDN: With the current economic turmoil where there is greater need for companies to foster community involvement and support, has HASS Petroleum undertaken any social responsibility that supports communities, such as building schools and helping hospitals and creating employment?

Abdulkadir: HASS Petroleum funds the HASS Petroleum Charitable Trust which manages several institutions for orphans, Islamic schools/hostels for girls, and supports the upkeep of several mosques, and related madrassas. The Charitable Trust also supplements the Kenya government development programs in Northern Kenya areas through the provision of funds for integrated schools, libraries, water points and medical clinics. During the various recurrent droughts, the Charitable Trust donated relief supplies, and medicines to drought victims.

WDN: Thank you Mr. Hussein.

Abdulkadir: Thank you so much for giving me the opportunity to share the views of HASS petroleum Company with WardheerNews readers.

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