



The illicit trade in crude oil and refined products is a malign influence on the good governance and stability of many nations, as well as a danger to orderly world trade. During the Global Energy Conference in Ab Dhabi in January, an important report was released about theft, smuggling and piracy which costs oil producers billions of dollars each year. Nehad Ismail, who was there, highlights some key points.

The 112 report authored by Dr. Ian M. Ralby and titled "Downstream Oil Theft" is published by the Atlantic Council includes case studies, trends and recommendations. Parts I and II of the report focused on the problems associated with the illicit hydrocarbon trade. Part III concentrates on who has an interest in reducing downstream hydrocarbons crime.

Refined oil theft is a global problem that exists in both oil producing and non-oil producing countries and in wealthy and poor states.

The report highlights the scale of the problem but does not condemn everyone involved. The author writes: "the criminals who perpetrate illicit downstream hydrocarbons activity range from sophisticated and sinister international networks to well-meaning humanitarian service providers on limited budgets in poor and desperate communities. Refined oil theft is not, therefore, a crime that necessarily involves a desire to do harm; rather it frequently starts and ends with a desire for a discount. This diversity of criminal motives, however, complicates the approach to ending the problem, as communities may wish to preserve the illicit market".

Whether we are talking about a donkey carrying jerry cans crossing a rough terrain in Asia or giant oil tankers heading for West Africa; the purpose is the same which is making large amounts of money through illegal practices.

The report explores the illicit activities in Africa, Asia, South America and even the EU which is supposed to be the most transparent and least corrupt political and economic entity in the world.

The exploitation of loopholes in the law by unscrupulous operators, the complicity of officials with criminals and racketeers, the wide price differentials between territories and different jurisdictions encourage illicit trade. Price discrepancies and disparities between borders are an invitation for illicit acts.

Mexico produces around 2.5 million barrels of oil a day. Illicit hydrocarbons crime is endemic, theft of crude and refined products. Tapping of Pemex pipelines costs the government approximately 1.7 billion US dollars from March 2016 until end of the year. 23,500 barrels per day are stolen mainly through tapping. US companies have been complicit in the cross-border smuggling of Mexican fuel and Pemex has taken legal action against a number of such companies. While Pemex has suffered a great deal from the illegal activities in Mexico, officials and employees have benefited personally from the criminal activities

The net losers are the governments of such states and ultimately the people. Corruption is rife in Nigeria, Uganda and Mozambique at all levels of government. When government ministers and officials are themselves engaged in the illicit practices, mitigation of the problem becomes increasingly difficult.

In Nigeria which loses almost 20% of its production to illicit activities, the government itself awards security contracts to criminal gangs. The awarding of suspect oil contracts to shady and dodgy enterprises legitimises the illegal theft of oil and related refined products. It is widely recognized that Nigeria is the top dog in the illicit oil trade business. The report says under the presidency of Goodluck Jonathan from 2010 to 2015 corruption reached unprecedented levels. The allocation of contracts has become the chief mechanism for oil fraud at the national level.

Top officials engage in Hydrocarbons fraud. Corruption and collusion among law enforcement agencies and the military. 80% of the fuel in Benin is illegally smuggled from Nigeria. A

Chatham House report estimates that total annual cost of stolen oil revenue in Nigeria from \$3 billion to \$8 billion.

Large scale bunkering and tapping wellheads and pipelines is common. Protection rackets by criminal gangs is widespread. Thefts at export terminals are rife. 30% of refined products are stolen. Piracy and armed robbery at sea are often reported but ignored by world media. World attention focuses on Somalia but more occurs in West Africa.

Uganda, a recent entrant into the oil game, is another bad example of complicity between criminals and government officials. A transparency International report ranked Uganda as one of the most corrupt states in Africa. The so-called "OPEC boys" are gangs of criminals engaged in cross-border smuggling and they became reliable suppliers with the blessing of the authorities.

Mozambique hydrocarbons industry which is state-owned is a victim to corruption at every level. 54% of all cargo movements in Maputo involve bribes to the highest levels of government. Fraudulent procurement contracts cost the government \$4.9 billion between 2002 and 2014 a recent study found.

Turkey with long borders and high fuel prices created opportunities for smuggling and downstream hydrocarbons crime. The most controversial issue is the smuggling of diesel from Daesh/ISIS held territories in Iraq and Syria. A US Treasury official said in 2015 that Daesh made \$40 million a month from doing business with the Assad regime.

In Azerbaijan the state controls the production of oil and gas most of which is extracted from the Caspian Sea. Ample evidence exists of illegal bunkering, smuggling and downstream oil thefts, fraud linked to the regime.

The EU is not as corrupt as third world countries, but price disparities between states

encourages corrupt and illegal practices. The price differentials between North Ireland which is part of the UK and independent South Ireland prompted criminal gangs to engage in smuggling

Spain also has a pipeline tapping problem. The report notes that 5 British nationals stole 156,700 litres from a pipeline to Malaga in 2011.

Smuggling is common when there is an opportunity to bring low-priced fuel into a high priced jurisdiction. Illicit cargoes enter into the EU and within the EU. This is despite the fact that the EU remains one of the more transparent political and economic entities in the world. Fraud is not the major problem in the EU it is the geo-political risks posed by Russia which is the main supplier of the gas to the EU. It is estimated that 4 billion euros are lost through illicit activities.

Counter measure including rigorous checks are needed to combat the illicit trade in oil products. More monitoring and co-operation between international agencies and states are essential steps to scale down the thefts. The author Ian Ralby told the conference "it is very hard to put your hand in the cookie jar when everyone is watching."

The full report can be accessed via this link: <http://www.atlanticcouncil.org/publications/reports/downstream-oil-theft>