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Commission on Crime Prevention and Criminal Justice

Establishing a framework regarding the illegal
smuggling and transportation of oil



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INTRODUCTION

Since the 1950's oil has become the world's most important source of energy. In 2004, the Indonesian Governor of the Organisation of the Petroleum Exporting Countries (OPEC) referred to oil as "the engine of the world economy".

Oil smuggling is very common for organised crime and terrorist groups. In 2018, it was estimated that "\$133 billion worth of fuels were illegally stolen, adulterated or defrauded from legit oil and gas enterprises". Each year, the value of crude oil production amounts to \$1.7 trillion and both countries and companies take advantage of this wealth. Because of the 'popularity' of oil, the illegal transportation and smuggling has become increasingly common. The illegal smuggling and transportation of oil has a very negative effect on the global economy.

DEFINITION OF KEY TERMS

Adulteration is the process of making something poorer in quality by adding other substances. In terms of oil, unwanted substances are added but the final product is sold for the same price. An example is adding substances such as kerosene and other lubricants to diesel or gasoline which increases profit margins whilst remaining undetected.

Bribery is defined by Black's Law Dictionary as the offering, giving, receiving, or soliciting of any item of value to influence a person's actions or decision.

Piracy is the act of robbing or attacking ships

Illegal Bunkering is the illegal storage of oils in bunkers. Oil is stored for bunkers when being transported however smugglers do this illegally.

Laundering is when someone tries to conceal the origins of money. This is usually done by using foreign banks or legitimate business such as the oil market.

Smuggling is the illegal movement of objects such as oil or goods into or out of a country.

The Black Market is known as an underground or shadow economy. It consists of a series of transactions that are normally illegal. These transactions are usually carried out on the dark web,

Tax Revenue is the money obtained by governments through taxation. Taxation is the main source of government revenue. This revenue comes from different sources including individuals, public enterprises, trade, and royalties gained from natural resources and or foreign aid.

Crude oil is unrefined petroleum that consists of hydrocarbon deposits and other organic materials. Crude oil is a fossil fuel and can be transformed into refined products such as gasoline and diesel.

GENERAL OVERVIEW

The illegal smuggling and transportation of oil is a major problem especially with fluctuating oil prices. This 'activity' funds dangerous groups such as: the Islamic State (ISIS), Mexican drug cartels, the Italian Mafia, Nigerian rebel groups, Libyan Militias and a lot more. This makes the illegal transportation of oil a global security issue. An increase in oil smuggling took place in 2014 when ISIS gained control of Syrian and Iraqi oil spills.

Oil smuggling has become a very common crime. This is a result of fluctuating oil prices around the world. If oil prices are to increase, it is expected that illegal trade also increases. An example to look at is with the European Union, as price changes in fuels have led to an increase in illicit smuggling. The decrease of oil prices has subsequently created routes to the UK and Ireland. It is estimated that Ireland loses around \$200 million annually because of illegal oil smuggling. It has even been estimated that 20% of oil in Greek gas stations is in fact illegal. Countries who do not produce oil also play part in this issue and Turkey is one of them. Although Turkey does not actually produce oil, OPEC countries use it as a transportation route to European countries. Because of where it is situated, it is not surprising that Turkey is part of the illegal oil trade. In 2017, it is believed that the Turkish government lost five billion dollars in tax revenues. The European green fuel market has also been put in jeopardy by Polish criminals who mix diesel with fuels from the black market. This is known as adulteration and it is also carried out in Tanzania. Adulteration allows these criminals to increase profit margins without being detected.

The countries that are most accused of online drug trafficking are Nigeria, Russia, Indonesia, Iraq and Mexico. All these countries are oil producers therefore making it easier for oil trafficking. Estimates show that Nigeria loses at least 1.5 billion dollars because of illegal oil smuggling. Around three percent of the oil used in Southeast Asia is believed to be from the black market and is estimated to be worth \$10 billion each year. Mexican drug cartels are also known to launder drug revenues by trading oil. There are multiple factors that enable the illegal smuggling and transportation of oil. A country's geography, terrain, poor system of governance, lack of cooperation, poor security and technical innovation all contribute to this issue. Corruption is a major issue in the countries mentioned above and this must be tackled when solving the issue in question.

Two thirds of daily oil exports are transported by sea and 64% of international waters are beyond any form of national jurisdiction. Countries in West Africa and some Asian countries such as Indonesia take advantage of these loopholes created by international and national law makers to transport oil. The trade of illegal oil is done from ship to ship on neutral waters to avoid 'confrontation'. One of the ships used will always be commercially legal and will be seen as carrying legitimate imports once it gets to its final destination. This is how illegal crude oil from countries such as Syria make its way to European countries. Russian ships have also been known to illegally smuggle oil to North Korea by using these methods.

Illegal transportation and smuggling of oil have a negative effect on a country's economy but also has an impact on the environment. Those involved in this crime usually use poor and outdated

equipment and bad processes when transporting or smuggling these fuels. This then leads to fuel leakage which is of course bad for the environment. Those who steal oil have been known to blow pipelines either on purpose or by accident which leads to oil spills and causes severe damage. Finally, illegal oil smuggling also causes damage to engines. This is because by mixing gas or diesel with other substances meaning that fuels burn less easily or cleanly in car engines. This causes increases in pollution and emissions.

There are many implications to the illegal smuggling and transportation of oil. Firstly, the crime creates major losses for corporate profits. Oil and gas companies can lose up to billions of dollars from oil theft. Pemex which is Mexico's national oil company is believed to lose at least \$1.3 billion each year because of illicit pipeline tapping carried out by gangs. Governments also lose their revenues as a result of illegal oil smuggling. Governments usually receive royalties from the production of oil as well as tax revenues from finished products including gasoline and diesel. One World Bank Official calculated that the Nigerian government's total losses from stolen oil revenues amount to at least \$400 billion since the 1960s. The illegal smuggling of oil also funds terrorism as ISIS and other terrorist groups have used oil theft and sales to carry out their operations. There was a point where \$50 million per month. Oil theft also helps fund drug cartels. For example, the Zetas cartel in Mexico control at least 40% of the illegal oil market each year bringing in millions of dollars. Finally, oil smuggling leads to an increase in oil prices as the losses mean that governments and companies must increase prices.

MAJOR PARTIES INVOLVED

ISIL plays a major role in the illegal smuggling and transportation of oil. At some point, it was the largest source of income for the Islamic State. ISIL took over oil fields in Syria and Iraq and most of this oil was used to distribute within the Islamic State. However, some of the oil is smuggled and sold to other surrounding states for a cheaper price. Oil production within ISIL developed massively over the years reaching its peak in 2014. However, as a result of military intervention, ISIL lost all of its oil fields in 2019.

NIGERIA is one of the countries that is most accused for illegal oil smuggling. Locals are known to illegally bunker oil and hack into oil pipelines. For multiple years, crude oil and natural gas have been extracted and transported from the Niger Delta by large corporations. This has led to multiple natural disasters. There is ongoing damage caused by the hacked pipelines and the makeshift refineries of oil have a negative impact on the people and on the environment,

TURKEY is not a producer of oil but is part of the illegal smuggling and transportation of oil. Its borders are used trade illegal oil and transfer it between counties. A report carried out in 2005 showed that a billion gallons of stolen oil went through Turkey every year. This made up over 10% of the global oil market and the smuggling cost Turkey's government \$3 billion in lost tax revenue.

MEXICO is part of the illegal oil trade because of cartels. Since 2018, Mexico's drug cartels have been believed to be increasingly interested in the illegal smuggling of oil. In 2019, reports claimed that 1, 145 truckloads of oil were stolen from PEMEX. This is worth 146 billion pesos \$7.4 lost in revenues since 2016. This was a significant issue for Mexico as 3.8% of it's GDP comes from oil production and sales.

INDONESIA has had a major problem with illegal oil to the point where fires have erupted last year. Illegal wells of oil are very common in oil present areas such as the island of Java and Sumatra. The methods used to extract oil are extremely dangerous as locals do not have the equipment or means to carry out the process safely.

IRAN has the second largest oil fleet in the world. However multiple sanctions by the EU and the United States have been placed on Iran. This means that Iran's fleets are very vulnerable to attacks. Because of these sanctions, Iran's oil sales have plummeted drastically meaning that the economy is likely to be suffering.

OPEC is an intergovernmental association involving 13 countries. It was founded in 1960 and is headquartered in Vienna, Austria. The goal of OPEC is to "unify the petroleum policies" of its Member states and ensure that the oil market stays stable.

TIMELINE OF KEY EVENTS

Creation of OPEC, 1960- OPEC is founded by Iran, Iraq, Kuwait, Venezuela and Saudi Arabia. It was created after the Baghdad conference which lasted from the 10th to the 14th of September.

US sanctions on Iran, 1995- The US banned American involvement in Iranian Petroleum development.

Obama's government places sanctions on Iran- The U.S. Congress passed the Comprehensive Iran Sanctions, Accountability, and Divestment Act. This targeted Iran's economic sector of selling refined petroleum to Tehran.

ISIL takes control of Syrian and Iraqi oil fields, 2013- In 2013, ISIL took control of oil fields in the north. Smuggling oil then became ISIL's main source of income.

S/RES/2146 (2014), 2014- Resolution on banning illegal oil exports from Libya.

Trump administration re-imposing sanctions on Iran, 2018- Trump and his administration re-imposed sanctions on Iran six months after pulling out of the 2015 nuclear deal.

China's imports of Iranian oil, 2019- Last year, China only imported 210, 000 barrels of Irain crude oil per day. This was below 60% of the imports they made in June 2018.

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

There have been different resolutions put out as a way to solve this issue. The 'main' one is resolution S/RES/2146(2014) and it was adopted by the Security Council. The resolution went against the transportation of illegal oil in Libya. It also authorized inspecting suspicious ships in order to ensure that illicit acts are not being carried out. Although the resolution acknowledged Libya's sovereignty, it emphasizes that the Libyan government must emphasize the prevention of illegal oil smuggling and transporting. S/RES2199 (2015) is important as it acknowledges the role of terrorist groups such as ISIS in this issue. The Security Council felt the need to address this as member states realize that illegal oil smuggling funds groups like ISIS also known as Daesh. The main 'method' outlined in this resolution is that member states would cut off illegal exports of oil to the group and prevent other nations from donating.

The importance of the oil industry or market has meant that there have been many attempts at solving this issue. However, some of these attempts have noticeably been failures including the Keystone XL Oil Pipeline Project. The idea was that pipelines would be created that made the tapping of pipelines nearly impossible. However, this idea faced a lot of controversy as it jeopardised the fight for climate change but Trump's administration have decided against stopping the project. The project can be seen as successful because it does stop the theft of oil through pipelines. However, we must take the 'health' of the environment into consideration as there is a very high risk of oil spills and other issues.

The Nigerian government have also had the idea of placing more military personnel in areas prone to oil theft such as the Niger delta. Unfortunately, this has actually made the situation worse as it allows the military to engage in the illegal transportation and smuggling of oil with little risk of being detected. This therefore makes the issue of establishing a framework to stop the illegal transportation of oil an issue of high complexity.

POSSIBLE SOLUTIONS

There are multiple possible solutions that we can take into account to solve the issue in question.

One method that can be used by member states is asking companies or manufacturers to use fuel dyes. Fuel dyes can be used to make sure that oil is always a specific color or tint. This would mean that it would be very easy to differentiate refined and unrefined oil. However, we must consider the fact that criminals do have the ability to recreate these dyes undetected. To solve this, manufactures could use molecular markets. These would be used in very small dosages. Not only are they invisible, they can also be used to identify fuels. This method has already been used in Tanzania and has led to significant and positive changes.

Member states could set up 'patrols' on neutral sea areas. These patrols could carry out checks on ships carrying oil ensuring that the oil being transported is in fact legal. Furthermore, countries should adopt legislations forcing companies or people to have licenses when trading oil especially by sea. Oil should not set sea if there is no license for this and it should be deemed a criminal offence if people are caught trying to transport oil without the correct license. Governments should be the only people authorizing such licenses and those transporting the oil must make sure that their licenses are accessible at all times. This would prevent criminals from transporting oil illegally as the punishment for being caught would serve as a form of deterrence.

Countries could adopt measure or technology in identifying refined oil. This technology could be created through cooperation from all member states. The idea would be that before being transported across seas, 'suspect' oil would be checked by this technology making sure that there us no case of adulteration. Again, if oil is found to have bee refined an illegal manner, punishments should be put in place by governments to deter criminals. This punishment can be fines or jail time depending on the country's regulations.

Sanctions should be put in place on governments or countries known to be involved in these issues. This would act as a great form of deterrence as many countries rely on oil for their economies. Establishing sanctions like those on Iran, would decrease illegal oil smuggling overall and would also mean that tax revenues would not be as affected. However, we must take into consideration the sovereignty of countries and make sure that economies would not be completely ruined.

An idea to look at is having joint law enforcement operations. These operations could include the FBI, INTERPOL and EUROPOL. The idea is that the operations look into the dark web and attempt at identifying suspects and shutting down groups who carry out these crimes. OPEC could also help these organizations by cooperating and putting restrictions on member countries involved in these cases. However, it is crucial that everyone cooperates with operations and that corruption is called out and prevented.

When purchasing oil, companies or governments should be required to use electronic bills. This would make the chances of a forged bill very limited. Paper bills are very easy to change, and criminals are known to alter amounts stated on bills. Overall, electronic bills are more reliable and will make it easier for law enforcement to point out mistakes or suspicious numbers.

Governments need to address poverty within their countries. This is since a lot of these illegal operations are carried out as a result of poverty. For example, in Indonesia, oil theft is mostly carried out by 'poorer people'. If a government takes the initiative to help the poor, then there is a chance that there would be a decrease in these activities. There should also be ongoing investigations to avoid the corruption of officials as those of high authority are also known to participate in these issues. Governments need to provide poorer region with better education to prevent them going into illicit activities and instead going into proper and legal jobs. Finally, governments must also look into the different methods used for illegal oil smuggling to ensure the safety of the public and of the environment.

APPENDIX

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