



THE WORLD'S MOST DANGEROUS BLACK MARKET

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The [oil market value is larger than the world's valuable raw metal markets combined](#), with an annual production value of USD 1.7 trillion (compared to USD 660 billion for other commodities like gold, iron, copper, aluminum, and zinc). It is the [most traded commodity on global markets and still the world's leading energy source](#), with growing demand, a volatile pricing system, and much of its production in volatile geographic regions. It comes as little surprise, therefore, that production and trade in crude oil and refined petroleum products has produced a flourishing black market.

[An estimated USD 133 billion worth of fuels are stolen](#), adulterated or smuggled every year. The actual numbers are likely even higher, [obscured endemic government and industry corruption](#). [According to EY](#), 57.1% of all fraudulent activities within the oil and gas industry is related to corruption, which often [benefits government officials, elites, or industry personnel](#).

These practices have also become a major global security concern, [funding dangerous non-state actors, such as the terrorist group ISIS, Mexican drug cartels, Italian Mafia clans, Eastern European criminal groups, Libyan militias, and Nigerian rebels](#).

This essay seeks to expand the conversation initiated by Global Energy Center Senior Fellow Ian Ralby, who recently published the [first comprehensive study on downstream oil theft](#), to include treatment of the upstream sector. The purpose is not to provide detailed policy recommendations or solutions to tackle global oil trafficking. It is rather, to raise awareness about this critical issue and stimulate further research which might inform the design and implementation of much-needed policy solutions.

A GLOBAL PROBLEM

What is perhaps most striking is how ubiquitous the issue has become. While the [top five oil trafficking countries](#) (Nigeria, Mexico, Iraq, Russia, and Indonesia) are also producers, the [illegal trade in refined oil products](#) affects a wide range of oil producing and non-producing countries across the world. Illicit oil trade affects wealthy, poor, peaceful nations, and warring nations alike.

In Africa, [illicit trading in oil amounts](#) to nearly USD 100 billion a year. It is estimated that [Nigeria alone is losing USD 1.5 billion](#) a month due to pipeline tapping, illegal production, ship-to-ship transfers, and sophisticated corruption schemes.

In [South East Asia, about three percent of](#) the fuel consumed is sourced from the black market, which is estimated to be worth up to USD 10 billion a year. In other areas, these figures are much higher. [North Korean demand](#) is likely mostly supplied illegally, partly *via* maritime routes from Indonesia, which serves as the most [important maritime crossroad](#) in the Indo-Pacific region. With [30 percent of the world's maritime](#) trade passing through the Indonesian Strait of Malacca, [maritime security has been a major challenge](#) for the country, which has become known for its smuggling and corruption clans.

In Mexico, [drug cartels have discovered new revenue streams](#), partly *via* hydrocarbon theft or white-washing of drug revenues through the oil trade, leading to one of the country's most dire economic and security challenges. Every year, the government forgoes [USD 1 billion in revenue while gangs enrich themselves](#).

A country like Turkey, not an oil producer, but that acts as a major energy transit route for hydrocarbons flowing to Europe from OPEC countries such as Iraq, Iran and Syria, [lost an estimated USD 5 billion in tax revenue](#) in 2017 alone. As an energy hub, Turkey remains strategically situated to be a thoroughfare for illegal oil and gas trade. The uptick in smuggling oil and other refined products into Turkey began 2014, when ISIS took control of major Syrian and Iraqi oil fields. In 2015, the terrorist group managed to generate earnings [about USD 1.5 million](#) per day from indirect oil sales to the international market. A [report by the Global Initiative](#), published in 2017, demonstrated links between organized crime, terrorism and oil smuggling along Turkey's maritime and land borders. It is also well known that conflict typically increases the amount of goods being smuggled. Since the Syrian Civil War began, [fuel smuggling increased by about 300 percent](#) across Turkey's southern border.

Although incentives are different, even territories that belong to the world's most transparent and stable economies, such as those in the European Union, are not immune to corruption, fraud, and illegal hydrocarbon trafficking. [Ireland estimates it is losing up to \\$200 million](#) in fuel fraud annually, while [20 percent of the fuel sold in regular gas stations in Greece](#) is illegal. Several European-based oil and gas operators and traders have been accused and acquitted for [taking part in or condoning illegal trade worldwide](#).

A SELLER'S MARKET

A rise in cooperation between global criminal and terrorist networks are not going to make things easier. Criminal organizations such as the [Italian Mafia have been accused of running illicit activities with terrorist groups such as ISIS](#), dealing the intersecting fields of drug, human, and oil trafficking.

In the Mediterranean, black market for oil has grown as oil-rich Libya has descended into chaos, following its own civil war. In 2017, the [Italian police busted a network involving the Sicilian Mafia](#) that was smuggling USD 35 million worth of diesel products into the Italian and European market.

Even when there are heavy international sanctions on oil exports, it appears that so long as oil remains the world's primary fuel, hydrocarbons will find sellers and buyers. A prominent example was Saddam Hussein's Iraq, where the regime and other non-state actors conspired [to circumvent](#) United Nations sanctions for the trade of crude and other oil products. They were successful for over a decade, and this occurred [despite a strict UN Security Council Resolution](#) (UNSCR 661) restricting all member states from importing any oil and derivatives from Iraq. History repeats itself; most [recently the U.S. accused China](#) of aiding North Koreans to import oil into the country, despite sanctions barring the practice.

[Like most commodities, the volume of oil smuggling is](#) primarily linked to fluctuating prices. [Higher oil prices incentivize more illicit trade](#), not only due to higher profits for smugglers, but also an increased demand from consumers for cheaper fuel products. Even so, the trade is resilient to depressed global markets; while [low oil prices in the past years](#) had made illicit trade of crude oil (upstream sector) less lucrative, the black market for refined products (downstream sector) continued to flourish worldwide.

Now that [prices are climbing once again, illicit trade](#) with crude oil are expected to increase. Smuggling seems inevitable when there is an opportunity to bring low-priced fuel into a higher-priced jurisdiction. The [EU is a prime example](#) on how price disparities of fuel within its own member state countries tends to incentivize illegal trade. For example, lower oil [prices in Eastern Europe have created maritime smuggling routes to](#) the UK and Ireland in recent years.

This has produced some counterintuitive trade routes. Most of [Ireland's black market fuel](#) originates from Poland. Other policy-driven routes are more obvious. Turkey's [high taxation of fuel products, which has incentivized smugglers](#) to import fuel over the borders from oil rich neighboring countries such as Iraq, Iran, and Syria. As noted, Turkey is also known to be a very open access route for trade with actors slightly farther afield, who may be based in Cyprus, Lebanon or even North Africa.

A LEGAL GREY ZONE FOR TRADE

The legal complexities and ambiguities of global trade often creates an opening for illegal activity for many of [the world's largest illicit industries](#), including oil smuggling, human trafficking, counterfeiting, cigarettes and cargo theft.

Sometimes oil is exported openly by subnational actors despite official prohibition by central governments, as is occurring in Iraq. The Kurdistan Regional Government (KRG) in Iraq believes it is within their region's constitutional right to export oil independently, in defiance of the central government. With Baghdad [withholding the region's 17% of budget share, the KRG sought](#) economic independence through its hydrocarbons. It found a degree of international sympathy, given its role in combatting ISIS and as host to 1.9 million refugees and IDPs from neighboring conflicts. In 2015, [Kurdistan Region oil exports reached](#) USD 500,000 million barrels per day (mb/d), *via* a pipeline through Turkey's Ceyhan port. The unrefined product would be loaded by various Greek shipping companies on tankers that would store them in Malta or Israel until the final buyers were eventually found. The public was able to witness the shifting routes and final destination of Kurdish oil tankers using online tracking services (e.g., tanktrackers.com), much to the delight of the Kurdish Regional Government and distress of Baghdad.

[Efforts to combat illegal trafficking are often stymied because those in a](#) position to prevent hydrocarbon-related crime are the ones who eventually are benefiting from it, as seen in countries like Iraq, Turkey, North Korea, or Nigeria. This can have [terrible consequences](#) for the majority of their populations. Short term gains for the few tend to constrain long-term economic prospects for all. Illicit oil trade has often times [resulted in lower investment](#) incentives in affected countries. A prominent example is the [Niger River Delta](#), where oil-related conflict has shown its direct and [indirect negative impact on overall foreign direct investment](#) in the [country over the last](#) decades.

BY LAND AND SEA

[With 90 percent of the world's goods being traded by sea, and 30 percent of that sum is hydrocarbons](#), it is not surprising that much of the illegal fuel trade is conducted on water. [Two thirds of global daily oil exports are being transported by sea](#), and a [staggering 64 percent of international waters are areas beyond any national jurisdiction](#). In major illicit trade regions, such as offshore West Africa, Bangladesh, or Indonesia, non-state actors, traders and pirates are taking advantage of the loopholes created by international law and the law of the sea. (This will also likely have implications for the rapidly growing LNG market.)

[Many times the transfer of illegal fuel is done from ship-to-ship on neutral waters. One ship is often](#) commercially legal and recognized as carrying legitimate imports at the final port of destination. This is the reason why illegal crude from countries such as Libya or Syria can often find their way to EU markets. [It is also one way countries under heavy economic embargos, such as North Korea, still manage to import fuel.](#)

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Armed theft through piracy is another common occurrence in certain regions. A prominent example is off the coast of Somalia, where the majority of pirate attacks have involved the ransom of oil tankers. [Losses due to the pirating](#) of oil are estimated at between USD 1 and USD 16 billion.

[Beyond jurisdictional issues](#) presented by large maritime areas, many governments have not been able or willing to prioritize illegal oil trade by sea. This is often due to the fact they are simply overwhelmed in dealing with many other maritime security threats, such as human, drug- and weapons trafficking. In fact, several [fuel traders told Reuters](#) that the illegal maritime trade/theft of fuel is so common that many companies calculate in advance for losses between 0.2-0.4 percent of any ordered cargo volumes.

On land, methods include pipeline tapping are common, such as [in Mexico](#) where it is so easy to do that drug cartels can earn up to USD 90,000 in just seven minutes. That makes, in many cases, fuel tapping a [much more lucrative](#) business for them than the common narcotics trade. [Oil giant Shell has stated](#) that it estimates as much as 100,000 barrels of oil is being smuggled out of Nigeria on a daily basis, worth around USD 1.6 billion annually.

THE SHADOWS OF FRONTIER MARKETS

International oil and gas corporations are continually looking for access to [new reserves in non-OPEC](#) countries. The need for these strategic moves increases risk tolerance, such as exploring in areas with proximity to civil wars or general political-economic instability, and exposure to corruption and illegal financing. It is estimated that over the [next 20 years, around 90 percent of oil and gas production](#) will come from developing countries.

An [EY study has identified](#) that companies within the oil and gas sector (upstream, midstream, and downstream) are often prone to use bribes and incentivise corruption. At the same time, many smaller oil and gas companies, especially independents, do not publish detailed deal information, therefore making it easier to distort or disguise corrupt deals. In developing countries, [the relatively low average salaries of state employees](#) relative to the private sector further encourages the temptation to look for other income sources.

[A prime example of this is in Mozambique](#), Africa's upcoming oil and gas producer. The country has just lately discovered immense offshore natural gas reserves. Emerging from decades of civil war, which resulted in a very diverse *wasta* system (an Arabic term commonly used in Middle East and Africa for bribing and asking for favours) and strong political allegiances, state structures are still very young and perceptible for internal and external pressure.

Sources have indicated that the new gas producer already suffers from corruption at every level. [Some estimate 54% of all cargo movements](#) in the capital city, Maputo, involve bribes. With the potential for a booming oil and gas sector, bringing in a vast array of international companies, experts and trade volumes, Mozambicans will be looking to take a part of the gas boom. Not able

to become part of the internal oil sector structures, other options will be taken as potential revenue generators.

In the coming years, Mozambique risks becoming a second [Nigeria, which is a country in dire need of socio-economic development](#) despite holding vast oil and gas reserves. Africa's largest oil producer has been reported to have already lost around USD 400 billion since its independence due to theft or mismanagement of its oil sector.

LARGE COSTS

Underestimating the large-scale impact of illegal trade of oil has created a number of socioeconomic, geopolitical, and [environmental challenges](#). Affected [countries suffer from a variety of ills](#), such as the deteriorating rule of law, the destruction of wildlife and biodiversity, pollution of waters, degradation of critical farmland, increasing health problems, and even armed conflicts. Typically, the focus has been placed on the role of the international operator or service company. In reality, as shown by Nigeria or Syria, non-state actors and regular citizens are also playing a pivotal role in such conundrums.

There are terrible opportunity costs, such as [loss of potential revenue and increased financial risk premiums for investors](#), that might have been used to rebuild and rehabilitate war-torn or developing countries. [Billions of dollars are lost annually in government and corporate revenues due to activities](#) such as illegal bunkering, pipeline tapping, ship-to-ship transfers, armed theft (ships or trucks), adulteration of fuel, and bribing of corrupt government, industry and security personnel.

Illicit trade has allowed authoritarian states to maintain revenue flows despite heavy international sanctions designed to weaken their rule. In the eleventh year of UN oil sanctions, Iraq's dictator Saddam Hussein had managed to become one of the world's richest man, [with an estimated USD 3 billion in wealth](#), due to a sophisticated oil smuggling operation run by his infamous son Uday.

Governments such as India, Pakistan, Nigeria, Algeria, and Turkey have played a large part in condoning or even supporting illicit oil and petroleum product trade. The intertwining of regime structures, illegal trade or theft, and corruption, have become a major stumbling block for countries to develop appropriately. Most of the illicit trade at present is in one way or another supported by official companies and government entities.

CONCLUSIONS

How can it be that despite grave implications for many countries and regions, worldwide governmental and industry efforts to halt the practice have been so ineffective, or in some cases, non-existent? Key actors in academia, media, and civil society organizations have thus far been unsuccessful to raise awareness about the scale of international hydrocarbon theft. The research and reporting of drivers and consequences of illegal oil trade is clearly insufficient given the magnitude of its consequences.

Can it be that the scale of government and industry corruption is so intense that efforts to combat trafficking are being deliberately neglected or undermined? Should we attribute inaction to the sheer complexity of national laws and regulations in a globalized world, compounded by the emergence of new international networks and technologies?

Or could it be that the illegal oil trade offers enough benefits to consumers, producers, and government officials to disincentivize investigation? There is reason to believe so. Some officials acknowledge even that regional or local security is kept in place by condoning illicit oil and petroleum products trade. The simple Roman adage of “give the people bread and plays” is again put into practice to support stability.

This reality, if not being countered by strong international cooperation, will continue to have detrimental effects on global security, the environment, and economic prosperity. Unless the consequences of illegal oil activities are monitored, and addressed by robust policy and regulation, it will continue to be a key funding source for terrorism, organized crime, authoritarian states and violent non-state actors.



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