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DOWNSTREAM OIL THEFT

Implications and Next Steps



Dr. Ian M. Ralby

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Cover photo: Reuters/Umit Bektas. Smugglers carrying blue jerry cans on horses ride back to Syria along the wire fences after ferrying fuel smuggled into Turkey from over the border in Syria, September 2013.

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This report was produced by I.R. Consilium LLC in conjunction with the Atlantic Council. **Dr. Ian M. Ralby** was the lead author, with contributing authorship by **Rohini Ralby** and **Dr. David Soud**. **Dr. John Gannon** provided valuable insights and reviewing comments.

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Dr. Ralby's work frequently involves energy-related matters, both on land and onshore. From protection of oil and gas infrastructure, to human rights concerns regarding the use of private security companies by the extractive industry, to mitigation of theft and other illicit activity, Dr. Ralby has addressed a wide range of energy issues for government and private clients.

In addition to his work with the Atlantic Council, Dr. Ralby has served as adjunct professor of Maritime Law and Security at the United States Department of Defense's Africa Center for Strategic Studies, and as an advisor on security and counter-criminal matters to various international organizations including NATO, the United Nations, and the Indian Ocean Commission. He writes and speaks frequently on matters of international relations, law, and security.

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In addition, we would like to thank **Éric Besson**, former Minister of Energy, Industry, and Digital Economy for the Republic of France, and **Kola Karim**, CEO of Shoreline Energy, for contributing their expertise to this project.

On January 13, 2017, the Atlantic Council launched a major study on downstream oil theft at its inaugural Global Energy Forum in Abu Dhabi, United Arab Emirates. The present analysis draws on that launch event to examine the implications of the *Downstream Oil Theft: Global Modalities, Trends, and Remedies* report findings, and to suggest tangible next steps in both further investigating this global scourge and beginning to confront it effectively. The panel, moderated by Ambassador Richard Morningstar, the Atlantic Council Global Energy Center’s chairman, included the lead author of the report, Dr. Ian Ralby, a nonresident senior fellow of the center and chief executive officer (CEO) of I.R. Consilium; Éric Besson, former minister of industry, energy, and digital economy for the Republic of France; Dr. John Gannon, former Central Intelligence Agency deputy director for intelligence and chairman of the US National Intelligence Council; and Kola Karim, CEO of Shoreline Energy, an oil company in Nigeria. Though the panelists’ comments form a starting point for this analysis, they do not constitute the sole basis for this report.

The implications of the study are extensive and point to a wide range of challenges, but six areas stand out as encompassing the most significant consequences of illicit downstream hydrocarbons activity:

1. The Energy Industry
2. Security, Terrorism, and Law Enforcement
3. The Environment
4. Finance and Economics
5. Politics and Policy
6. International Relations

The present analysis focuses on the implications of the study for these six areas. After examining each in turn, this report recommends practical, tangible steps for conducting much-needed additional research and for addressing the pervasive problem of downstream oil theft.

The Implications

A key conclusion of the *Downstream Oil Theft* report is that truly eradicating the problem will require a holistic and cooperative approach—one that focuses simultaneously on illicit hydrocarbons activity and its second- and third-order consequences. Public and private actors alike have important roles to play, and must collaborate at the local, national, regional, and international levels to end both the illicit activity and the supply chain that sustains it. While achieving a full

solution will take time, there are intermediate steps that could significantly address the problem. They must, however, be taken carefully. Given how important fuel is to daily life for much of the world, changes that impact the status quo require thorough consideration to avoid creating new and more difficult challenges in the process of trying to solve the current problems. At the same time, turning a blind eye to fuel-related criminal activity runs the risk of creating opportunities for more systemic criminality to take hold. In addition, environmental destruction, denigration of the rule of law, facilitation of corrupt governance, and solidification of a black market economy all threaten national and regional stability and pose seemingly insurmountable challenges when allowed to continue unchecked for a long time.

To tackle fuel theft and its related effects requires understanding what those effects are. It is one thing to note the significance of the *Downstream Oil Theft* study in general terms and identify who the stakeholders may be; it is a different exercise to explore the “so what” of the study across a number of fields. This analysis seeks to do exactly that.

The Energy Industry

As the CEO of an energy company, Mr. Kola Karim provided perhaps the clearest indication of how much the energy industry suffers from illicit hydrocarbons activity at every level. His exasperation over international complicity in allowing stolen oil—both crude and refined—to disappear into the legitimate market underscores the difficulty of distinguishing between licit and illicit actors in the hydrocarbons trade. While Mr. Karim says that things have improved in his country since Nigeria’s president took office in May 2015, his company, at times, has lost as much as 22 percent of its oil to illicit activities. The *Downstream Oil Theft* report discusses the research published on crude oil theft in a few places—particularly Nigeria and Mexico—but focuses primarily on the downstream issue. Now that the initial study on illicit downstream hydrocarbons activity is completed, an important next step is examining the supply chain more holistically. It is possible, for example, that illicit activity involves some degree of “double dipping,” in which the same oil is stolen and then sold back into the legitimate market at different points—both in its crude state and then again once it has been refined. While some actors in the energy sector may benefit from such a dynamic, Mr. Karim forcefully argued that this situation is unsustainable.

The various players in the oil market—from producers to traders to shippers to refiners to distributors—need to be aware of the broader implications of the illicit



People stand near a fuel stand in the rebel held besieged city of Douma, in the eastern Damascus suburb of Ghouta, Syria February 12, 2017. *Photo credit: Reuters/Bassam Khabieh.*

market and recognize that, while it may not impact them immediately or obviously, the long-term chain of consequences springing forth from that criminal activity will be severe. In Nigeria, for example, the corruption around and neglect of crude oil theft and refined oil smuggling has led to a situation where the very process of addressing problems has sparked violent attacks on the energy industry and reduced production by at least 40 percent.¹ Nigeria may be an extreme example, but given the expectations born of longstanding profits from illegal fuel trading, as well as the consumer discounts from black market fuel purchasing, intervention in the illicit market is an affront to an entire economic construct surrounding energy supply. Disrupting that ecosystem comes with risks to all involved, so it needs to be undertaken

carefully. In other words, it is difficult to divorce the energy sector implications of this work from the other matters discussed below.

Security, Terrorism, and Law Enforcement

By far the most dramatic implications of this study involve the nexus between oil theft and more sinister international crime, terrorism, and violence. As Dr. John Gannon made clear in his remarks at the launch, this study helps bring to light how oil theft, while previously invisible to most, is a gateway activity and funding source for nefarious actors perpetrating higher-profile

crimes. The report shows the link between downstream oil theft and the drug cartels in Mexico, insurgents and human traffickers in Thailand, human smugglers in Libya, terrorists in Ireland, militant groups in Nigeria, rebel movements in Mozambique, and, of course, the Islamic State of Iraq and al-Sham.

While it is easy to gloss over the transition from oil theft, even in its most dynamic forms like piracy and sophisticated tapping, to more manifestly destructive

¹ Ian M. Ralby, *Downstream Oil Theft: Global Modalities, Trends, and Remedies*, (Washington, DC: The Atlantic Council, 2017), <http://www.atlanticcouncil.org/images/publications/Downstream-Oil-Theft-RW-0214.pdf>, 24, citing "Vandals Cut Nigeria's Oil Production by 800,000 Barrels Per Day - Kachikwu," Premium Times, May 16, 2016, <http://www.premiumtimesng.com/news/top-news/203515-vandals-cutnigerias-oil-production-800000-barrels-per-day-kachikwu.html>.

criminal activities, one of the compelling insights the study offers is how such a shift can occur. In other words, what is it that might take opportunistic smuggling of fuel in jerry cans and evolve it into an international network of organized criminal activity engaged in trafficking or violence? Reduced discrepancies between fuel pricing across a border, for example, can inspire low-level smuggling operations to syndicate and scale up to retain profitability. Once those more organized networks are established, the allure of additional illicit profit becomes more attractive and achievable. Over time, fuel theft can become part of the machinery of insurgency and endemic corruption, as has happened in Thailand and Nigeria, for example.²

Considerably more work, therefore, is needed to explore law enforcement's "good" and "best" practices for confronting oil theft. As made clear throughout this analysis, disruptions to the illicit supply chain can have dangerous second- and third-order consequences, so truly effective law enforcement cannot be conducted without an awareness of those potential effects. But not engaging in law enforcement for lower-level problems can also lead to dire consequences, such as syndicated criminal groups developing violent ideologies. In other words, the more that low-level oil theft can be eradicated before it becomes endemic, the less likely it will be to turn into organized or even potentially destabilizing criminal activity. Furthermore, the higher the risk in the risk-reward calculus, the less likely fuel theft is to become an attractive funding source for groups with stronger ideological or criminal interests in other matters. Only when it is an easy source of funds or a longstanding activity is it likely to connect directly to other forms of crime.

As significant as the link between oil theft and terrorism and other international crime may be, it is worth noting that it exists within a complex web of causes and effects. The Niger Delta Avengers, for example, would not have become a terrorist group if it had not been for the economic benefit the Delta State militants had been receiving, the corruption that allowed those economic windfalls, or the environmental degradation that has made corrupt and illicit oil-related activities their most obvious source

of income.³ So focusing exclusively on the security, terrorism, and law enforcement dimensions of fuel theft will not adequately address the problem; the other five aspects discussed in this analysis must be attended to as well.

The Environment

During the panel discussion in Abu Dhabi, Amb. Morningstar addressed the paradox identified in the report that on the one hand, downstream oil theft has an array of negative consequences, but, on the other hand, it can serve a public good by providing the energy poor with access to discounted fuel. Any argument for maintaining the status quo, however, is soundly refuted by the calamitous effects the illicit hydrocarbons trade has on the environment. Considering that in Nigeria, one of the countries that has suffered the worst environmental impact, oil spills have so devastated the country's fishery in the Delta region that it now imports more than \$500 million of fish per year, the real implications become evident.⁴ The environmental damage decreases agricultural production, destroys wildlife and fishery habitats, and in turn poses extreme burdens on both the national economy and the food supply. When access to food, fresh water, and basic livelihoods is threatened, whatever the cause, conflict often follows. While some of the other categories, such as terrorism, corruption, or economic loss, are more obvious or visible, the environmental consequences of fuel theft are extremely dangerous and need to be taken seriously.

Finance and Economics

Based on the ten case studies examined in the report, it appears that the global economic value of downstream illicit hydrocarbons activity ranks among the highest of transnational crimes, worth at least tens of billions of dollars. The economic impact of this criminal enterprise is truly enormous and has a wide range of knock-on effects. Beyond the security issues of funding terrorism, organized crime, insurgent movements, and militant groups, fuel theft significantly threatens national and regional stability. When the energy supply becomes intertwined with the layered corruption that allows the illicit market to persist and

2 Ralby, *Downstream Oil Theft*, 58, citing "A Look at Southern Thailand's Smoldering Insurgency," Deutsche Welle, July 20, 2015, <http://www.dw.com/en/a-look-at-southern-thailands-smoldering-insurgency/a-18591878>; Ralby, *Downstream Oil Theft*, 17, citing Michael Roll and Sebastian Sperling, eds., *Fuelling the World—Failing the Region? Oil Governance and Development in Africa's Gulf of Guinea* (Abuja: Friedrich-Ebert-Stiftung, 2011), 59; Judith Burdin Asuni, "Blood Oil in the Niger Delta" United States Institute of Peace Special Report 229, http://www.usip.org/sites/default/files/blood_oil_nigerdelta.pdf, 5.

3 Ralby, *Downstream Oil Theft*, 15, citing Freedom Chokudi Onuoha, "Oil Resources Management and Illegal Oil Bunkering in Niger Delta, Nigeria, 1999-2011," Unpublished Dissertation, University of Nigeria (2013), 176, <http://repository.unn.edu.ng:8080/xmlui/bitstream/handle/123456789/1226/ONUO-HApercent2cpercent20FREE%20DOMpercent20CHUKWUDI.pdf?sequence=1>; Ralby, *Downstream Oil Theft*, 23-4.

4 Ralby, *Downstream Oil Theft*, 16, citing "Communities Not Criminals: Illegal Oil Refining in the Niger Delta," Stakeholder Democracy, October 16, 2013, <http://www.stakeholderdemocracy.org/wp-content/uploads/2015/04/CommunitiesNotCriminals.pdf>, 28.

“Addressing downstream oil theft will require a tremendous amount of political will.”

even thrive, a downward spiral can ensue. Corruption at all levels becomes difficult to combat when it lines the pockets of the very individuals with the power and authority to end it; it can be confronted only when external forces shift the incentives away from that self-serving approach to energy governance.

But the real concern is that, as previously noted, downstream oil theft can develop into an intractable shadow market with various crossover points to the legitimate market. When it becomes so systemically ingrained, illicit funds can have a wide range of effects—funding other illicit or even violent activities, intentionally destabilizing states, creating shortages that breed conflict, or any number of other dangerous consequences. Legitimate funds can also blur the line between the legitimate market and the illicit one, and the money can be comingled and even laundered through legitimate channels. Transparency in energy finance, along with the sorts of beneficial ownership schemes being piloted by the Extractive Industries Transparency Initiative, is necessary to tease out and then root out the corrosive economic effects of this criminal enterprise.

Though concerted efforts at transparency would certainly help combat forms of corruption that merge legitimate and illicit markets, they would not address large-scale criminal enterprises operating mostly or entirely outside legitimate markets. Combating such operations requires expertise in tracing illicit financial flows. While low-tech transactions such as those involving cash, even in large sums, are very difficult to trace, others—including those that involve cryptocurrencies like Bitcoin—leave digital footprints. Being able to “follow the money” through such covert financial channels would bring to light other aspects of the illicit networks involved in fuel theft.

At the same time, the economic impact of fuel theft on the energy poor, as Amb. Morningstar pointed out, means there will be—as has been seen in Mexico, Uganda, and elsewhere—a concerted community-based effort to perpetuate illicit structures to maintain the discount that eases the burden on countless families and even businesses around the globe.⁵

Ending this criminality is essential, but it will require careful and sensitive consideration of the economic implications, especially for the energy poor.

Politics and Policy

The *Downstream Oil Theft* report makes clear at the outset that while it is the first major study on downstream oil theft, it is really just a starting point. To underscore how under-examined this issue has been, Éric Besson made some pointed remarks during the panel discussion: “When I was minister in charge of energy, I was not aware of the extent of the issue. To be honest, I believed it was mainly an oil producing country issue. Or a problem at the periphery of Europe.” Addressing downstream oil theft will require a tremendous amount of political will. It is impossible to have political will, however, if the politicians do not even know the issue exists. As Minister Besson indicated, therefore, a major implication and value of the study with regard to politics and policy is that it raises awareness. The starting point for developing effective policy to confront a challenge is recognizing that the challenge exists and that it poses a real threat to the well-being of the state.

It is also impossible to summon the political will to confront a criminal threat when the politicians are its perpetrators, so not all governments are equal in this issue. As the report indicates throughout, there are often political ties to illicit activity. Raising awareness, therefore, will not in itself suffice. But raising awareness among states that could, as discussed more below, have some international impact on the illicit trade might help generate the will and momentum needed to disrupt the corrupt entanglements in other governments that diminish good governance and weaken the rule of law.

International Relations

The *Downstream Oil Theft* report did not set out to address transnational issues specifically. But it could not adequately examine the ten case studies without doing so to some degree. As the report highlights, and as Mr. Karim noted during the panel discussion, any discrepancy in price between neighboring states serves as an invitation for smuggling operations, so cross-border crime—land and maritime—is a recurring theme.⁶ But the implications for this issue in terms of international relations, both public and private, go well beyond matters of smuggling.

The interconnectedness of three case studies—Nigeria, Ghana, and Morocco—serves as a tremendous example of the extent to which the illicit supply chain is a

⁵ Ralby, *Downstream Oil Theft*, 10-11, 45.

⁶ *Ibid.*, i.

regional and international phenomenon.⁷ Financing operations frequently involve a web of actors who may or may not be aware of their own role in supporting or benefiting from illicit downstream hydrocarbons activity. When state officials or influential entities within states become interdependent with officials or entities in other states to maintain an illicit supply chain, other elements in the relations between those states can become jeopardized. Decisions ostensibly about state interests may in fact be made to perpetuate or at least obfuscate some of the illicit activity, and run counter to the broader interests of the people. This may even involve matters of defense. Europe has recently come to recognize that energy interdependence can quickly become a major concern for national defense if one of the states involved begins acting against others' interests.

But while international relations are part of the challenge, they also provide the most likely avenue for addressing this scourge. As discussed further below, states that recognize the dangerous security, economic, environmental, political, and energy-related implications of illicit hydrocarbons activity can work—either independently or collectively—to leverage international relations to disrupt the illicit supply chain and remove some of the incentives for engaging in black market fuel trading.

The Next Steps

The *Downstream Oil Theft* report is foundational in that it raises the profile of the issue as a worldwide problem and provides a basic understanding of the operations and issues involved. It also provides a baseline for further work to strengthen the general understanding of this global phenomenon and, arguably more importantly, to develop workable solutions to change alarming trends. Based on the report's findings, the following five general steps seem to be the ones most necessary to help curtail illicit downstream hydrocarbons activity:

1. Generate Momentum with Quick Wins
2. Collect and Analyze More Data
3. Expose the Global Threats from Oil Theft
4. Engage Power Centers with Resources to Act
5. Address Political Realities

While there is far more that could and should be done, these five undertakings are most likely to shift

the current state of affairs away from the endemic criminality exposed in the report.

Generate Momentum with Quick Wins

The collective international effort needed to eradicate downstream oil theft as a global matter—discussed more below—does not preclude interested actors at all levels from taking immediate action to directly and significantly combat this issue either locally, nationally, or regionally. The report indicates that some tactical approaches have been quite effective. But it also reveals that if those tactical approaches are not, at least eventually, paired with broader efforts to address the deeper, more systemic causes of fuel theft, they can actually lead to new modalities of theft. So with the disclaimer that reform—security, regulatory, legislative, and governance—must be part and parcel of any truly successful intervention, the following “quick wins” are available to curtail the losses on the part of governments and legitimate companies and stem the gains on the part of criminal actors.

Molecular Fuel Marking: Far and away the most effective current technological offering to combat smuggling, siphoning, and adulteration is the molecular marking of fuel. While dyes have been used for decades to mark fuel (often to indicate subsidies, more than to thwart theft), the European Union case study in the report shows quite clearly that dye can be removed by illicit actors looking to profit off “laundered” fuel.⁸ Molecular markers, however, are far more sophisticated, not visible to the naked eye, and ensure the integrity of the fuel itself. The case studies of Ghana and Uganda both show that implementing molecular marking schemes can dramatically reduce the options for “stretching” fuel and introducing illegitimate fuel into the legitimate market.⁹ While the Ugandan example of regulators stealing fuel under the guise of testing it for the presence of the marker shows how new modalities of theft may arise out of such a scheme, the effectiveness of reducing adulteration from 29 percent to as little as 0.6 percent (according to government calculations) cannot be overlooked.¹⁰ That new form of theft also indicates the need to more broadly analyze the impacts of this scheme to ensure second- and third-order consequences are avoided.

Tracking Tankers: Often most effective in conjunction with a molecular marking scheme (as seen in the Ghana and Uganda case studies), monitoring the movement of tanker trucks helps reduce the opportunities for

7 Ibid., 26-7, 36.

8 Ibid., 77.

9 Ibid., 31-2, 42-3.

10 Ralby, *Downstream Oil Theft*, 42-3, citing “Fuel Adulteration Drops to 0.6 percent,” NBS TV Uganda: YouTube, July 1, 2016, <https://www.youtube.com/watch?v=6zHeunpjTpk>.

illicit activity.¹¹ Illegal sales and other off-the-books activities are detectable by irregularities in truck movements. The very presence of trackers, unless they are tampered with, should help deter drivers from engaging in illegal transactions in the first place. As with the potential use of automated identification system (AIS) data to identify illicit activities among oceangoing tankers, algorithmically based indicators of suspicious movements can help identify, real time, when something untoward is underway. If paired with a real-time interdiction capability, tracking vehicle and vessel movements would have an immediate effect on illicit downstream hydrocarbons activity.

Metering and Monitoring: As noted, one of the ways that fuel “disappears” is by the use of outdated, inaccurate, and ineffective meters and monitors on pipelines and at storage facilities.¹² Mandating accurate meters and monitors could immediately help confirm how much fuel is being lost, where and when it is being stolen, and, therefore, what can be done to stop it. This could be done either at the corporate level—where international oil companies begin raising their own internal standards—or at the national and regional levels where governments mandate auditable, measurable standards for metering and monitoring.

Independent Cross-Border Cooperation: As the report suggests, one way to immediately reduce particularly large-scale smuggling operations is to create a shared independent authority between the states on both sides of the border. A privately contracted, mutually authorized entity—with mandates from the governments on both sides of the border—could help ensure that neither state’s law enforcement is being duped by some of the fraudulent activities or corrupt practices that can lead to syndicated smuggling operations.¹³

Again, all of these options are likely to be effective, but that effectiveness will be limited if they are not paired with broader reform efforts that not only address some of the conditions that allowed for illicit activity to take root in the first place, but also preempt the secondary wave of criminal modalities that develops around the countermeasures themselves. These are, however, options that governments and companies can take immediately to score a “quick win” and develop the momentum needed for a comprehensive confrontation of illicit downstream hydrocarbons activity.

Next Steps

1. Generate Momentum with Quick Wins

- a. *Molecular Fuel Marking*
- b. *Tracking Tankers*
- c. *Metering and Monitoring*
- d. *Independent Cross-Border Cooperation*

2. Collect and Analyze More Data

3. Expose the Global Threats from Oil Theft

4. Engage Power Centers with Resources to Act

- a. *National and Regional Governments*
- b. *Western Governments*
- c. *Energy Companies*
- d. *International Community*

5. Address Political Realities

Collect and Analyze More Data

The report adds visibility to the global prevalence of illicit downstream hydrocarbons activity. But to really identify the contours of the issue and confront it comprehensively will require substantially more reliable data. Data are needed to distinguish between licit and illicit activity, to clarify which activities are threatening—or not—the stability of states and regions, and to show how supply chains work to transport stolen oil within and among countries and regions to international markets. In addition, significantly more data are needed on the financing and payment mechanisms for that illicit supply chain, including cryptocurrency and other alternative forms of payment. This would allow more accurate mapping of the global scale of oil theft. There are several means of getting the necessary data, all of which should be pursued.

First, oil industry players have a lot of information already, and could get more if they wished to do so. Oil companies, trading houses, refineries, and the many vital actors who make the legitimate supply chain possible all have distinct views of the illicit supply chain. If they are truly interested in addressing the problem, they can offer that information for analysis and action. Naturally, this also applies to governments and state-owned oil companies. For example, traders are routinely approached with dubious offers that they either dismiss or pass on to the less scrupulous players. That information would be extremely useful for mapping the illicit networks that move stolen

11 Ralby, *Downstream Oil Theft*, 32, 43.

12 Ralby, *Downstream Oil Theft*, 18, citing Roll and Sperling, eds., *Fuelling the World*, 62.

13 Ralby, *Downstream Oil Theft*, 111.

products, and identifying approaches to stopping them.

Second, a lot of big data could be analyzed to identify irregularities in the supply chain that would indicate potential illicit activity. The report cites the example of the *Barbosa*, a ship that was smuggling oil from Libya into Europe and was caught by tracking anomalies in the data from ships' AIS.¹⁴ Another means of identifying off-the-books activity would be to match AIS data with port logs to ensure that all vessels that call and load are actually being recorded. This would require a considerable amount of analysis, as well as the cooperation of the shipping terminals to provide the log books.

Third, if states or companies were willing to impose standards concerning monitoring and metering of pipelines and storage facilities, a considerable amount of data could be collected, analyzed, and used to indicate where and when fuel is being stolen and how much is actually being taken. Without effective meters and monitors, many companies enable losses to go relatively unnoticed.

Fourth, there is an opportunity to identify black market fuel sales through the dark web. Illicit online purchases could be monitored through cyber mechanisms that identify fuel-related transactions. Even if the end-to-end sources of those transactions are too difficult to trace, awareness of them can provide useful data for interdicting illicit activities in the supply chain.

Fifth, there is no point in stealing oil if it cannot be sold. In addition to monitoring the transactions on the dark web, identifying losses, and pinpointing spots where illicit activity is occurring on the water, much invaluable data could be gleaned from following the financial flows surrounding the illicit fuel market. Not only would it help prove ties to terrorist elements, organized transnational crime syndicates, insurgent movements, and militant groups, it would also show ties to white collar criminals and to legitimate players who may not even realize they are involved in the criminal enterprise. Having that data would provide options for targeted disruption of the illicit supply chain.

Overall, a combination of creativity and cooperation will be needed to hone in on the data that can further illumine this global issue. The *Downstream Oil*

Theft report has established that illicit downstream hydrocarbons activity is a significant criminal matter worthy of further investigation and concerted efforts at mitigation. Now it is time to conduct that investigation to help move from mitigation towards eradication of the problem.

“[I]f states or companies were willing to impose standards concerning monitoring and metering of pipelines and storage facilities, a considerable amount of data could be collected, analyzed, and used to indicate where and when fuel is being stolen and how much is actually being taken.”

Expose the Global Threats from Oil Theft

Oil theft alone is a tough sell as a threat to global security. But it becomes a matter of international interest and concern when it is seen as (1) a growing contributor to corrupt governance, organized transnational crime, and terrorism, and (2) a potential threat to stability on a global scale. As noted earlier, the security, terrorism, law enforcement, and governance implications of the study's findings point to areas of serious concern. While oil theft may not be sufficient inspiration for international action except when provable losses become untenable, its nexus to more sinister criminal activity changes the picture. If, for example, the drug cartels in Mexico were unable to sustain themselves through fuel theft, their increased dependency on narcotics-related activities would make them easier to track and dismantle. Consequently, addressing oil theft may become a means of addressing other crimes that constitute higher priorities for international law enforcement.

To address the first challenge, future work should dissect the connections between oil theft and corrupt governance—a serious concern for the international community today. Such analysis may be relevant to the active proposal to create an international court to combat corruption. Regardless, the increasing

¹⁴ Ralby, *Downstream Oil Theft*, 74, citing Kurt Sansone, “Fuel Smuggled from Libya Being Brought to Malta—UN,” Times of Malta, March 12, 2016, <http://www.timesofmalta.com/articles/view/20160312/local/fuelsmuggled-from-libya-being-brought-to-malta-un.605334>.



Workers from state-owned oil company Pemex clean the area after a pipeline explosion in San Martin, Mexico, on December 22, 2010. Fuel thieves tampering with an oil pipeline may have sparked a deadly explosion, according to local officials. *Photo credit: Reuters/Imelda Medina.*

attention paid to corruption and its consequences provides an opportunity to insert the oil theft issue into an existing international dialogue. One way to do this would be to conduct a follow-up study focusing on a select few cases where corruption is paramount. With this narrower focus, it would be possible to identify the extent to which corrupt governance (fed, at least in part, by oil theft) leads to heavy losses of government revenue, obstruction of reform, environmental degradation, increasing poverty, and social and political instability. Furthermore, such a study should also assess connections between the oil theft actors in those countries and international criminal networks that traffic in humans, weapons, narcotics, natural resources, cultural property, and wildlife. This is the ugly environment in which oil theft interacts with other corrupt activities.

The second challenge is harder. The report shows that illicit activity occurs in different forms in different places across a global energy market, but it does not demonstrate how the theft actually disrupts that

market on a global scale. Part of that shortcoming is due to the case studies chosen for the initial report. By expanding the study to include major oil producers like Saudi Arabia, the United Arab Emirates, Russia, Iraq, or Venezuela, along with their global supply chains, the stability-related indications of this first report could be verified. The correlation between oil theft and instability is borne out in the report, though certainly not emphasized in most of the case studies. The report notes, for example, the rather visible case of Libyan instability spilling across the Mediterranean and having negative effects on Europe.¹⁵ But to properly make the case for causation, further work is needed.

15 Ralby, *Downstream Oil Theft*, 73-4, citing “Libyans Intercept Suspected Fuel-Smuggling Ship,” Yahoo News, February 13, 2016, [https://www.yahoo.com/news/libyans-intercept-suspected-fuel-smuggling-ship-203310086.html?ref=gs.](https://www.yahoo.com/news/libyans-intercept-suspected-fuel-smuggling-ship-203310086.html?ref=gs;); Benoit Faucon, “On the Fuel Tanker’s Trail: Cracking Oil Smuggling Could Help Stem Flow of Migrants and Weapons,” *The Wall Street Journal*, March 10, 2016, [http://www.wsj.com/articles/smuggling-probe-focuses-on-fuel-tankertrail-1457576358.](http://www.wsj.com/articles/smuggling-probe-focuses-on-fuel-tankertrail-1457576358)

Engage Power Centers with Resources to Act

The report cites a dozen stakeholders who share responsibility for tackling the growing oil-theft problem. Being a stakeholder, however, does not equate to having real power to effect change. While there are things that all stakeholders can do to diminish oil theft, the real power centers with the authority and resources to take decisive action must be the ones who lead the effort to deal with this problem. Those interested in making a genuine impact must employ both positive and negative incentives to restrain perpetrators and boost reformers. Additional reports, therefore, should be written to inform, persuade, and mobilize these power centers to act alone when possible and, more likely, together. Retired energy executives, diplomats, and other officials with relevant regional expertise should be recruited as advisors for every phase of research, analysis, and policy implementation.

Of the many stakeholders the report addresses, four are key to having a real effect:

1. *National and Regional Governments:* Most oil theft is ultimately a cross-border enterprise that cannot be contained without greater national and regional cooperation. But promising reform efforts, especially in vulnerable countries, too often collide with political leaders, military officers, and bureaucrats whose routine behavior sustains a government infrastructure of bribery, cronyism, nepotism, kleptocracy, weak rule of law, and habitual electoral fraud—all of which deprive victimized populations of the benefits of their country's natural resources. These governments must be held accountable, but this can happen only through a serious and sustained collaborative effort of Western governments, energy companies, and the international community. That collaboration now appears weak.
2. *Western Governments:* These governments and legislatures have the resources to improve the collection of vital data on illicit hydrocarbons activity and to engage national and regional actors to counter the problem. Future initiatives should aim to work with these governments to improve intelligence and develop practical and effective remedies. Future studies should work initially to convince these governments of the seriousness of the problem and of the potential for mitigation.
3. *Energy Companies:* As previously noted, international energy companies have unique knowledge about illicit hydrocarbon activities that they appear reluctant to share. This includes

major oil trading companies with extensive links. A selective sharing of this information would raise awareness of the economic and social costs of oil theft and likely strengthen the hand of reformers. The oil companies clearly have a much greater role to play in bounding the problem and developing solutions.

4. *International Community:* The United Nations and its agencies, other international organizations, nongovernmental organizations, and local and regional reform organizations have both knowledge and influence that can be harnessed to improve reformers' understanding of how oil theft works and how effective countermeasures might be developed. These organizations could be invaluable allies in the reform effort.

In his remarks presenting the study in Abu Dhabi, Dr. Ralby noted that "every context needs its own cocktail." If downstream oil theft is seen as a global malady, different states and regions can be viewed as different strains of the disease. While a strain-specific cocktail of medicine is needed for effective treatment, one of these four key power centers must be a main ingredient in any proposed remedy.

Address Political Realities

It is often easier to describe a problem than to fix it. While the report does well to give visibility to the issue, its greatest value would be if it served as a starting point for a concerted effort to confront and resolve the problem of downstream oil theft. The report provides multiple, well-considered recommendations that, if implemented, would significantly alleviate the issue. But the proposals will never come to fruition without accounting for the heavy resistance that will come from deeply embedded corruption and the reluctance of energy companies and Western governments to take constructive action. As noted earlier, it is also impossible to generate political will to solve a problem if the political actors are unaware of it. So considerable work is needed to do the following:

1. Ensure the key power centers identified in this analysis understand both the problem and its implications. Oil theft itself may not catch their attention, so a description of the nexus to serious security concerns, economic loss, and destabilizing corruption must be part of the information effort.
2. Assemble those who have expressed a will to confront the issue to generate global discourse and begin to develop an international network of key stakeholders on which to build momentum and apply pressure to more reluctant parties.

3. Explore smart power points of influence to bring even staunchly resistant parties to the point of having to address the issue. This may involve pitting key stakeholders against each other, either regionally or internationally. International partners, when aware of this issue, can make their assistance conditional on clear, concerted efforts to tackle the corrupt structures perpetuating the illicit hydrocarbons market.
4. Make this a matter of public interest. The case must be made to the general public why illicit downstream hydrocarbons activity has both known and potential negative consequences on their lives—for instance, the security, economic, and environmental implications—such that they develop an appetite for action on the part of their leaders. Today, public will impacts political will more than ever before. That dynamic must be harnessed to address this issue.

Only when those with the power to change the status quo are truly interested in doing so will the follow-up to this analysis—the confrontation of the problem, not just the identification of it—be possible.

Conclusion

The Atlantic Council report *Downstream Oil Theft: Global Modalities, Trends, and Remedies* shines a light on a previously invisible, but highly consequential, global criminal phenomenon. Oil theft is not currently a priority for most governments, and the oil industry has been reluctant to raise, much less confront, the issue in many cases. While this report may have constituted a first and major step in raising awareness, considerably more work is now needed to help ensure that key stakeholders focus on oil theft—either in and of itself, or as it relates to other issues like environmental degradation, the spread of corruption, or the funding of terrorism—and take targeted action to address both it and its second- and third-order consequences. Those with the power to do so, however, can and should take immediate action, by implementing molecular marking programs, tracking tankers, metering pipelines and storage facilities, and/or attempting cooperative cross-border initiatives. At the same time, those who are serious about this issue should work to build international momentum to address oil theft as a global phenomenon, inextricably tied to a series of matters that collectively threaten national and regional stability.

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