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ALLEVIATING THE ECONOMIC IMPACTS OF OIL
THEFT

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Basic Overview of the Issue

The discovery of petroleum refinement techniques in the 19th century led to a drastic shift in energy generation and impacted technological development forever. The increased usage of petroleum and its derivatives drove globalization efforts as countries and transnational corporations scrambled to find new patches of petroleum. This, however, had many adverse effects both on the environment and on society. Developing countries where oil was found suddenly became the center of complicated power struggles between global superpowers, and the increased usage of fossil fuels harmed the environment greatly. This chair report will focus on one challenging aspect of petroleum usage - that of oil theft and piracy.

According to the United Nations (UN), oil and fuel are the most stolen and smuggled natural resources respectively. Both international crime organizations and local cellular units engage in oil theft, sabotaging oil production and shipment. This issue is especially prominent in Africa, where security surrounding oil operations is often lax and corrupt officials make it easy for criminals to engage in large-scale theft, however, it is also a cause for concern in other oil-rich regions such as Mexico and Azerbaijan. Oil theft happens at various stages of the supply chain. In Nigeria, an oil-rich country, directly tapping oil pipelines is a common method of theft. Criminals will attach an oil pipe to a pump or pipeline owned by a legitimate corporation and siphon the oil. Another tactic used by oil pirates is export terminal theft, wherein criminals will bribe officials to load oil into vehicles belonging to criminals instead of where it is supposed to be loaded. Some criminals such as those in the Gulf of Guinea directly hijack oil tankers and divert them, although this tactic is not always effective as officials are often able to track down the vessels and rescue them. Finally, oil theft happens on a governmental level via the unfair distribution of oil licenses by corrupt government officials.

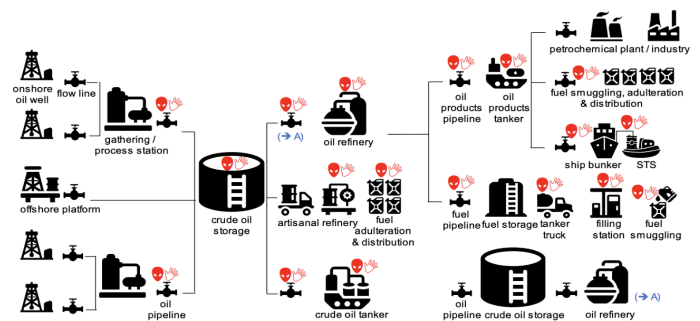


Figure 1 A chart illustrating key stages in the petroleum supply chain



Oil theft is an issue not only because it leads to economic loss, but also because it causes the further unnecessary extraction of more oil, damaging the environment, and because criminal gangs often use the funds they obtain from oil theft to fund illegal operations. Oil theft is a way for these groups to bring in large profits from a business that appears legitimate on the surface, and often allows them to trade with corporations and states through the use of front companies.

Explanation of Important Terms

Hijacking

Taking control of another's vehicle by force and diverting it. The hijacking of transport trucks and ships is a common method of oil theft.

Supply chain

The steps a resource, material or product takes from extraction to final sale. Supply chains involving oil are often long and continent-spanning, beginning with extraction, then refinement into various subproducts, and finally shipping and sale.

Front company/shell company

A company that appears legitimate on the outside however is operated by a criminal organization, usually for the purposes of trade with legitimate parties or money laundering.

Crude oil

Also known as petroleum or simply oil, this term refers to the natural unrefined form of oil as found underground.

Oil drilling/Petroleum extraction

The process of extracting oil from underground via pumps.

Vested interest

A personal reason to be involved with a matter. A country or corporation might have a vested interest in oil operations within another country due to the financial investments they have made or a need to access that country's petroleum.



Detailed Background of the Issue

Current Situation of Oil Use and Theft

Most if not all oil-producing and oil-importing countries are affected by oil theft. The oil theft “market” is as large as 133 billion USD per year, and stolen oil accounts for roughly 5-7 percent of the wider oil market. In most countries that import oil, such as Turkey, Thailand, and China, illegal oil smuggling operations also exist and cost their governments billions of dollars in tax money. For example, it is estimated that 2.7 million tons of illegally obtained fuel are smuggled annually into Turkey. In countries currently under sanction, most notably Russia, the situation is even more dire as illegal smuggling is often the only way oil can be imported or exported. Major international brands stepping out of Russia have allowed criminals to increase the scale of their operations in recent years.

Oil Theft in Nigeria

Nigeria is the second largest producer of oil in Africa. Oil export is one of the country’s main sources of income and accounts for 9% of its entire GDP. Nigeria exports oil to many countries, but mainly to the United States which accounts for 40% of all exports. The oil industry in Nigeria was formerly government-owned, through the National Nigerian Petroleum Corporation (NNPC). This changed in 2022 when NNPC became a limited liability corporation, gaining independence from the government and transforming into a privately owned business. However, NNPC still has a monopoly on legal oil production in Nigeria, as it is the only corporation the government has granted an oil extraction license to, meaning that any other company attempting to extract oil is criminal and engaging in oil theft. Oil is obtained from the Niger Delta basin, a geographical feature located in southern Nigeria, making it a crucial location for any petroleum operations within the country and a target for criminals. Attempts to stop oil theft have only resulted in more violence, such as when the Nigerian government prosecuted Tompolo (full name Government Owezide Ekpemupolo), the leader of a prominent militia group located in the Niger Delta, for oil theft. This only resulted in the formation of the Niger Delta Avengers (NDA), a terrorist group that proceeded to attack and sabotage multiple oil production facilities in the region and continues to operate to this day. Nigeria suffers from severe corruption, despite intense efforts by former president Muhammadu Buhari’s anti-corruption campaign. Funds generated



from export of oil and gas are misappropriated, ending up in the hands of corrupt officials. This results in a wide gap between the rich and the poor, then allowing the rich to further influence politics and rig the economy to their favor. This form of oil theft is perhaps the most dangerous as it is perpetuated by people in the government, making it harder to eliminate.

Oil's Geoeconomic Importance Throughout Time

Energy has been a critical enabler for human innovation, growth, and development. The invention of the modern steam engine, which used coal as the primary energy source, marked the beginning of a new age in energy consumption, starting the industrial era. As the industrial age slowly aged, coal left its place in oil. The versatility of petroleum, ranging from lighting lamps to powering machinery, was valuable in fostering global economic growth. Thus, oil is still used as humans' primary choice of energy. The common usage of oil as an energy source changed economic dynamics and influenced geopolitical views. Oil-rich regions such as the Middle East re-emerged with the help of global powers vying for control over oil. In the 20th century, they showcased many geopolitical conflicts centered around the pursuit of oil and its reserves. The economic cycle of oil primarily consists of boom and bust cycles caused by fluctuations in oil prices. While oil brought prosperity and opportunity to many, it also increased and highlighted the economic vulnerability linked to its heavy dependence on power and modern equipment. Countries without access to any source of oil found themselves susceptible to the interests of oil producers. They had to adjust their foraging policies according to the benefits of oil producers. The term “resources curse” was also popularized to describe the economic challenges that oil-rich nations face, including corruption and economic inequality under the volatility of global oil markets. As oil usage became more widespread, the ecological impact of oil came under great scrutiny. The burning of oil, alongside other fossil fuels, damages and populates both the land and the air. For this reason, oil has been labeled as one of the biggest enemies of eco-friendly human growth and sustainability. Therefore, many countries are debating the transition to cleaner energy sources, challenging oil dominance in the long-standing energy sector. Oil and its extraction are highly connected to the capitalist principles around it.

Capitalist Policies and the Illegal Extraction of Oil

Oil is a resource that can be traded, owned, and sold. This trading system was



designed to ensure the profit maximization of oil benefiting all; however, due to the immense sum of money that oil generates, billion-dollar businesses have formed around the illegal extraction and refinement of oil. These illegal firms sometimes operate with United Nations (UN) recognized countries to extract oil from foreign countries, an act considered illegal by the UN. The growth of these illicit businesses not only corrupts the country and the government that it influences but also prevents the country from collecting funds for the development of its oil industry as it is deemed too risky; the workers who work for these companies are also forced to work under life-threatening consequences as owners of such establishments refuse to invest in the proper security measures to maximize profit. Due to conflicts related to oil or due to the pirated extraction of oil, local communities around oil-producing regions often face displacement and economic inequality alongside environmental injustice. Under the influences of multiple governments and illegal firms, the benefits of oil wealth are seldom distributed equitably, increasing the challenges faced to continue sustainable development.

Economic Impact of Oil Theft

Oil theft, which many developing countries who extract oil face, is a significant roadblock to their sustainable economic development. Oil theft, done via illegal bunkering of oil and the vandalism of pipeline networks, directly limits the respective government's access to oil. It is estimated that in many underdeveloped oil-producing countries such as Nigeria, Yemen, and Iraq, more than 10% of all produced oil is extracted and refined illegally. This can devastate countries with an economy centered around the export of oil in exchange for the import of everyday goods and necessities. Nigeria, the biggest oil-producing country in Africa, is a great example of the aforementioned phenomena; 90% of all exports from Nigeria are directly crude oil. The country is estimated to lose about 400.000 gallons of oil a day, which equates to a total loss of 1.7 billion dollars per month. Similarly, Iraq claims that the United States and its military presence in the country have illegally collected 87.7 billion dollars worth of oil from their land.

Opportunity Cost of Oil Theft

The main economic impact of oil theft on any country is the opportunity cost associated with not being able to refine oil and misallocating resources to diminish



theft as much as possible. Countries lose billions of barrels of oil each day that could be sold by their recognized governments, providing revenue and high-value jobs for the community. Instead, business owners get paid the most through illegal oil extraction and refinement, and workers must endure harsh working conditions. Furthermore, funds that could be used to develop the country further are siphoned off to combat oil theft or compensate for the revenue shortfall, weakening the country's fiscal capacity.

Decrease of Investment and Governance Authority

Besides these adverse effects, oil theft creates an environment of insecurity and instability, which deters potential foreign investors from allocating funds to develop the countries' oil extraction and refinement process. Foreign Direct Investment is especially crucial for oil-rich third-world countries as the economic and technological growth of the country is entirely dependent on the influx of foreign currency and experienced personnel. Oil theft also has indirect effects that result from the damage caused to the economy; mainly, oil theft that involves other foreign parties, such as international businesses or states, can influence the politics and lawmaking of the country to establish beneficial conditions for the continuation of their business; as a result, these sets of actions severely impede the government's ability to establish authority which leaves many areas with a semi-functioning government not being able to provide fundamental rights to citizens. The illegality and danger behind oil theft also lead to job distributors paying their workers much more than the national average, which encourages people to work for these sites due to harsh economic conditions and causes an economic gap between private oil workers and state-bound workers, further decreasing trust and talent of the government.

Environment-Related Economic Damages

Finally, oil theft often involves environmentally damaging practices such as spills and uncontrolled drilling activities. The environmental damage caused by thefts adds a layer of economic strain. The costs associated with re-establishing a healthy and well-sustained environment surrounding oil theft sites and treating civilians near such sites need severe resource allocation and, thus, diverting governments from other



development initiatives.

Major Parties Involved

Nigeria

Nigeria currently is the largest crude oil producer in Africa, ranking 11th globally, Nigeria after the start of the millennia has shifted its economic focus solely on oil and the export of oil, however; the country lacks the necessary refineries and extraction grounds to supply its more than 200 million population, therefore many civilians and businessman have resorted to building illegal oil extraction settlements through the Niger Delta, the area most associated with oil wealth. Despite many attempts, Nigeria has been unsuccessful in defeating these illegal establishments due to suspected corruption and mistrust of the government. The Nigerian government faces distrust from citizens as the country has not built a single refinery in the country and all processed oil extracted from the Niger Delta is believed to be done so through illegal establishments. It is widely suspected that both politicians and business owners establish their own refineries and extraction grounds to monopolize Nigeria's vast oil reserves whilst maximizing individual profits. The exasperated population combined with the economic crisis in Nigeria leaves many civilians living near oil-rich extraction grounds without any basic governmental service such as working electricity, water and education.

Iraq

Iraq, the second largest crude oil producer and distributor in the World, has had countless conflicts within its borders to secure its large reserve. During the Iraqi Insurgency that saturated in 2017 and continues till this date, it's estimated that the country has lost 9 billion dollars to insurgency rebels who steal Iraqi petroleum and transfer it to Iran and Kuwait.

Iran

Iran, which has to resort to the sale of petroleum to foreign countries due to the heavy sanctions imposed on them, is a key supplier for Eastern countries such as China and Russia. Iran has accused the United States government of stealing their tanker ships and has taken a retaliating act against it. In 2022, many ships were confiscated and then sold by



US naval forces to maintain their sanctions on Iran which prevented the country from doing free oil trade. Iran finding these acts intolerable, has re-captured many of its previously owned ships and is currently refusing any international cooperation.

The United States of America (USA)

The United States of America has labeled itself as a protector of rights in the Middle East and has established many joint forces with many different countries such as Qatar and Saudi Arabia, to combat oil theft in the region. Despite these seemingly positive actions, some states question the real intention behind US actions since the country has been unresponsive to attempts made to stop oil theft in Yemen, Iraq, and Syria. In the following countries, the US government has a strong influence and military presence and has established good relations with many separatist movement forces operating in these countries. Many suspect, through the aforementioned collaboration and past statements, that the US is actively involved in oil theft in the Middle East and benefits greatly from it.

Africa Network for Environment and Economic Justice (ANEEJ)

Africa Network for Environment and Economic Justice is a non-governmental organization that aims to give less-represented groups a chance to raise their voices by reaching out to local communities under oppression. They focus on multiple areas of improvement in Africa, the most notable being anti-corruption, human rights, and environmental concerns.

United Nations Convention Against Transnational Organised Crime (UNTOC)

UNTOC also known as the Palermo Convention, is the first international organization to fight transnational organized crime, human trafficking, and terrorism. Currently, the sub-branch of the UN works on eliminating organized crime, which encompasses oil thefts.

United Nations Office on Drugs and Crime (UNODC)

UNODC is the UN body responsible for the fight against all sorts of international crime. UNODC's main principle is to assist UN member states in their efforts against drug trafficking, organized crime, corruption, and terrorism; therefore, UNODC, while discussing oil theft, should be the main body to allocate developmental projects or penalties to countries.



Chronology of Important Events

Date	Description of Event
19th Century	The first modern oil wells were constructed in Pennsylvania, USA. These wells were powered by steam engines and created using drills rather than digging, laying the foundation for large-scale oil extraction.
1866	Vacuum Oil Company, currently known as ExxonMobil, is founded. ExxonMobil is currently the largest privately owned energy company, operates in many countries worldwide and holds large stakes in national oil industries in countries such as Argentina, Azerbaijan, Russia, Indonesia and many more.
1909	The Anglo-Persian Oil Company, currently known as British Petroleum (BP) is founded. BP is one of the largest oil companies in the world and operates in around 80 countries.
1 April 1977	The National Nigerian Petroleum Corporation (NNPC) is established to conduct oil extraction in Nigeria, boosting the nation's economy and tying it closely to oil.
11 November 2004	The Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCaAP) is signed, aiming to combat maritime piracy in Asian waters. This agreement aims to reduce oil piracy by preventing criminals from hijacking, stealing or diverting oil tankers.



March 2016	The terrorist group “Niger Delta Avengers” announces their existence. The group disrupts oil drilling throughout the Niger Delta basin and engages in oil theft, harming Nigeria’s petroleum industry.
24 February 2022	Following Russia’s invasion of Ukraine, a large number of sanctions were imposed on oil trade with Russia by the European Union and G7 countries. As a result, oil smuggling across the Russian border has increased.

Relevant International Documents

- [Letter from the Permanent Representative of Iraq to the United Nations addressed to the Secretary-General](#) Letter from Iraq to the United States of America on suspicion of oil theft, The United Nations Security Council, 22 April 1991; S/22515
- [Letter from the Permanent Representative of Yemen to the United Nations addressed to the President of the Security Council](#) Letter from Yemen to the United Nations on behalf of the threat created by a rebel-controlled oil tanker, The United Nations Security Council, 6 July 2020; S/2020/648
- [Letter from the Permanent Representative of Yemen to the United Nations addressed to the President of the Security Council](#) Letter from Yemen to the United Nations on behalf of Houthi forces targeting of oil tankers and oil infrastructure, The United Nations Security Council, 16 November 2022; S/2022/864
- [Atlantic Council Research Report on Downstream Oil Theft](#) Atlantic Council Global Energy Center, Dr. Ian M. Ralby, January 2017; ISBN: 978-1-61977-440-7
- [Report of the Conference of the Parties to the United Nations Convention against Transnational Organized Crime on its eleventh session](#) 11th Session of the United Nations Convention Against Transnational Organised Crime (UNTOC) to take action to expose and deal with all those connected with oil theft in Nigeria to stop the economic hemorrhage, Austria-Vienna, 8 November 2022; CTOC/COP/2022/9*



- [Annual Meeting of Arab Ministers of Finance](#) Regarding the Economic Diversification in Oil-Exporting Arab Countries, International Monetary Fund, Manama-Bahrain; April 2016

Past Attempts to Resolve the Issue

International Maritime Treaties

The Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP) was signed by 14 Asian states on 11 November 2004, aiming to prevent piracy and ship hijacking, and specifically oil theft. The agreement aimed to allow for the quick exchange of intelligence regarding piracy and armed robbery between signatory states, with the intent of dealing with piracy more effectively. 5 European countries, the USA and Australia are also signatories to the agreement, and utilize their intelligence organizations to help Asian states combat criminals in the ocean and reduce oil theft. Some of the clauses of the agreement demand the creation of an information sharing center to coordinate states' efforts, the facilitation of direct military collaboration against piracy in international waters and the extradition of criminals so that they may face justice in their home country. The agreement has been a huge success, with cases of maritime piracy in Asia dropping to zero in 2021. However armed robbery incidents still happen, and there is progress to be made. Following the success of ReCAAP, African states signed Djibouti Code of Conduct (DCoC), a similar anti-piracy treaty intending to stop piracy in waters near Africa with the support of the International Maritime Organization (IMO). This agreement also outlined conditions for safe and reliable port operation and aimed to create a sustainable, flourishing maritime economy in Africa. Although cases of piracy in the Red Sea and Gulf of Aden have decreased following the adoption of the DCoC, they still continue due to a lack of coordination and various factors causing instability in Africa.

Nigerian Anti-Oil Theft Efforts

The administration of Muhammadu Buhari, who served as the president of Nigeria from 2015 to 2023, made several attempts to curb oil theft in the Niger Delta Basin and adjacent areas. According to the Economic Financial Crimes Commission



(EFCC), Buhari's anti-corruption campaign resulted in 603 corrupt officials being arrested, many of which worked in the oil sector and contributed to theft. Despite these anti-corruption measures, however, Nigeria is still considered by many sources to be severely plagued by corruption. A notable threat to Nigeria's oil industry are the Niger Delta Avengers (NDA), a terrorist group who engage in sabotage of oil facilities and oil theft to campaign for the independence of the basin. Although Buhari's administration considered them a hostile group and tried to eradicate them, the government's efforts have not been successful and the NDA continues to harm Nigeria's economy to this day.

Solution Alternatives

Considering the negative impacts of fossil fuels on society and the environment as a whole, the first step when dealing with any oil-related issue should be attempting to phase out oil production as quickly as possible and replacing it with renewable energy. However, many countries find this infeasible or harmful to their economy, and alternative energy sources are not free from issues of theft and corruption. To develop effective solutions, one must consider the various factors contributing to oil theft and develop strategies to mitigate each factor.

An important issue is the corruption of government officials in countries where oil is extracted. Because these countries are often politically unstable LEDCs, it may be difficult to inspect and reprimand officials involved in the oil industry. Delegates are encouraged to consider how they can ensure that proposed anti-corruption and transparency measures have a real effect despite a possible lack of strong governmental authority. Additionally, the influence of organized crime on governments must be kept in mind and measures should be taken accordingly. Another key factor, also related to the lack of government authority, is the lack of policing around petroleum extraction sites and shipping hubs as well as oil pipelines. Pipelines are long and cross country borders, meaning that any effort to police them must strike a delicate balance between international cooperation and breach of sovereignty. While powerful states with a vested interest in the exploitation of natural resources may suggest being closely involved with policing and defense operations, the oil-rich countries where drilling takes place might insist on their autonomy and non-interference within their borders.



Useful Links

- [Iran Seizes Oil Tanker In Retaliation For Earlier US Confiscation](#) Information regarding Iran's course of actions on the oil tanker ST Nikolas, Iran International
- [Syria demands UN hold Washington accountable for oil-theft operations](#) News about Syria accusing the United States of America of oil theft, the Cradle
- [Experts Say Tackling Corruption Key to Stopping Nigerian Crude Theft](#) Facts and Solution Alternatives on Stopping Oil Theft in Nigeria, VOA news
- [UN convention urged to take action against Nigeria's oil theft](#) Information on Africa Network for Environment and Economic Justice (ANEEJ) request for United Nations Convention Against Transnational Organised Crime (UNTOC) to take action on oil theft, International Centre for Investigative Reporting
- [International crude oil theft: elite predatory tendencies in Nigeria](#) Information regarding oil theft in Nigeria, JSTOR
- [Mitigating the Negative Externalities of Oil Drilling Activities in the Niger Delta, Nigeria](#) Review on the unintended negative implications of oil drilling activities in the Nigerian Niger Delta region, SCIRP
- [Singapore Uncovers Large Oil Heist at Shell's Biggest Refinery](#) Multinational examples of oil theft, Arab News
- [Who is looting Yemen's oil, and where does it all go?](#) Hidden oil theft operations going on in Houthi-controlled Yemen, The Cradle
- [Iraq estimates that \\$150 billion of its oil money has been stolen from the country since the US-led invasion of 2003](#) Oil theft Operations in Iraq, CNN
- [Billions of dollars of oil theft in Iraq: Technology one potential solution](#) Possible technological solutions to oil theft in Iraq, Arabian Business
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