

PETROLEUM & FUELS

**MAPPING THE IMPACT OF ILLICIT TRADE
ON THE SUSTAINABLE DEVELOPMENT GOALS**

ABOUT THE REPORT

On 18 July 2019, the Transnational Alliance to Combat Illicit Trade (TRACIT) in collaboration with the UN Conference on Trade and Development (UNCTAD) organized a forum to discuss the role of illicit trade in inhibiting positive development outcomes and in particular, the implications for the achievement of the UN Sustainable Development Goals (SDGs).

The event featured the launch of TRACIT's report, *Mapping the Impact of Illicit Trade on the UN Sustainable Development Goals*.

The TRACIT report investigates illicit trade in 12 key sectors that participate significantly in international trade and are most vulnerable to illicit trade. For each sector, the negative impacts of illicit trade are mapped against the 17 UN SDGs. The sectors include: agri-foods, agro-chemicals and pesticides, alcohol, counterfeit and pirated goods, forestry, IUU fishing, petroleum, pharmaceuticals, precious metals and gemstones, tobacco products, trafficking in persons and illicit trade in wildlife.

This document excerpts the chapter on "SDGs and illicit trade in petroleum products"

ABOUT TRACIT

The Transnational Alliance to Combat Illicit Trade (TRACIT) is an independent, private sector initiative to drive change to mitigate the economic and social damages of illicit trade by strengthening government enforcement mechanisms and mobilizing businesses across industry sectors most impacted by illicit trade.

FOR MORE INFORMATION

The full report, Executive Summary and the sector specific chapter excerpts can be found at: www.tracit.org/publications_illicit-trade-and-the-unsdgs

MEDIA

All media enquires should be directed to
Cindy Braddon, Head of Communications and Public Policy,
cindy.braddon@TRACIT.org

SOCIAL MEDIA

Twitter: @TRACIT_org

LinkedIn: www.linkedin.com/company/tracitorg

SDGs AND ILLICIT TRADE IN PETROLEUM PRODUCTS



INTRODUCTION

Illicit trade and the UN SDGs

The UN Sustainable Development Goals (SDGs) lay out an ambitious set of 17 goals to address the world's most acute economic, social and environmental challenges. They cover everything from poverty eradication and zero hunger to clean water, decent jobs and peace. Since coming into effect in January 2016, governments, private sector and civil society have rallied around the SDGs to guide policy, implement investment strategies and allocate funding.

Among the portfolio of tools available to achieve the SDGs is the expansion of international trade.¹ This is because trade has historically proven to be an engine for development, boosting income generating capacity and contributing to unprecedented reductions in poverty levels.² Over the last few decades cross-border trade has expanded significantly, supporting rising living standards across the globe.

At the same time, the expansion in *legal* trade has been accompanied by the alarming emergence of *illicit* trade, with estimates quantifying it and associated transnational criminal activities at between 8 and 15 percent of global GDP.³

From smuggling, counterfeiting and tax evasion, to the illegal sale or possession of goods, services, humans and wildlife, illicit trade is compromising the attainment of the SDGs in significant ways, crowding out legitimate economic activity, depriving governments of revenues for investment in vital public services, dislocating millions of legitimate jobs and causing irreversible damage to ecosystems and human lives.

Mapping illicit trade against the SDGs

Despite the recognition of international trade as an important means to achieve the SDGs, insufficient attention has been given to the substantial impact that illicit trade has on holding back progress.

In order to help governments and business better understand how their efforts to achieve sustainable development must account for the negative forces of illicit trade, this study maps the 17 UN SDGs against the following sectors: agri-foods, alcohol, fisheries, forestry, petroleum, pharmaceuticals, precious metals and gemstones, pesticides, tobacco, wildlife and all forms of counterfeiting and piracy. These sectors were chosen because they participate significantly in international trade and they are particularly vulnerable to illicit trade. Trafficking in persons is also examined as a particularly abhorrent phenomenon affecting supply chains and basic human rights as well as contributing to illicit trade practices.

To the extent that an SDG—or one of the 169 targets established to track progress on the goals—is impacted by illicit trade, this study examines where and how illicit activity undermines progress to achieve it. In some cases, illicit activity is mapped against an overall goal, such as SDG 3 (Good Health and Well-Being). In other cases, a specific target has been examined, such as SDG Target 8.7 (Eradicate forced labor, end modern slavery and human trafficking).

Key findings from the report

The socio-economic impacts of illicit present significant deterrence to all 17 of the SDGs—holding back progress, increasing costs and pushing achievement of the goals further away.

There are notable “macro” impacts where illicit trade cuts deeply across many of the SDGs, undermining achievement of the economic goals for poverty reduction, decent jobs and economic growth (SDGs 1, 2, 3, 4 & 8), and robbing governments of taxable income that can be invested in public services (SDGs 9 & 17). When it generates revenue for organized criminal and terrorist groups, illicit trade undermines goals for peace and stability (SDG 16). Most forms of illicit trade plunder natural resources (SDGs 6, 14 & 15), abuse supply chains and ultimately expose consumers to fake and potentially harmful products (SDG 12).

While findings show that illicit trade poses a threat to all 17 SDGs, nowhere is the nexus as evident than in SDG 16 (Peace, Justice and Strong Institutions) and SDG 8 (Decent Work and Economic Growth).



Illicit trade—in all its forms—stands in direct juxtaposition to SDG 16, by feeding violence and breeding corruption, undermining trust in institutions and the rule of law, and generating enormous illicit financial flows.

Moreover, the links between illicit trade and organized crime are well established, from human trafficking networks and tobacco smuggling, to fuel theft by drug cartels and the involvement of the mafia and organized criminal groups in the trade of counterfeit products. Perhaps most frightening are links to terrorist financing that heighten threats to national and global security.



All types of illicit trade threaten inclusive economic growth and significantly hinder achievement of SDG 8. Lost taxes rob governments of revenues intended for schools, infrastructure and other public services. Illegal and unfair competition reduces sales and dampens the ability of companies to create lasting and dignified job opportunities. Taken together, economic leakages across the sectors susceptible to illicit trade create an annual drain on the economy of US\$2.2 trillion and present a triple threat to financing the necessary “billions to trillions” dollar gap needed to reach the SDGs.

Business is a partner for achieving the SDGs

As illicit trade weakens the viability and sustainability of industries, it simultaneously dilutes private sector contributions to achieving the SDGs. For example, illicit trade is a form of unfair competition that undermines private sector contributions to economic growth and employment. It chokes off market growth, sabotages global supply chains, squanders natural resources and endangers market security. Fake products and inferior materials in supply chains harm consumers and tarnish consumer perception of a corporation's social responsibility (CSR) performance. In some cases, it poses significant threats to the safety and security of personnel and facilities, all adding to the increasing costs of doing business. Where proliferating illicit trade creates socio-economic instability, it dampens private sector investment, holds back research and development (R&D) and discourages technology transfer.

For these reasons, the private sector has a vital interest in defending against illicit trade, helping itself across industry sectors and playing an active role in promoting the SDGs.



The Transnational Alliance to Combat Illicit Trade (TRACIT) provides a platform for business and governments to collaborate holistically to mitigate the incumbrance of illicit trade on the SDGs. Mapping the impacts of illicit trade on the UN Sustainable Development Goals is part of TRACIT's contribution to the partnership approach embodied in SDG 17 and a means by which business, the public sector and civil society—working in partnership—can more effectively achieve the SDGs.

SDGs AND ILLICIT TRADE IN PETROLEUM PRODUCTS

Oil and fuel theft along with various forms of fuel fraud are persistent and growing forms of illicit trade, with direct links to organized crime and terrorist groups.¹ Every year, it is estimated that US\$133 billion of fuels are illegally stolen, adulterated, or defrauded from legitimate petroleum companies,² with equally significant losses to governments through subsidy abuse and tax evasion.³ Several well-documented examples paint an alarming picture of how pervasive oil and fuel theft is:

- The African Development Bank estimates the value of illicit oil trade in Africa is worth nearly US\$100 billion a year.⁴
- Mexico is possibly the hardest-hit by fuel theft, losing 20,000 barrels per day.⁵ The National Citizens' Observatory, a think tank in Mexico, estimates the national black market for fuel is worth US\$2 to 4 billion a year.⁶
- Estimates on the value of the illegal fuel trade in Southeast Asia ranges from US\$2 to 10 billion a year, or around 3 percent of Southeast Asia's total fuel consumption.⁷
- The EU loses more than US\$4 billion yearly in tax revenue to fuel fraud.⁸

Improperly taxed and untaxed fuel are a major concern for governments. For example, international oil companies operating in Bulgaria estimate that between 20 and 40 percent of oil products sold were illegal and circumvented payment of excise duties and VAT.⁹ In Northern Ireland, diesel tax fraud was estimated at £80 million, or 13 percent of total taxable revenue from mineral oils.¹⁰

In addition to tax fraud, illicit petroleum exacts a toll on corporate profitability, increased expenses for security, and significant environmental impacts. Moreover, this illegal activity intersects with other transnational crimes and helps fund terrorist and other criminal undertakings.¹¹

Despite its severe negative effects on governments, business, consumers and the environment, the global problem of oil and fuel theft has so far been largely unchecked and remains mostly hidden from international attention.

While the most immediate effects may be in the country or countries where fuel is being stolen or smuggled, the ripple effects cross the global marketplace include undercutting economic development, hastening environmental degradation and facilitating illegal global financial flows, money laundering, organized criminal activity and terrorism. Fighting illicit trade in petroleum is therefore a global responsibility, as well as a prerequisite for sustainable development and achievement of the UN SDGs.

How illicit trade in petroleum happens

By installing illicit taps, thieves can divert oil or other refined products from pipelines. Pemex, the Mexican state oil company, lost about US\$1.6 billion in 2016 from fuel stolen from over 6,800 pipeline taps across the country.¹²

Stolen crude oil or refined products are siphoned off to small barges and waiting boats, which are then either refined locally or sent to sea to deliver the product to larger vessels/tankers. Bunkering tactics include “hot” or “pressure” tapping while the pipeline is still in operation, or “cold bunkering,” where a pipeline is blown up and thieves install a permanent underground tap leading to a storage facility while the line is out of operation.¹³

This involves unloading stolen or smuggled fuel to another vessel with the aim of avoiding detection and passing off the illegal fuel as legitimate imports.¹⁴

The use of the threat of violence to command a truck or ship and steal its cargo. A major driver behind piracy in the Gulf of Guinea has been the theft of oil. Pirates will hijack a tanker ship, disable its tracking devices, and transfer its cargo to smaller vessels for distribution on the black market.¹⁵

The petroleum sector is particularly susceptible to integrity violations due to the high complexity of activities, the close interaction between the public and private sectors, and the vast sums of money generated. By some estimates, more than 57 percent of all fraud cases in the oil and gas sector relates to corruption schemes.¹⁶

Smugglers exploit price differentials between countries by smuggling cheaper, untaxed or heavily subsidized fuel into higher priced jurisdictions, enabling a profitable and less traceable sale. Higher-priced, nonsubsidized, and taxed fuels also may be diluted with smuggled lower-priced or subsidized fuels.

Adulteration is the process where lower-cost additives are mixed with higher-cost fuels and then sold at full price. The process of adding kerosene to gasoline or diesel is a simple, difficult-to-detect way to increase profit margins. This practice of degrading the quality of fuel results in lower fuel efficiencies, engine damage and increased spending on vehicle maintenance.

Impact of illicit trade in petroleum on achieving the UN Sustainable Development Goals

Access to affordable, reliable and modern energy services is central to fulfilling almost all of the SDGs, namely eradicating poverty through advancements in health, education and safe water; improving agricultural productivity; and combating climate change.¹⁷ While a global shift towards renewable energy sources is underway, hydrocarbons are expected to remain the dominant source of energy in the coming

decades.¹⁸ Consequently, governments have a vested interest in preventing oil and fuel theft and ensuring the efficient and effective use of the world's petroleum resources.

Oil and fuel production can support and contribute to the achievement of the SDGs by providing access to affordable energy; opportunities for decent employment; business and skills development; increased fiscal revenues; and improved infrastructure. Conversely, illicit trade of oil and fuel represents a significant threat to local and regional prosperity and to global stability and security.

The illicit trade in petroleum impacts achievement of nine SDGs:

- SDG 3 (good health and well-being);
- SDG 6 (clean water and sanitation);
- SDG 7 (affordable and clean energy);
- SDG 8 (decent work and economic growth);
- SDG 9 (industry, innovation and infrastructure)
- SDG 14 (life below water);
- SDG 15 (life on land);
- SDG 16 (peace, justice and strong institutions); and
- SDG 17 (partnership for the goals).

Economic growth and job creation



The petroleum sector is a multi-billion-dollar industry, featuring six of the world's ten largest companies.¹⁹ Globally, the sector employs nearly 6 million and generates another 60 million indirect jobs.²⁰ The sector is therefore a key contributor to GDP, government revenue and domestic employment:

- Earnings from the oil industry accounted for about 32 percent of Mexico's total government revenues in 2016,²¹ and the state-controlled oil company Pemex employs more than 120,000.²²
- Venezuela's oil revenues account for about 95 percent of export earnings, with the oil and gas sector contributing 25 percent of overall GDP.²³
- The petroleum sector in Saudi Arabia accounts for roughly 87 percent of revenues, 42 percent of GDP, and 90 percent of export earnings.²⁴
- 185,000 people were directly or indirectly employed in the Norwegian petroleum and petroleum-related industries in 2016, which represents roughly 7 percent of total employment in Norway.²⁵
- In Africa, fuel taxes account for a significant share of total tax revenues: 4 percent in South Africa, 5 to 7 percent in Kenya and Tanzania, 12 percent in Mozambique and 16 percent in Uganda.²⁶

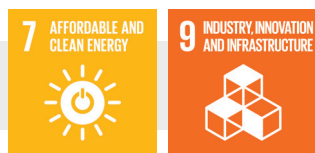
Given its impact on economic growth and source of employment, the petroleum sector drives economic growth, employment and quality of life, and is thus a critical component in achieving the goals of SDG 8 to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Illicit trade in petroleum and petroleum products works directly against sustainable development generally; specifically, it deprives governments of tax income, robs the energy industry of billions in revenues and causes the loss of legitimate jobs. Oil companies are also exposed to significant reputational damage, when illicit traders cause oil spills or other environmental hazards.

Oil and fuel theft have severe effects on tax revenue, especially in resource-rich, developing countries where petroleum industry royalties and tax payments are used to stimulate economic growth and finance development. Along with the associated money laundering and illicit financial flows, this illegal activity severely undermines the effectiveness of tax systems and their ability to generate the domestic resources needed to promote inclusive economic growth (SDG target 17.1). Where fuel costs represent a relatively greater portion of GDP, developing countries may experience more severe fiscal impact from fuel theft, diversion and smuggling. Nigeria is Africa's largest oil producer, but it is also a victim of massive fuel theft,²⁷ with as much as 30 percent of all refined products stolen and smuggled into neighboring states.²⁸ Given that oil contributes two-thirds of government revenues and around 35 percent of GDP,²⁹ these losses are a significant dislocation for the Nigerian economy. Compounding the economic losses, the Nigerian government spends US\$1.5 billion per month combatting oil theft and diversion.³⁰

Nigeria is by no means alone. Mexico forfeits more than US\$1 billion in annual revenue from fuel theft.³¹ This is a serious loss because oil revenues customarily subsidize roughly a third of the government's budget.³² The Philippines loses about US\$750 million annually in tax revenue due to adulterated fuel products entering its supply chain from smuggling.³³

Infrastructure and energy access



Excise taxes on transportation fuels are a significant source of revenue needed to fund infrastructure investments (SDG 9). For example, the US gas tax is the single most important source of funding transportation infrastructure, generating 85 percent of the revenue entering into the nation's transportation spending account.³⁴ Other examples include Costa Rica's fuel tax, which allocates 29 percent of revenues to the National Road Council.³⁵ In short, tax revenues stolen by smuggling and fuel fraud are revenues unavailable for constructing new infrastructure or upgrading aging infrastructure systems.

More directly, persistent pipeline sabotage—from illegal taps to blowing up pipelines—damages existing energy infrastructure and discourages much needed private investments in new infrastructure.³⁶

Illicit petroleum trade also has negative effects on energy access. The diversion of subsidized kerosene for use as an adulterant in costlier, nonsubsidized diesel and gasoline robs the most vulnerable citizens of their access to kerosene as cooking fuel and consequently undermines government subsidy programs aiming to deliver access to affordable, reliable, sustainable and modern energy (SDG 7). Kerosene subsidies are targeted at households in the poorest nations, who spend as much as 10 percent of their incomes on modern energy, with most of this going to cover basic necessities, such as cooking or boiling water for drinking.³⁷ When kerosene is diverted and misused as an ingredient of fuel fraud in the transport sector, people are deprived of their everyday cooking and lighting fuel.

Environment and climate change



While the legal petroleum industry invests significantly in environmental stewardship, criminals show little regard to the environment when stealing oil and fuel. Illegal tapping, bunkering and ship transfers carry a higher probability for oil spills and blown pipelines and can cause significant damage to soil fertility, clean water supplies, marine life and other natural resources vital for human wellbeing (SDGs 6, 14 and 15).

For example, illegal refining and third-party interference are the main sources of pollution in the Niger Delta.³⁸ Oil pollution has degraded both land and water in the region, rendering once flourishing fishing and farming occupations impracticable.³⁹ Moreover, illegal fuel-laundering plants often indiscriminately dump waste products,⁴⁰ causing additional environmental damage and secondary impacts on human health, livelihoods, food and fuel stocks.

Fuel fraud, smuggling, and adulteration also may be counterproductive to environmental policies (e.g. excise taxes) aimed at reducing driving, improving substitution of more efficient vehicles and encouraging transition to cleaner alternative fuels (SDG 7). Additionally, other negative externalities such as air pollution can be reduced (SDG 3). Fuel tax revenues may also be used to offset the cost other environmental programs, such as subsidizing renewable energy and public transportation.

Fuel theft and adulteration also have secondary effects, such as producing higher levels of harmful exhaust emissions—including known carcinogens like polycyclic aromatic hydrocarbons (PAH)—and reducing fuel efficiency resulting in increased pollution.⁴¹ This is particularly true when the adulterant used is not meant for combustion.⁴²

Finally, adulterated products or products refined illegally also may not meet environmental specifications, such as phasing out lead, with further negative consequences for health, pollution and greenhouse gas emissions.

Peace, justice and strong institutions



Oil smuggling and fuel theft present a global security concern, generating a lucrative source of financial income for organized crime, non-state actors and terrorist groups, with examples ranging from Islamic State terrorists to Niger Delta militants and Mexican drug cartels.^{43, 44, 45} This activity significantly threatens national and regional stability, supports corrupt practices and creates significant deterrents for business investment, which thrives in stable, peaceful environments. Oil smuggling and fuel theft can also exact a deadly toll: Attempts to steal fuel from a pipeline north of Mexico City in January 2019 caused an explosion that killed at least 79 people and injured 81 others.⁴⁶ Unless addressed, the illicit trade in petroleum will remain a significant impediment to achieving SDG Target 16 (Peace, justice and strong institutions) and in particular SDG Target 16.1 (significantly reduce all forms of violence and related death rates everywhere), SDG Target 16.3 (promote the rule of law), SDG Target 16.4 (combat all forms of organized crime) and SDG Target 16.5 (reduce corruption).

CONCLUSIONS



Adulterated fuels produce higher levels of harmful auto emissions and known carcinogens that impact air quality and climate.



Increased risks of water contamination from oil spills and blown pipelines jeopardize clean water supplies.



Diversion of kerosene for use as a transportation fuel adulterant robs poor and vulnerable citizens of access to modern energy for cooking and lighting.



Fuel theft, smuggling and diversion siphon GDP, jobs and tax revenues needed to stimulate economic growth and finance development. Impacts are generally more severe in developing countries.



Robs governments of excise taxes revenues to help fund infrastructure investments.



Illegal tapping, bunkering and ship transfers carry a higher probability for spills that harm life below water.



Risk of contamination from oil spills and blown pipelines accelerates degradation of ecosystems and jeopardizes biodiversity.



Facilitates and intensifies criminality and corruption, threatens national security and economic stability, which are necessary ingredients for business investment.



Widespread illicit trade in petroleum and fuels has a debilitating effect on efforts to improve domestic resource mobilization by denying the government a significant source of potential tax income.

IMPLICATIONS AND NEXT STEPS

The sweeping, negative impacts of illicit trade on the SDGs point to a wide range of challenges for both governments and business. Hence, it will be expedient to:

Attend to developing and least developed countries. The alarming consequences of illicit trade are especially evident in developing countries hard-pressed to monetize resources, commercialize innovation, attract investment, establish lasting job opportunities and create genuine, long-term economic growth. As such, it will be critical to support the capabilities of developing countries to better defend against illicit trade by *inter alia* taking stock of national government experiences, challenges, priorities and requests for assistance while also identifying where “in-country” efforts would be most valuable and most effective.

Account for the interconnected nature of the challenge. As noted by the UN, the SDGs are integrated and indivisible in nature with significant inter-linkages across the goals and targets. Ending poverty, for example, must go hand-in-hand with strategies that build economic growth and address a range of social needs including education, health, social protection, job opportunities and environmental stewardship. By the same token, a holistic approach is needed to address the significant number of interdependencies and overlapping problems relating to multiple forms of illicit trade. The impacts of illicit trade cannot be examined effectively in isolation of other sectors, nor can they be addressed in isolation of the SDGs.

Promote shared responsibility. Improving public-private dialogue and promoting partnerships will be needed to address the global nature of illicit trade. Public and private actors can play an important role in determining a responsive, evidence-based work program for addressing illicit trade, including delineation of best practices, and, where applicable, development of regulatory standards.

Prioritize the policy response. The findings from this study demonstrate that illicit trade is a significant deterrent to achieving the SDGs. As governments go about formulating policies and implementing programs to achieve the SDGs, a first order consideration should be to reduce the deterrent forces of illicit trade and plug the fiscal leakages associated with it. This approach has the immediate effect of adding resources and revenues back into the global economy, putting more policy tools back on the table, and reducing timelines, costs and other hurdles to achieving the goals. Consequently, a more level playing field, without the economic drags of illicit trade, can improve the efficiency and effectiveness of policies and programs governments are taking to stimulate growth, employment and investment to achieve the SDGs.

Foster political will and leadership. Addressing the threat of illicit trade on the SDGs will require political will of government officials at all levels to prioritize the problem, actively pursue solutions and invest in enforcement measures. This study provides a first step in raising awareness on the threat of illicit trade on achieving the SDGs. The work also serves as a roadmap to help policy makers identify areas that merit greater attention and to formulate effective strategies to address the serious threats posed by illicit trade.

NOTES

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TOBACCO											
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