OIL AND FUEL THEFT
AN EMERGING GLOBAL POLICY CHALLENGE

TRANSNATIONAL ALLIANCE TO COMBAT ILLICIT TRADE
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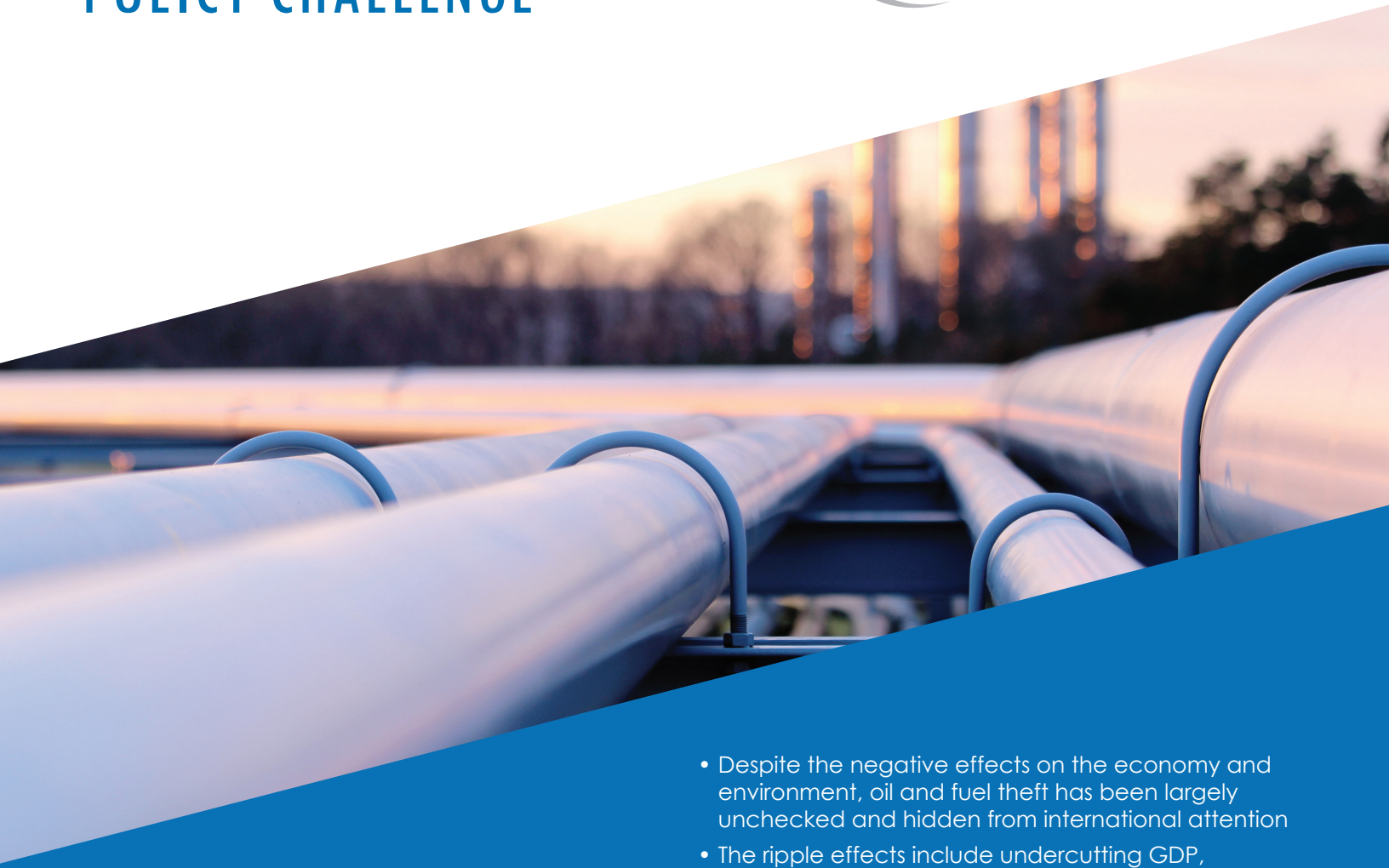

- Despite the negative effects on the economy and environment, oil and fuel theft has been largely unchecked and hidden from international attention
- The ripple effects include undercutting GDP, environmental degradation and facilitating illegal international financial flows and organized criminal activity
- Fighting fuel fraud is a global responsibility, as well as a prerequisite for the achievement of the UN SDGs
- Molecular marking of fuel is currently the most effective solution to reduce fuel fraud and minimize tax evasion
- Governments need to promote shared policy development and ramp up implementation of enforcement measures

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WHERE ARE WE ON THE **GLOBAL POLITICAL AGENDA?**

Oil and fuel theft along with various forms of fuel fraud are persistent and growing forms of illicit trade. Every year, it is estimated that $133 billion of fuels are illegally stolen, adulterated or defrauded from legitimate petroleum companies,[1] with equally significant losses to governments through subsidy abuse and tax evasion.[2] And while the legal petroleum industry invests significantly in environmental stewardship, criminals show little regard to the environment. 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.

At the same time, fuel fraud is harmful beyond the direct fiscal losses suffered by the government as the introduction of adulterants degrade the quality of fuel — resulting in lower fuel efficiency, incremental harm to the environment and damage to vehicles and equipment. Moreover, illegal fuel-laundering plants often indiscriminately dump waste products,[6] causing additional environmental damage and secondary impacts on human health, livelihoods, food and fuel stocks.

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

Roughly 30% of Nigeria's refined fuel products are smuggled into neighboring states.[3]

Philippines loses US$750 million annually in tax revenue due to adulterated fuel products entering its supply chain from smuggling.[4]

The EU loses more than $4 billion yearly in tax revenue to fuel fraud.[5]

Illegal refining and third-party interference are the main sources of pollution in the Niger Delta.[7] Oil pollution has degraded both land and water surfaces in the region, thereby rendering once flourishing fishing and farming occupations impracticable.[8]

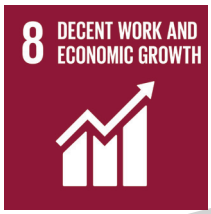
ILLICIT TRADE IN OIL AND FUEL IS A **THREAT TO SUSTAINABLE DEVELOPMENT**

Illicit trade in oil and fuels undermines the UN Sustainable Development Goals (SDGs) in many ways:

Illegal tapping, bunkering and ship transfers carry a higher probability for spills that harm life below water (SDG 14)

Diversion of kerosene for use as an adulterant robs vulnerable citizens of access to modern energy (SDG 7)

Adulterated fuels produce higher levels of harmful auto emissions and known carcinogens that impact air quality and climate (SDG 3)



Fuel theft, smuggling and diversion siphon GDP, jobs and tax revenues from national economies, with relatively more severe impacts on developing countries (SDG 8)

While the most immediate effects may be in the country where illicit oil trade takes place, the ripple effects across the global marketplace include undercutting economic development, hastening environmental degradation and facilitating illegal global financial flows, money laundering, organized criminal activity and terrorism.[9] Fighting fuel fraud is therefore a global responsibility, as well as a prerequisite for the achievement of the UN SDGs.

TECHNOLOGY SOLUTIONS HAVE BEEN EFFECTIVE

The most effective solution to reduce fuel fraud and minimize fuel-related tax evasion and subsidy abuse is the molecular marking of fuel. With support from state-owned and independent oil companies, modern fuel-marking programs allow governments to analyze each stage of the supply chain—beginning with refineries or fuel depots and extending to the eventual retail sale of products—so as to identify stolen or diverted fuel. The system significantly reduces fuel losses, while delivering improved integrity in fuel supply chains, mitigating tax evasion and subsidy abuses, and plugging revenue drains.

Effectively, governments collect more fuel taxes from the existing programs, increasing their total revenue without raising taxes. Fuel marking programs also help ensure that fuel subsidies to increase access to modern cooking fuels are not being diverted for use as adulterants.

CASE STUDY: SERBIA

Prior to introducing its fuel marking program in 2014, the Serbian government estimated that it lost €40 million annually to fuel adulteration. Industry experts estimated the actual loss to be as high as €100 million, with losses incurred by the major oil companies active in the country considered to be of a similar scale. The introduction of the fuel marking program had an immediate impact: oil companies saw sales volume increase by 18% for diesel and 14% for gasoline, and only five months into the program, profit growth of €34 million had been generated for the budget compared to the previous year. The trend has continued, with sustained reductions in illegal fuels and year-on-year increases in the collection of excise duties – up 13% in 2016. In summary, the Serbian program provides annual return on investment by a magnitude of 6–7.[10]

POLICY LEADERSHIP AND COLLECTIVE ACTION ARE NEEDED

The geographic diversity and wide-ranging schemes of oil and fuel theft and fraud require a comprehensive global approach to mitigating the problem. Technology solutions—such as fuel marking—can help, but even these require collaboration between the private sector, governments and civil society. All stakeholders have an interest in stamping out illicit trade in petroleum; and all benefit from collective action.

Business has an important role to help shape the regulatory response to fuel fraud and to help itself by sharing intelligence, data, resources and measures that have been demonstrated to effectively control this illicit activity and associated supply chain abuses.

Governments need to convene stakeholders, improve awareness, expand the knowledge base, and energize the global dialogue. But most importantly, governments need to promote shared policy development and ramp up implementation of enforcement measures.

- ***Political will.*** Governments must respond to the magnitude of the problem by introducing legislation, setting deterrent penalties and enforcing a zero-tolerance enforcement regime.
- ***Leadership in governance.*** International and regional governance bodies are responsible for elevating priority attention to illicit trade and providing guidance, best practice and capacity-building to their member states.
- ***Enforcement.*** Deterrent penalties are only as effective as the local investment and actions taken by the law enforcement community. And, effective enforcement depends on better coordination, adequate funding and training sufficient to address new challenges and patterns of fuel fraud.
- ***Rationalization of tax policies.*** Further empirical study needs to be undertaken on the unintended consequences of excise taxes that lead to smuggling, adulteration and fuel theft.
- ***Public education.*** The public needs to be educated on the harmful effects of using adulterated fuel in their vehicles, as well as the negative impacts of fuel fraud on lost tax revenues that undermine development and investment in infrastructure.

A UNIFIED BUSINESS RESPONSE

The Transnational Alliance to Combat Illicit Trade (www.TRACIT.org) is an independent, private sector initiative to drive change and 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.

TRACIT specifically addresses illicit trade in the petroleum sector and is mobilizing industry leaders across national borders to achieve results more effectively than any actor can accomplish alone. TRACIT's engagement on combatting fuel fraud stems from the shared understanding that a united industry voice is required to track, report and stop fuel fraud – from extraction to production to distribution to consumers.

TRACIT is also leading business engagement with national governments and Intergovernmental organizations to ensure that private sector experience is properly integrated into rules and regulations that will govern illicit trade in petroleum and fuels.

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