The COVID-19 pandemic is wreaking havoc without regard to geographic boundaries, attacking almost every sphere of our public and private lives, and unveiling some of the world’s major shortcomings. Those shortcomings include institutional capacity and good governance.

As a result, there is a rapid global spread of the virus due to, *inter alia*, a lack of adequate coordination, transparency, cooperation, preparedness, and inadequate mitigation policies—all exacerbated by economic greed and short-sightedness.

This Comment considers the analogies between global diseases and illicit trade (with a focus on oil in Iraqi Kurdistan). Both have penetrated the world in a way that no region is immune, and the best cure is good governance and cooperation on a global and local scale.

1. Illicit trade of oil

An estimated USD 133 billion worth of fuels are stolen, adulterated, or smuggled every year. The actual numbers are likely even higher, obscured by endemic government and industry corruption. According to EY, 57.1% of all fraudulent activities within the oil and gas industry is related to corruption, which often benefits various country officials, elites, or industry personnel. Such illicit trade has allowed authoritarian states to maintain revenue flows despite heavy international sanctions designed to weaken their rule. In the eleventh year of the UN oil sanctions, Iraq’s dictator Saddam Hussein had managed to become one of the world’s richest men, with an estimated *with an estimated USD 3 billion in wealth*, due in large part to a sophisticated oil smuggling operation.

While the top five oil trafficking countries (Nigeria, Mexico, Iraq, Russia, and Indonesia) are also producers, the illegal trade in refined oil products affects a wider set of oil producing and non-producing countries across the world. Illicit oil trade affects wealthy, poor, peaceful and warring nations alike. Just like the current pandemic.

Underestimating the significant impacts of illegal trade of oil has created a number of socioeconomic, geopolitical, and environmental challenges. Affected countries suffer from a
variety of ills, such as the deteriorating rule of law, the destruction of wildlife and biodiversity, pollution of waters, degradation of critical farmland, increasing health problems, armed conflicts, and a loss of potential revenue that might be used to rebuild and rehabilitate war-torn or developing countries. Billions of dollars are lost annually in government and corporate revenues due to activities such as illegal bunkering, pipeline tapping, ship-to-ship transfers, armed theft (ships or trucks), adulteration of fuel, and bribing of corrupt government, industry and security personnel.

2. A new approach

When the new PM, Masrou Barzani, took office in July 2019, he announced that one of his top priorities would be to address corruption and poor governance. Since then, unprecedented policies and measures have been taken. Yet, in a society where a sizable part of the political elite holds high stakes in the oil sector, and also suffers from severe public and private sector corruption, it remains to be seen how far the new government can challenge the status quo.

In the latest attempt to introduce political reform, economic diversification, and to tackle endemic corruption, the parliament of the autonomous Region of Kurdistan in Iraq (KRI), has passed a law targeting the smuggling of oil and its derivatives.¹ The new law imposes prison sentences on those who commit or enable oil smuggling. This is a significant step, not only in combating desperately needed government revenue lost, but also by responding to mounting pressure by its socio-economically challenged citizens to establish a more transparent oil sector.

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¹ based on a draft law (No.41) from 2008
Article (1): Definitions

Six: Definition of Smuggling Oil and other Natural Resources: resort to any illicit ways outside the framework of law to take/steal oil and other natural resources and selling it to smuggling networks or black markets.

Article (2):

One: Prohibition of changing oil tankers used to transport oil to load more oil/other natural resources that end up being smuggled.

Two: Any means of transportation, that might lead to what is mentioned in segment 1 of Article 2, are prohibited from entering or should not be imported into KRI.

Three: Transportation of oil and other natural resources is only upon the approval and after appropriate inspection of the Ministry of Oil and Natural Resources.

Article (3):

One: all persons who are involved in the process of smuggling oil and other natural resources should be put on trial.

Two: suspects detained over allegations of being involved in smuggling oil and other natural resources, should not be released when the investigations and the trials are still in process until a final decision based on the results of a thorough investigation on the case is made.

Three: Courts prioritize all the cases related and mentioned in this draft law.

Article (4):

One: All individuals violating Articles (1) and (2) directly or indirectly, should be put in prison for at least 1 year and a fine that is four times bigger than the price of the smuggled materials.

Two: conducting violation against Articles (1) and (2) during the times of war and recessions or shortage in energy in markets punishment to such violation should be harder.

Article (5):

One: All the equipment and transportation means use for smuggling and mentioned in this law will be confiscated.

Two: The punishment indicated here will be implemented against the driver or the owner of oil trucks.

Article (6):

Two: the whistle-blowers will be financially rewarded.

Three: when detainees are proven innocent, they retrieve all their property and rights.

Four: Asayish, MoI Forces, and officials at Borer Crossing Points are responsible for confiscating all the equipment and smuggle materials and submitting the dossier about the case to the court.

Article (7):

One: All the parties and individuals involved in stealing oil and natural resources from oil pipelines, refineries, oil fields, oil storages will be punished as per segment three of Counter Terrorism Law of 2006.
Kurdistan relies on two main income sources: oil exports and revenue-sharing with the central government in Baghdad. While 320,000 barrels per day (bpd) of Oil exports are jointly operated in collaboration with international oil companies, another 170,000 bpd are completely operated by the KRI.

Just recently, Kurdistan appears to be recovering from six years of financial austerity, due to the war on ISIS, a flow of nearly two million refugees, and IDPS and financial sanctions with Baghdad that took effect. In the current low oil price environment, the COVID19 Pandemic, and an unreliable partner in Baghdad, it seems like the result will be instead a $300 million monthly deficit for the region. This storm might lead the KRI to either once again halt payments to international investors (roughly $270 million each month) and/or substantially reduce salaries of public employees (about $735 million, which amounts to 68% of government budget).

As a result, the economic outlook seems rather dim for Kurdistan. Still, Kurdistan is benefitting from good leadership. After only nine cases of COVID-19 on March 13th, the Prime Minister acted swiftly by announcing the immediate suspension of all kinds of public gatherings, including schools, universities, barber shops, and Friday prayer sermons in mosques and churches. This was followed by suspending public celebrations of the most important Kurdish holiday of “Newroz”. At the same time, has the KRI adhered to WHO guidelines and tapped into the experience pool of Chinese, Italian, German and other relevant countries in ways on how to deal with this unfolding global disaster.

3. Oil Smuggling Immune to Depressed Global Markets

Current low oil prices resulting from the “Saudi-Russia standoff” coupled with sharp drop in global demand for oil due to the COVID19 crisis should slow the illicit trade in crude oil. This is due to simple economics—it will become less lucrative for smugglers. Still, the illicit trade has proven resilient to depressed global markets in the past. While low oil prices in the past years had made illicit trade of crude oil (upstream sector) less lucrative, the black market for refined products (downstream sector) continued to flourish worldwide.

Efforts to combat illegal trafficking are often stymied because those in a position to prevent such crimes are the ones who eventually are benefiting from it, as seen in countries like Iraq, Turkey, North Korea, or Nigeria. This can have terrible consequences for the majority of their populations. Short term gains for the few tend to constrain long-term economic prospects for all. Illicit oil trade has oftentimes resulted in lower investment in affected countries.

If not countered by strong international cooperation, this reality will continue to have detrimental effects on global security, the environment, and economic prosperity. Unless the consequences of

2 The Kurdistan region has currently 128 cases, with 55 recoveries.
3 A national holiday that symbolizes the people’s resilience and has not even been halted during the war on ISIS or any other dark period in history.
illegal oil activities are monitored, and addressed by robust policy and regulation, it will continue to be a key funding source for terrorism, organized crime, authoritarian states and violent non-state actors. In the new very low-price environment, it is a good time to address some of the core factors affecting illicit trade in oil—a small benefit from the market crash.
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