

Oil Smuggling as a Variable in the Greek Crisis' Equation

Introduction

Fuel smuggling is embedded into the economic fabric of Greece. A draft internal report written by the IMF officials and published in Wall Street Journal one year ago, clearly conveys that a “thicket of bureaucratic red tape and lapses in law enforcement” enables “big players to dominate the markets for gas, diesel and heating oil” exercising a negative influence on the real economy (Granitsas 22.9.2012). In the eyes of many people, this phenomenon emerged as an outcome of harmonized joint actions and manipulative and anticompetitive practices in this specific field. According to Dimitris Mardas, professor in the Aristoteleion University of Thessaloniki, “there is no competition because there is no free importation of petrol and diesel in the country. There might be two refineries producing fuel and a group of wholesalers distributing fuel, but they have not been selected on a free basis. In other words, we have few and specific market players” (Mindova 04.10.2012).

The report will initially provide the readers with the general framework within which this phenomenon unfolds. In other words, it will describe how the fuel market works in Greece. The second part will underline the problematic aspects of this functioning with special attention to the phenomenon of oil smuggling that has become dominant in the realm of the Greek economy. The third part will assess the influence that this phenomenon exerts on the taxpayers' income. The paper will conclude with certain measures that should be taken in order to tackle this phenomenon.

The general picture of the fuels' market in Greece

This part will set forth the way the fuel market functions in Greece. In the Greek state the oil refineries are operated by two of the country's best known and richest tycoons, Hellenic

Petroleum S.A.¹. (accounting for 73% of the refining capacity of the country) and Motor Oil Hellas S.A.² (which accounts for the remaining 27%). They supply crude oil from Saudi Arabia, Iran, Iraq, Libya and Russia. The refineries process crude oil and produce a wide range of petroleum products. These products are sold to some of the twenty (20) petroleum marketing companies that are operating in Greece and that are functioning as intermediaries between the refineries and the petrol stations. In their turn, these companies supply the 7.500 petrol stations with this product.

According to Spyridon Zisimopoulos, former President of the Hellenic Competition Commission, the fact that 3.500 out of the 7.500 gas stations and 5 out of the 20 marketing companies, which control 45% of the fuel market, belong to the refineries of these two tycoons seems to constitute the main problem (New Folders 16/01/2013). The problem lies upon the non-regulated power of the refineries to bring the prices under control.

The reference point that the refineries employ in order to sell their product to the petroleum marketing companies is mainly determined by a “global price”, called the Platts price. Platts constitutes a premier source of benchmark price assessments for energy (among other commodities) markets. The selling price includes additional costs that are defined by the refineries: transaction costs, oil transfer cost, the cost that results from the density of the fuel. An additional cost is an unknown factor called the Premium. Premium is the profit for which the refinery makes out an invoice selling the oil product to the marketing companies (New Folders 16/01/2013). The way this is estimated is subject into further investigation.

The problems

A draft internal report of the IMF levels criticism at Greece’s two biggest oil refiners stating that they take advantage of their market muscle on efficiently controlling a fuel market, which is already heavily regulated. Theodoros Delagrammatikas, (President of the Petroleum Merchants’

¹ In Greece, the Group owns and operates three refineries, in Aspropyrgos, Elefsina and Thessaloniki, with nominal annual refining capacity of 7.5 million tons, 5 million tons and 3.4 million tons crude oil respectively. For further details see <http://www.hellenic-petroleum.gr/online/generic.aspx?mid=163>

² It forms the largest privately held industrial complex in Greece. The Refinery production operations are located in Agioi Theodori, in the province of Corinth, about 70 km outside Athens. http://www.moh.gr/Default.aspx?a_id=10534

Federation in Southern Attica in Greece) had raised an official complaint against the Troika, stating that the existing regulation serves the interests of the tycoons, where the refineries belong to (New Folders 16/01/2013). According to the current legislative status quo, all importers must have facilities to hold 60 days of inventory, something that goes beyond the capability of many smaller businesses. In addition, fuel can only be transferred to large tractor-trailer tankers, albeit the fact that the petrol stations are not allowed to own vehicles that large. These particular regulations prevent independent gas stations from directly buying fuel abroad, without the involvement of the two tycoons (Granitsas 22.09.2012).

Greece's own antitrust watch dog, the Hellenic Competition Commission, investigated the fuel market in late 2006 and has issued four reports and two decisions asking the successive governments to liberalize the markets (ibid.) in alignment with the *acquis*. Nevertheless, these suggestions had never been taken into consideration by the political and legislative elite.

Watching the media's outrage regarding the non-controlled rise of the oil prices (as an outcome of lacking competition), this commission had asked the refineries to provide a particular account on how the source of the fuel's price does emerge as well as on the identification of this "premium". In other words, they asked the refineries to elaborate on the premium's content and define the profit they invoice themselves per liter. The refineries' delegates demonstrated their incompetence to provide the Commission with a detailed "premium" analysis. They justified this negation in their incapacity to assess the costs beforehand (meaning before selling the refined product). Their counter-argument was that the value of this premium was nothing compared to the "overwhelming" taxes imposed by the country on the oil products (New Folders 16/01/2013)³.

In 2012 Dimitris Mardas, professor of Aristoteleion University of Thessaloniki, conducted a fuel market research with a team of students, aiming to present measures assigned to tackle oil smuggling. This research was commissioned by the Federation of Merchants and Craftsmen and the Hellenic Federation of Traders and Owners of petrol stations that support its findings as well. In this survey, the following remarks (among others) were highlighted:

³ In addition, Hellenic Petroleum S.A has submitted the authorities a 10-point proposal manifesting its recommendations on how to combat these distortions.

- An estimated 20% of fuel oil sold in the Greek market, according to this research, comes from illegal trade. Petrol stations in Greece are said to offer fuel that is a more lucrative blend of legally purchased fuel and black market fuel, enabling retailers to make higher profits and to avoid excise duties. Often, the transport fuel oil is diluted with heating or shipping fuel oil. Shipping fuel oil is not subject to excise duty as opposed to the fuel oil for passenger and freight cars (Alic 10.4.2012).

- Fuel smuggling can flourish in different ways. This can be exemplified by a case revealed several years ago, according to which a Bulgarian tanker had to fuel from a Greek refinery⁴. Market analysts crosschecked the data on the export oil volume and diesel to Bulgaria, Albania, FYROM and Turkey. They required the same countries to submit data on the importation of the same type of fuel from Greece. The results noted important deviations between the data on the Greek exportation to Bulgaria and the data concerning importation from Greece (Mindova 04.10.2012). Thus, the reliability of the data provided is more than questionable.

The impact

Aligned with the data presented by the Finance Ministry, fuel smuggling in Greece has reached an approximate value of 600mn euros (Petrol World 29.01.2013) while the IMF's report claims that the country loses about one bn euros annually from illegal fuel trade. This loss falls on the Greek taxpayers' shoulders in the form of additional taxes (as a source of revenues to reduce Greece's deficit gap).

Despite the heavy financial effects, further repercussions cannot be neglected. Given the high prices the Greek people had to pay for heating oil, and as austerity tightens its grip, the middle class has found itself in a desperate struggle to make ends meet. Wood has soared in popularity, with many of the city's residents using it to heat their houses (Euronews 29.12.2012). The impact on Greece's atmosphere is significant. The blanket of smog that has covered the urban centers

⁴ The fuel was presented as an exported good and therefore, it was excluded from duty and other types of fees. Once the tank had fuelled from a warehouse held by the refining company, it set off to Greece's northern neighbor. However, it was unloaded in the Greek city of Larissa, where the supervisors could detect the offence before the fuel was distributed in the domestic black market.

during the last two winters has been steadily rising above acceptable limits. This might pose a serious health hazard in the long term, potentially leading to serious illnesses and chronic medical conditions. More specifically, according to Polyxeni Nikolopoulou-Stamati, the head of Athens University's environment and health postgraduate program, “breathing polluted air for a long period of time can lead to problems with the cardiovascular system, asthma, reduced lung capacity and chronic bronchial problems, causing coughing and shortness of breath” (Elafros 26.2.2013).

The proposed measures

The measure that is proposed in the framework of this project is the establishment of a flexible surveillance mechanism that would adequately embrace simple aspects of Management science. In other words, Greek authorities need a mechanism that should effectively use technology and develop the existing regulations designed to crack down “black money laundering”. To this end, certain regulations that could tackle this problem are listed below:

- 1) The establishment of an electronic system that controls the inflows and outflows of the fuels’ volume during all the phases of oil’s transfer.
- 2) Continuous controls on the petrol stations in order to investigate all potential mechanisms of pumps’ fraud and insufficient delivery to the consumers
- 3) The installation of GPS’s systems on fuel transport vehicles in order to observe the routes that the tankers or the trains follow for the importation or exportation of the products.

However, despite the utility and the potential effectiveness of these measures, the political determination to take efficacious action against fuel smuggling is the main prerequisite. Combatting oil smuggling should be upgraded as one of the top priorities for the IMF and the European lenders instead of their stubborn concentration on the simplified and fruitless so far application of the current austerity measures only (especially with the increase of oil heating prices).

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