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LAWS GOVERNING THE TRADE OF CRUDE OIL: INTERNATIONAL PERSPECTIVE

Legal Upanishad Journal (LUJournal.com)
Vol 1 Issue 2 | August 2023 | pp- 60-72

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ABSTRACT

Crude oil is regarded as one of the most important commodities to trade in India due to its constant global demand. The increase and decrease in crude oil prices have far-reaching consequences around the globe. That is why, whether among day traders or long-term traders, crude oil is a popular alternative in commodities markets across the board. India and China are the world's largest users of crude oil. As per the International Energy Agency's (IEA) annual fuel report, India's demand for crude oil is expected to reach the level of China's by 2024.

Crude oil is regarded as one of the world's most widely traded resources. Because crude oil is used in the production of a variety of products, any shift in its price affects the prices of these items as well. World Trade Organisation (WTO) rules, including the General Agreement on Tariffs and Trade (GATT) and the Agreement on Subsidies and Countervailing Measures (AOSCM), regulate the global crude oil trade. OPEC and the IEA work together to stabilise and coordinate the international oil market through the manipulation of prices and production levels. This paper attempts to analyse the International laws governing the trading of Crude oil across the globe. The author focuses on the Legal issues concerning the crude oil trade along with the implications of Global trading of Crude oil.

Keywords: *China, Crude Oil, Demand, India, Market and Trade.*

1. INTRODUCTION

The buying and selling of crude oil, a fossil fuel made from the remains of long-extinct plants and animals, is referred to as crude oil commerce or crude oil trade. Transportation, electricity generation, and manufacturing are just a few of the businesses that rely on it.

The dispersed nature of both crude oil production and consumption makes for a complex worldwide industry: the crude oil trade. The United States, Saudi Arabia, Russia, Canada, and China are all major crude oil suppliers. Five countries consume more petroleum oil than the rest of the world combined: the United States, China, Japan, India, and Russia. The supply and demand for crude oil on a global scale, as well as geopolitical strength and economic growth, all affect the market value of the commodity. Crude oil prices are heavily influenced by the Organisation of Petroleum Exporting Countries (OPEC), which controls a substantial portion of world oil output[1].

Large tankers, pipelines, and other forms of ocean transport are commonly used to move crude oil. Contracts to buy or sell a predetermined quantity of crude oil at a predetermined future price and date are used in the crude oil market.

Since fluctuations in oil prices can have a substantial effect on the prices of products and services and inflation rates, the trade in crude oil has a big impact on the global economy. The crude oil business is also infamous for its heavy use of fossil fuels, which has serious effects on the environment and makes issues like climate change and a lack of biodiversity even worse[2].

2. IMPORTANCE OF INTERNATIONAL TRADE LAW FOR THE CRUDE OIL INDUSTRY

There is a complicated web of international trade law that regulates the purchasing and selling of crude oil between countries. This legal structure makes it easy to check if deals are legitimate, transparent, and dependable.

The international law that governs the worldwide trading of crude oil also regulates commercial agreements. Several treaties, including the Energy Community Treaty of the European Union

[1] GAWDAT BAHGAT, ENEGRY SECURITY: AN INTERDISCIPLINARY APPROACH (Wiley 2011)
[2] TIMOTHY MITCHELL, CARBON DEMOCRACY: POLITICAL POWER IN THE AGE OF OIL (Verso 2013)

(EU), the North American Free Trade Agreement (NAFTA), and the OECD Declaration on International Investment and Multinational Enterprises, establish the terms and conditions of international trade, including the pricing, quantity, and quality of crude oil. These pacts have a profound effect on the global distribution of crude oil. International trade law applies to any disagreements over crude oil transactions between nations. This facilitates the peaceful and equitable resolution of disagreements. Disputes can be settled through international mediation or arbitration.

Compliance with international crude oil trade regulations also necessitates meticulous tariff and customs administration. Transporting crude oil across international borders is subject to inspection and clearance procedures, as well as the payment of any fees as outlined in customs laws. Tariffs, charged on imported or exported commodities, can have a major impact on the cost of internationally traded crude oil.

Finally, international trade law plays a key role in ensuring the crude oil trade is carried out in a sustainable fashion. Included here are regulations pertaining to the transportation of crude oil, including the safety of tankers and pipelines, as well as environmental legislation relevant to the extraction and production of crude oil[3].

International trade law establishes the foundation for states to buy and sell crude oil, ensuring that transactions are lawful, open, and sustainable.

3. THE EVOLUTION OF OIL EXCHANGE PACTS

Since the early 20th century, countries have routinely signed crude oil trade agreements. The "Red Line Agreement," one of the earliest contracts for the trade of crude oil, was signed in 1928 by a group of international oil corporations including Standard Oil of California (now Chevron), Anglo-Persian Oil Company (now BP), and Royal Dutch Shell.

The Red Line Agreement formed the Iraq Petroleum Company (IPC) to assist in the equal allocation of Middle Eastern oil reserves among the participating businesses. Red Line

[3] 9 JAMES CRAWFORD, BROWNLIE'S PRINCIPLES OF PUBLIC INTERNATIONAL LAW (Oxford University Press 2012)

Delineation Agreement is shorthand for the International Property Commission's drawn boundary[4].

The "Treaty of San Francisco" ended Allied control of Japan after World War II and opened the door for Japan to import resources from the Middle East, most notably oil, for the first time. As a result, Japan is one of the world's largest oil importers.

The Organization of the Petroleum Exporting Countries (OPEC) was founded in 1960 to help oil-producing countries coordinate policy and negotiate better crude oil export prices. OPEC's rise to prominence in the oil market can be attributed to the increasing influence of its members.

4. HISTORICAL REVIEW

4.1 Formation of International Crude Oil Market Forums

The actions of international groups are crucial to maintaining stability and justice in the global crude oil trade. To assure a consistent supply of petroleum to nations that required it at a price that would be fair to producers, a group of countries known as the Organisation of Petroleum Exporting Nations (OPEC)[5] joined together in 1960. In order to ensure global energy security, economic development, and environmental sustainability, the International Energy Agency (IEA) was established in 1974. The IEA currently has 30 members, the vast majority of which are industrialised countries. Futures markets, pricing, and data services provided by the Intercontinental Exchange (ICE) and Platts also make them important players in the crude oil sector.

Finding, extracting, and trading crude oil are all governed by a patchwork of different treaties and conventions on a global scale. Within 200 nm of their coasts, governments have jurisdiction over resources under the United Nations Convention on the Law of the Sea (UNCLOS). Crude oil is recognised as a fossil fuel that contributes to increased carbon emissions by the United Nations Framework Convention on Climate Change (UNFCCC). After the devastating

[4] MEYER, CRUDE OIL, THE LAW AND THE MARKET: A LEGAL AND ECONOMIC ANALYSIS (Oxford University Press 2012)

[5] Josh Ederington & Phil McCalman, *The Importance of International Trade Law to the World Petroleum Market*, 2 J WORLD ENER. & BUS. (2009)

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Deepwater Horizon oil leak in 2010, more rules and more robust enforcement measures were implemented. World Trade Organisation (WTO) rules, including the General Agreement on Tariffs and Trade (GATT) and the Agreement on Subsidies and Countervailing Measures (AOSCM), regulate the global crude oil trade. OPEC and the IEA work together to stabilise and coordinate the international oil market through the manipulation of prices and production levels. These groups and treaties are crucial to the transparency, fairness, and stability of the international crude oil trade. Extraction, shipping, and retailing of crude oil are all subject to varying sets of rules and regulations. Tax laws, occupational safety laws, and environmental protection laws are all examples of the sorts of rules that fall under this category[6].

Crude oil transactions typically involve multi-year contracts between buyers and sellers that outline terms including pricing, shipping, quality, and legal responsibility.

The international crude oil trading community now adheres to a number of voluntary quality control, environmental, safety, and ethical standards created by the oil industry. For political or economic reasons, countries and international organisations may impose sanctions on other countries or enterprises involved in the trading of crude oil. Some examples of such barriers are restrictions on the free movement of products, capital, and services.

4.2 Laws governing Crude Oil trading across the Globe:

The trade of crude oil on a global scale is not governed by a single, all-encompassing set of regulations. Below, we summarise a handful of these pivotal cases. The export of crude oil is governed by the Energy Policy and Conservation Act, while bribery and other unethical business practises abroad are outlawed by the Foreign Corrupt Practises Act.

The Oil and Gas Authority oversees enforcing the Oil Taxes Act and regulating offshore oil and gas drilling in the United Kingdom.

The exploration, production, and sale of crude oil are subject to a few laws and regulations in Saudi Arabia, a significant crude oil producer. The oil sector in Saudi Arabia is governed by the General Investment Authority and is subject to the Saudi Arabian Oil Business Law.

[6] L. LUNDIN, THE EVOLUTION OF INTERNATIONAL OIL PRICING MECHANISMS: FROM ADMINISTERED PRICES TO MARKET PRICES (Oxford University Press 2019)

The Federal Law on International Trade governs international oil and gas trade, while the Oil and Gas Law governs the development and production of oil and gas resources in Russia.

The Petroleum Act and the Nigerian National Oil Corporation Act are the two principal pieces of legislation that regulate the exploration, production, and sale of crude oil in Nigeria.

The Foreign Trade Law and the Regulations on the Administration of Crude Oil Processing govern the refining and distribution of crude oil in China.

The Energy Taxation Directive regulates the taxation of energy items, while the EU Emissions Trading Mechanism sets up a cap-and-trade mechanism for greenhouse gas emissions. The movement of crude oil within the European Union is affected by both of these statutes and rules[7].

Crude oil and natural gas exports are regulated by the National Energy Board Act, while oil and gas operations' impacts on the environment are covered under the Canadian Environmental Protection Act[8].

Oil and gas exploration, production, and sales in Iran are all governed by the Petroleum Industry Law, while the Iran Petroleum Contracts detail the conditions under which international oil and gas corporations may do business in Iran.

The Iraqi Oil and Gas Law governs the country's oil and gas industry, while the Iraqi National Oil Business Law established the Iraqi National Oil Company.

The National Oil Corporation Law established the national oil corporation in Venezuela, while the Hydrocarbons Law regulates hydrocarbon exploration, production, and sale.

Political and economic concerns, such as sanctions and regional trade agreements, may lead to revisions in the laws governing the worldwide flow of crude oil. As a highly regulated and complex industry, the crude oil trade relies heavily on legal compliance and adherence to all rules and regulations.

5. INTERNATIONAL TRADE LAW

[7] JAMES MARRIOTT & MIKA MINIO-PALUELLO, THE OIL ROAD: JOURNEYS FROM THE CASPIAN SEA TO THE CITY OF LONDON (Verso 2012)

[8] Serra & Gema Escribano , *Trade Agreements and the Petroleum Industry*, J INT'L ECON. (2019)

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5.1 The Importance of International and Regional pacts governing the trading of Crude Oil

The terms and conditions under which crude oil is traded from one region to another are set by bilateral and regional agreements, which play a pivotal role in the crude oil trade. Bilateral agreements feature only the two countries involved, as opposed to the several countries involved in regional accords. From lowering or eliminating tariffs to ensuring the security of investors to coordinating R&D across sectors, these agreements cover a lot of ground.

Bilateral and regional agreements in this field can guarantee stable and predictable conditions for the exchange of crude oil. Dispute resolution procedures, crude oil pricing standards, and delivery terms might all be outlined in such an agreement. Through these agreements, governments can share information and expertise to boost the extraction, transport, and processing of crude oil.

The efficiency and competitiveness of the crude oil trade can be further improved by regional accords, which can promote collaboration between countries. Bilateral and regional agreements that establish the terms and circumstances of crude oil trade help ensure the overall stability, predictability, and efficiency of crude oil exchanges between states and regions.

5.2 Global Regulations for the Purchase and Sale of Crude Oil

Export and import regulations are crucial to the global crude oil trade. They are supposed to make international shipments of crude oil safer and more comprehensible. In order to meet local demand, safeguard regional economies, and foster fair and sustainable trade, both importing and exporting countries need to impose laws and limits on one another. Foreign trade may be subject to quotas, tariffs, and licencing requirements imposed by both import and export laws. Possible effects of such constraints include reduced costs, improved domestic refining capacity, and enhanced energy security. Crucial roles in regulating the crude oil trade are played by organisations such as the World Trade Organisation and the Organisation of the Petroleum Exporting Countries (OPEC). Finally, these regulations are essential for promoting fair and open trade in crude oil between nations.

6. IMPORTANT LEGAL FACTORS

6.1 Import taxes on Gas

The international crude oil trade may be affected by tariffs and non-tariff barriers (NTBs). The country that receives the products imposes a tax called a tariff on the imports. Importing countries may pay more for crude oil due to tariffs placed on the commodity. This could mean less money for the countries doing the exporting. Tariffs can preserve domestic crude oil production and increase energy independence[9].

Non-tariff barriers are a form of trade restriction that does not include a monetary fee. Technical standards, sanitary and phytosanitary measures, and licencing legislation are examples of non-tariff barriers in the crude oil trade. These safeguards can help domestic businesses and strengthen health and safety regulations. However, they can lead to shipping delays and higher costs for imported crude oil.

Crude oil trade volumes and prices are susceptible to tariff and non-tariff restrictions. They have the ability to hinder international trade and affect the economies of both exporting and importing countries, but they can also be used to protect local interests and improve health and safety standards[10].

6.2 Protection of Trade Secrets and Confidential Information

The discovery, extraction, processing, and sale of crude oil may all benefit from the protections afforded by intellectual property laws for patented technology and techniques. The companies that came up with these technologies may have the exclusive right to use them, providing them with a substantial competitive advantage. Second, in the crude oil industry, brands are used by corporations to separate themselves from others; therefore, trademarks and branding are crucial. To prevent consumers from being duped into purchasing counterfeit goods, it is essential to protect these trademarks. Third, any corporation dealing with crude oil, but especially one involved in exploration and extraction, must take great care to safeguard its trade secrets if it is to succeed. Companies spend a lot of time and money developing new methods for finding and

[9] *Tariffs: Applied Tariffs: Petroleum Oils, Crude*, WORLD TRADE ORGANIZATION (July 20, 2023, 5:30 PM), https://www.wto.org/english/tratop_e/tariffs_e/tariff_data_e.htm

[10] *Harmonized Tariff Schedule of the United States*, UNITED STATES INTERNATIONAL TRADE COMMISSION (July 19, 2023, 6:00 PM), https://hts.usitc.gov/current.

extracting oil, which can provide them with a significant competitive advantage. Trade secret law helps ensure that this data remains hidden from competitors[11].

Several international treaties govern the protection of intellectual property, which is crucial to the crude oil industry. The World Intellectual Property Organisation (WIPO) is a highly visible and influential body with far-reaching effects on IP (intellectual property) services, regulation, information, and cooperation. This group is responsible for monitoring and enforcing a number of international treaties that pertain to intellectual property, particularly those that have an impact on the crude oil industry. These agreements encourage collaboration and technological progress by keeping IP secure and respected. WIPO oversees the administration of the Berne Convention for the Protection of Literary and Artistic Works, in addition to the Madrid Agreement for International Trademark Registration and the Patent Cooperation Treaty.

6.3 Dispute resolving mechanisms

Dispute-resolution mechanisms are particularly important in crude oil transactions and international trade. Multiple options exist for resolving disputes in these settings: Negotiation is the first step in conflict resolution, during which the parties involved strive to work out their differences via communication and compromise. A mediator acts as a neutral third party to help parties in a dispute come to an agreement. The mediator does not take sides but rather helps the parties reach an agreement.

After hearing both sides of a dispute, an impartial third party or panel of arbitrators issues a binding decision that must be obeyed by all parties. The judgement must be followed as it is binding under international law. Litigation is another name for legal processes, which are heard in a court of law. This approach is more formal and expensive than the others we've examined for resolving legal disputes. Dispute resolution clauses are standard in international commercial and crude oil transaction contracts and spell out the steps to be taken in the event of a dispute. Arbitration and legal action are common ways to resolve such disagreements. The procedure to

[11] Aurelie Ouss & Konoplyeva, *A Review of Non-Tariff Measures Affecting Trade in Petroleum and Petroleum Products*, J. INT'L TRADE L. & POLICY(2020)

be utilised will depend on the nature of the issue at hand, any relevant contractual clauses, and the wishes of the parties[12].

7. SUSTAINABILITY AND ENVIRONMENTAL RISKS IN THE GLOBAL CRUDE OIL TRADE

7.1 Impact on Human health and Environment

The transportation of crude oil has devastating environmental and health effects on both the countries where it is extracted and the countries where it is processed and used. Some specific outcomes are shown below: The burning of fossil fuels like crude oil is a major contributor to greenhouse gas emissions, a key driver of climate change.

Refining and burning petroleum oil can release a variety of atmospheric pollutants, including particulate matter, sulphur dioxide, and nitrogen oxides. The risk of developing respiratory and cardiovascular disorders increases when one is exposed to these toxins. Because oil spills can contaminate water sources, they pose a threat to aquatic ecosystems and the human and animal populations that rely on them[13].

The extraction of oil may cause environmental problems such as soil erosion, tree loss, and animal habitat disruption. The extraction, refining, and transportation processes all pose dangers to the health of workers in the crude oil business due to the presence of harmful molecules and substances.

Overall, the crude oil trade's negative effects on the environment and human health call attention to the need for alternative, cleaner energy sources and stricter regulation and control of the oil business[14].

7.2 Protection of the Environmental Treaties and Limits on Crude oil Exports

[12] Gholamreza Ebrahimian and Hamed Mohammadi, *Environmental Impacts of Crude Oil Transportation: A Life Cycle Assessment Approach, J. CLEANER PROD.*

[13] *World Energy Outlook 2021*, INTERNATIONAL ENERGY AGENCY (July 17, 2023, 6:00 PM) https://www.iea.org/reports/world-energy-outlook-2021

[14] JOHN ELKINGTON, CANNIBALS WITH FORKS: THE TRIPLE BOTTOM LINE OF 21ST CENTURY BUSINESS (Capstone 1999)

Numerous international accords and pieces of law have been enacted to safeguard the environment and decrease the hazards associated with trading crude oil. The International Convention for the Prevention of Pollution from Ships (MARPOL), the International Oil Pollution Compensation Funds (IOPC Funds), and the Oil Pollution Act of 1990 (OPA 90) all provide avenues for compensation for victims of oil spills. In addition, the United Nations Convention on the Law of the Sea (UNCLOS) establishes national obligations and rights with respect to ocean use, and the International Maritime Organisation (IMO) has created standards for safe oil transport. These measures not only encourage growth that is less harmful to the environment but also reduce the risk of oil leaks[15].

The Paris Agreement also establishes targets for decreasing greenhouse gas emissions caused by the use of fossil fuels like crude oil in an effort to decrease the rate of global warming. These policies and agreements aid in the prevention of oil spills, the promotion of environmental responsibility, and the acceleration of long-term growth[16].

7.3 Economic Responsibility and Sustainable Development

When conducting business in the crude oil industry, it is essential to keep in mind the importance of sustainable development and social responsibility. This is because the crude oil trade has far-reaching effects on the ecosystems and cultures it serves. The following guidelines and practises can help businesses in the petroleum oil industry progress in their fields and achieve their CSR objectives[17].

Environmental impact assessments can be conducted prior to the launch of a company to help foresee and mitigate any unfavourable consequences for the natural world. Companies can better understand and accommodate the requirements of communities, especially Indigenous people, when they actively engage with individuals who live in those communities.

[15] Robert G. Eccles & George Serafeim, *The Performance Frontier: Innovating for a Sustainable Strategy*, 91 HARVARD BUS. REV. (2013)
[16] R. EDWARD FREEMAN, STRATEGIC MANAGEMENT: A STAKE HOLDER APPROACH (Pitman 1984)
[17] JOHN MACKEY & RAJENDRA SISODIA, CONCIOUS CAPITALISM, WITH A NEW PREFACE: LIBERTING THE HEROIC SPIRIT OF BUSINESS (Harvard Business review Press 2014)

Greenhouse gas emissions can be lowered by initiatives to cut emissions, increase the use of renewable energy, and improve energy efficiency. Companies could make use of technical developments and employee education programmes to lessen the likelihood of a leak occurring[18]. Protecting vulnerable ecosystems and wildlife habitats in the areas where they operate can help businesses contribute to biodiversity conservation initiatives. Businesses have a responsibility to protect the human rights of their employees, customers, and local communities.

By issuing annual sustainability reports, businesses can disclose their influence on the environment and society. Sustainable development and corporate social responsibility should be at the forefront of corporations' minds if the crude oil trade is to thrive in the long run.

8. WHAT TO EXPECT IN FUTURE?

Technological advancements have had extensive effects on the crude oil trading industry. Some of the most significant outcomes are listed here. Thanks to advancements in seismic imaging and drilling technology, oil companies may now identify and produce oil from previously inaccessible or uneconomic sources. As a result, oil prices have dropped and supply has surged around the world[19].

Technology has also had a major effect on the shipping of crude oil. The cost of transporting crude across oceans has decreased as oil tanker technology has improved. In addition, the availability of crude oil has increased due to the construction of new pipelines and rail networks.

Refining plants can now process heavier and lower-grade crude oils thanks to technological developments. As a result, there is now more crude oil available for refining, and the process is more efficient.

Recent technological advancements have made the crude oil trade more secure and less harmful to the environment. Automated safety systems on tankers and pipelines, for example, have reduced the likelihood of spills and leaks, while improved monitoring and response technologies have allowed for faster and more effective incident response. Electronic trading platforms and algorithms have significantly aided in the finding of prices in the crude oil market. As a result,

[18] *Technically Recoverable Shale Oil and Shale Gas Resources: An Assessment of 137 Shale Formations in 41 Countries Outside the United States*, ENERGY INFORMATION ADMINISTRATION (July 20, 2023, 5:00 PM), https://www.eia.gov/analysis/studies/worldshalegas/pdf/overview.pdf.

[19] David G. Tuerck, *The Impact of Technological Change on Crude Oil Production*, J. ENERGY & DEV.

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the transmission of knowledge has increased, and the effect of market players on prices has decreased[20].

In general, advances in technology have facilitated the growth and expansion of the crude oil trade, leading to increased output, decreased costs, and less environmental harm. Constant investment in research and development is necessary as new dangers emerge, such as cyber-attacks.

9. CONCLUSION

In conclusion, the global trade of crude oil is governed by a complex and comprehensive legal system. Companies are increasingly subject to accountability for their actions in light of international accords and legislation addressing environmental and social concerns related to crude oil trading. The accessibility, transportation, refining, and safety measures of the crude oil trade have all been enhanced as a result of technological developments[21]. However, as technology has advanced, new risks and worries have emerged that must be carefully addressed. Keeping the legal framework up-to-date allows it to be efficiently used to solve new challenges and obstacles, and as the demand for crude oil rises, the international community must work together to promote sustainable development and corporate social responsibility in the crude oil trade.

[20] MICHAEL O SULLIVAN, THE LEVELLING: WHAT'S NEXT AFTER GLOBALIZATION (Public Affairs 2019)
[21] MICHAEL T. KLARE, THE RACE FOR WHAT'S LEFT: THE GLOBAL SCRAMBLE FOR THE WORLD'S LAST RESOURCES (Picador 2012)