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Shipping Policy to Fight the Resource Curse

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Research Article

Abstract

Transnational trade rules endow authoritarians and armed groups with unaccountable power in states rich with natural resources. This structural flaw in international trade generates the 'resource curse' phenomena that have driven many of the world's most serious crises since the 1970s. Attempts to curtail this unaccountable power from outside resource-rich states have not been successful, and crises caused by this structural flaw continue to plague the global community. The shipping sector provides a promising location for reforms to fight the resource curse, as it is a sector where extensive, unified and enforceable regulations have long been established.

Policy Implications

- States should incentivize shipping firms not to carry resources sold by authoritarians, armed groups, and others who sell the resources beyond any accountability to the people of the country of export.
- States should pass domestic legislation implementing vessel blacklists, as well as banking and insurance restrictions, on shipping firms that carry resources from authoritarian and failed states.
- Individual and institutional investors should use a Clean Hands Shipping Index to shift their portfolios away from firms that carry more goods from authoritarian and failed states.
- States should actively pursue a convention at the International Maritime Organization that will use its global regulatory capacity to coordinate state action against the resource curse.

The oil curse

Today's transnational trade laws allow authoritarian regimes and armed groups to sell off the natural assets of resource-rich countries beyond any public accountability. Revenues from such resource sales then translate into hard power: authoritarians can use resource revenues for violence and clientelism; armed groups can use resource revenues to start or escalate a civil war.

Political scientists call the result 'the political resource curse'. Michael Ross of UCLA has shown that oil-rich states outside the OECD are 50 per cent more likely to be ruled by autocratic regimes, and 200 per cent more likely to be suffering civil conflict. No country receiving high oil rents became democratic between 1960 and 2010, and in striking contrast to the rest of the developing world, the average large oil state today is no richer, no freer and no more peaceful than it was even in 1980 (Ross, 2012).

Nor are the risks of the oil curse confined within oil-exporting states. As Jeff Colgan (2013) of Brown University has shown, petrocrats who hold to a revolutionary ideology (like Ayatollah Khomeini or Muammar Gaddafi) are three times more likely to start militarized interstate disputes. Five of the seven countries ever on the US list of State Sponsors of Terrorism have been oil countries. When the US State Department last drew up a list of countries whose nationals require extra security screening before flying to the United States, two-thirds of the countries were oil exporters (Wenar, 2016).

Indeed, since the non-democratic oil states began to nationalize their oil in the 1970s, most of the major foreign threats and crises confronting the West have originated in oil states, such as Iran, Iraq, Saudi Arabia, Sudan, Libya, Syria and Russia. Oil-enriched authoritarians have launched aggressions against other states (e.g., Saddam Hussein's invasion of Kuwait) and against their own people (e.g., Omar al-Bashir's genocide in Darfur). Oil-enriched authoritarians and militias have also driven states into civil conflict, as we have seen in Iraq, Syria, Libya and Yemen.

Going farther back, an oil boom kept the Soviet Union's economy from collapsing in the 1970s and 1980s, and paid for the Soviet invasion of Afghanistan (Kotkin, 2008). And over the past four decades, the Saudi regime has spent tens of billions of dollars of oil revenues proselytizing its intolerant version of Islam worldwide in what may be the largest ideological campaign in human history (Maass, 2009). Both ISIS and Al-Qaeda adhere to violent mutations of the Salafist Islam that the Saudi regime has spread.

Oil is the world's most valuable traded commodity, so the curse that afflicts oil-exporting states is especially intense (WTO, 2015). Yet states heavy with other extractive resources like metals and gems also risk dysfunctions in their political economies such as increased risk of civil conflict (Besley and Persson, 2011; Sorens, 2011).

At the most basic level, the analysis of all of these 'resource curse' phenomena is that resource exports give coercive actors unaccountable power. Essentially, whoever in non-democratic countries can control resources by force

will gain a large revenue stream that they can use to maintain their autocratic rule or prosecute a civil conflict.

The power derived from resource revenues is uniquely unaccountable. Unlike assistance from foreign states, resource revenues come with no strings attached. Unlike loans from foreign banks, resource revenues never have to be paid back. And resource revenues give whoever controls them the means to escape accountability to the citizens of the country, who must watch as their natural assets are sold off beyond their control (Wenar, 2016).

Unaccountable power from resource exports, and especially from oil exports, is the root of the 'resource curse' phenomena that have destabilized the global system for the past 40 years. Indeed, the West's major foreign policies in this period can be seen as attempting to check this unaccountable power from outside of the exporting countries.

The West has used three main strategies to try to check oil's unaccountable power. Sometimes Western leaders have made alliances with petrocrats, such as the Shah of Iran, Saddam, Gaddafi and the Saudi kings. Sometimes the West has intervened militarily: Gulf War I, Gulf War II, Libya, drones. Sometimes the West has imposed sanctions, for example on Iran, Iraq, Sudan, Syria and Russia.

Even setting aside their large costs, these strategies have failed to stabilize oil-producing countries. As John Brennan, then director of the CIA, said when testifying to Congress in 2016, the Middle East is worse than it has been in 50 years, and the region faces unprecedented bloodshed (US Senate Select Committee on Intelligence, 2016). The West appears to be unable to check the power of oil from outside of the oil states.

Accountability through popular resource sovereignty

There is hope that reform can substantially reduce today's natural resource curse. The ground for hope is that major actors in the international system have already agreed – at least on the level of principle – on a source of accountability over natural resources. This source of accountability is the citizens of resource-rich countries. Natural resources originally belong to the people, and citizens should be able to hold officials accountable when the officials sell off those resources (or privatize them – as they are privatized, for example, in the United States). In other words it is the people, not power, who should have the ultimate right to decide what will happen to the resources of their country. This is the principle of *popular resource sovereignty*.

Popular resource sovereignty is already widely affirmed. American presidents of both parties have declared that 'the people own the oil' – as have the leaders of Britain, Brazil, Mexico and Ghana, the parliament of Norway and even the supreme leader of Iran. This principle is also expressed in major international treaties that have already been agreed. Both of the main human rights treaties, for instance, affirm in their first article that, 'All peoples may, for their own ends, freely dispose of their natural wealth and resources' (United Nations, 1966a; United Nations, 1966b). Nearly every country in the world is already party to one of these human rights covenants, including the US, China, India, and all of the European countries – indeed, 98 per cent of the world's population lives in a state that has already ratified one of these treaties.

Most promising of all, ordinary people around the world already express the belief that their country should belong to them. Large and stable majorities in all regions (including the Middle East) tell pollsters that they support popular sovereignty (Tessler et al., 2012). Most of world already assumes that the people should have ultimate control over their country's resources. But this principle is in no way evident in the realities of global trade.

In order to hold officials accountable, citizens need at least bare-bones civil and political liberties – enough to find out what officials are doing with their resources and effectively protest this. Using the Freedom House index to identify 'Not Free' countries where citizens lack such rights and liberties, we find that over 50 per cent of the world's traded oil today is exported without any possible popular accountability (BP, 2017; Freedom House, 2017). For those who believe in popular resource sovereignty, this means that over 50 per cent of traded oil today is literally stolen goods – stolen from the citizens of the countries of export. If a country's resources ultimately belong to its people, then contemporary trade in natural resources violates property rights, and on a very large scale.

Clean trade shipping policy

In an earlier article in this journal, it was argued that major importing states can lead a transition to popular resource sovereignty in global trade by passing 'Clean Trade' legislation (Wenar, 2013). This legislation will taper off imports of oil and other resources from exporting states so long as they remain authoritarian or failed. Passing such legislation will take a strong stand on principle, which will encourage reformers in resource-rich states progressively to secure their citizens' basic rights and liberties. Developments over the past five years, such as lower oil prices, have made these policies easier to implement – at the same time as the dangers of climate change have made an 'Authoritarians to Alternatives' plan more urgent (Wenar, 2016).

In this essay we extend the earlier analysis by focusing not on resource imports, but on resource transport. As major importing states transition away from buying resources from authoritarian and failed states, they can also incentivize the firms that carry the stolen resources to stop doing so. This is Clean Trade shipping policy.

Shipping is a promising sector for improving global governance to fight the resource curse. The shipping sector carries approximately 90 per cent of global commodity trade, and shipping is a sector with extensive, unified and enforceable regulations (International Maritime Organization, 2017).

Here we outline a five-part Clean Trade shipping policy agenda. The five parts are blacklisting vessels, banking regulations, insurance regulations, a Clean Hands Shipping

Index and an International Maritime Organization (IMO) convention.

Blacklisting vessels

Blacklisting is the first shipping policy that a Clean Trade state can implement. Blacklisting vessels is simple, and has proved effective in the past.

When a cargo ship is built, it is assigned a unique registration number by the International Maritime Organization (IMO). This registration number is permanent for the life of the vessel, regardless of whether the vessel changes ownership, name or flag. The IMO also registers all ship-owning and ship-management companies that operate commercial vessels. This combined registration system allows cargo vessels and shipping companies to be tracked around the globe. Any country can place a vessel or a company on a blacklist through the IMO registration scheme.

Importing countries can easily blacklist vessels that carry natural resources from 'disqualified' states – states that do not meet the minimal conditions for public accountability over resources. This can be done either through an added provision in a Clean Trade Act, or through a separate piece of legislation. This legislation will require that any ship that transports natural resources from a disqualified state will be blacklisted from docking in the country of enactment. Which ships are transporting such resources can be determined with extant vessel-tracking systems. For instance, Lloyd's Intelligence employs an extensive satellite and land-based automatic identification system to track ships around the globe, collecting 61 million vessel position reports daily (Lloyd's List Intelligence, 2016).

Blacklisting vessels will allow resource-importing states to disengage commercially from states that do not meet the minimal conditions for popular resource sovereignty. A grace period in the relevant legislation can facilitate a smooth transition for shipping companies, so that they will be able to adjust their trade routes and business activities without suffering heavy losses.

Because buying oil from unaccountable actors causes the most serious national and international political pathologies, oil tankers will be the natural priority for blacklisting legislation. A broader blacklisting law could include vessels carrying oil products (LPG carriers), natural gas (LNG carriers) and other minerals, such as copper, in bulk (bulk carriers). This broader law would address better those resource-cursed countries that export large quantities of more than one natural resource, such as Qatar (which exports oil and natural gas).

If widely adopted, the shipping blacklist policy will enhance the effects of a stand-alone boycott of resource imports. First, it will reduce the flow of stolen natural resources towards states that have *not* gone Clean Trade. If enough countries blacklist vessels, private shipping companies, which control the vast majority (83 per cent) of the commercial fleet, will be reluctant to sacrifice their ability to transport goods to these countries by transporting goods from disqualified exporting countries (Galbraith's, personal communication, 5 May 2017).

As we argue in the next section, there are good reasons to believe that a reduction of the commercial fleet that is willing to carry stolen oil will in turn lead to a reduction of exports from the target countries. More, as we will also argue, blacklisting will reduce the stolen oil imports of non-adopting countries, thereby decreasing the comparative commercial disadvantage of implementing states. A by-product of these benefits is that non-adopting importing countries will also be incentivized to join the common effort to restructure international trade, because the Clean Trade blacklisting policy will reduce their ability to import stolen natural resources. We will illustrate these points using the Iran shipping blacklists as a case study.

Iran shipping blacklists

The West used registration-based vessel blacklisting against Iran, where it was shown to be easy to implement and effective in curtailing shipments of oil.

During 2010–2013 the United States and the European Union imposed sanctions to pressure the Iranian government to scale down its nuclear programme, through a broad shipping blacklisting policy (Drezner, 2015). Vessels carrying Iranian crude oil, or oil-based goods such as petroleum coke, were banned from trading in US and EU ports (Farzanegan, 2013).

The blacklists produced impressive results: Iranian seaborne oil exports fell from 2.5 million barrels per day in 2011 to 1.1 million barrels per day in 2014, a decline of 56 per cent (Atkinson, 2014). Relative to its oil-rich peers, Iran consistently underperformed during sanctions on a number of macroeconomic indicators such as oil production, oil exports revenue, economic growth and inflation (US Government Accountability Office, 2013). Several experts have cited these sanctions as pivotal to the Iranian regime's decision in July 2015 to make a deal on its nuclear programme with the group of six nations led by the United States (Bazoobandi, 2013; Cimino-Isaacs et al., 2015; Drezner, 2015; Maloney, 2015).

Some may be reluctant to attribute such an important role to blacklisting. They may argue, based on older research, that it is not evident that sanctions 'work' (Hufbauer et al., 2008). Yet as David Francis and Lara Jakes (2016) have stated, 'the one sanctions success story that is widely acknowledged is Iran'. We maintain that there are good reasons to believe that shipping blacklists enhanced the efficacy of the broader sanctions.

The decrease of Iranian crude exports during the sanctions was significantly disproportionate, given that traditional importing countries, such as China and India, continued to buy Iranian oil. In fact, even though China continued to import Iranian crude, using either its domestic state-owned fleet or Iranian vessels to carry the oil, Chinese imports still fell by 23 per cent during the sanctions (Thirarath, 2016).

This significant downward trend in Chinese imports is largely attributable to vessel blacklisting. After all, it might be expected that the outcome of a stand-alone boycott

would be for energy-hungry China to *increase* its market share by buying at least a portion of the oil that the US and the EU boycotted. Yet during sanctions, Iran's seaborne crude oil exports were approximately halved.

While this is a substantial outcome, we accept that Iran's exports were not eradicated altogether. A government can – as the Iranian government did – adapt to blacklists by having its domestically-owned shipping companies carry oil, or by forming alliances with states that are willing to dedicate a portion of their fleet to a specific trade route (e.g. Iran-China). Such adaptation will attenuate the effectiveness of Clean Trade shipping sanctions, and so requires further policy responses.

Shipping finance

Structural reform of any industry can be facilitated through financing policy, and particularly so in an industry such as shipping which is highly capital-intensive. Shipping firms typically require large amounts of capital to finance the purchase of vessels, which is gained primary through bank loans and access to capital markets. Furthermore, shipping firms are required to insure their vessels, providing another source of leverage on them.

Clean Trade shipping legislation will deny financing and insurance underwriting to shipping firms that facilitate the circulation of natural resources from disqualified states. Specifically, banks based in Clean Trade countries will be required to deny finance to shipping firms that operate blacklisted vessels, and insurance companies will be required to reject such firms as well. Note that banks and insurance companies based in Clean Trade countries will reject the financing or insuring of *any* vessel owned or managed by a shipping firm that operates blacklisted vessels. This policy will cover all major types of shipping insurance: both protection and indemnity (P&I) insurance and hull and machinery (H&M) insurance.[1] Such coordinated action from financial institutions and insurance companies will reduce the number of shipping firms willing to transport natural resources from disqualified countries, thus reducing the flow of unauthorized exports through global supply chains.

During the Iran sanctions, financial institutions denied finance to shipping firms that were owned by or allegedly linked with the Iranian government, leading to legal disputes between Iranian shipping firms and Western governments (Saul, 2014). The Clean Trade shipping policy would not, by contrast, involve denial of finance or insurance on the basis of links with a government, flag of convenience, or country of registration of a ship-owning firm. It is shipping firms that carry natural resource exports from disqualified countries, regardless of ownership, flag of convenience or links with any government, that will be ineligible for financing and insurance protection.

This shipping finance policy will be an important tool for limiting international trade in resources that have been stolen from citizens. Yet, again, this policy might be circumvented. Firms might secure finance for their entire fleet in advance from banks based in Clean Trade countries, and afterwards carry cargo from disqualified vendors of natural resources while holding insurance based in non-Clean Trade states. This is an important challenge, which can be met through a Clean Trade Covenant within shipping loan agreements.

A Clean Trade Covenant

A Clean Trade Covenant can be added to shipping loan agreements, committing shipping firms to respect blacklists for the entire duration of the financing period. The Clean Trade Covenant will be a contractual obligation of the shipping firm towards the lending institution. A strong variant of a Covenant would state that if the firm operates any blacklisted vessels during the debt repayment period, this will constitute a default event for *all* financial obligations of the firm towards the bank, vesting in the bank the legal right to collect the corresponding collateral (vessels, personal or corporate guarantees, etc.). A weaker Covenant would specify that the bank would have the legal right to collect the collateral for the specific loan related to the blacklisted vessel, while the remaining debt of the firm would not default.

Whether a stronger or a weaker Covenant will be appropriate is a matter to be taken up by legislators in enacting countries. In either case, a Covenant can be introduced into both major types of shipping loan agreements: for both new-builds and second-hand purchases.

Clean Hands Shipping Index

Shipping firms have traditionally secured finance to purchase vessels primarily through bank loans. Recently, however, the shipping finance market has experienced a structural change towards a greater utilization of stock markets. By becoming public listed companies and issuing shares, shipping firms have raised capital to expand their fleets. This change creates a structural gap in the proposed shipping finance policy. Shipping firms might attempt to circumvent the proposed bank finance restrictions by choosing to raise capital through stock markets instead.

To address this challenge, the policies above can be complemented by a Clean Hands Shipping Index (CHSI). The CHSI is similar to the Clean Hands Oil & Gas Companies Index (CHOCIX) developed by oil industry analyst Laurent Ruseckas.[2] The CHOCIX evaluates major oil companies by the proportion of their upstream profits that come from disqualified (authoritarian or failed) states. The CHSI will, analogously, evaluate major shipping firms by the proportion of their tonnage that comes from disqualified states. Firms that carry more unauthorized cargo as a percentage of their total will rank lower in the Index. The CHSI will allow institutional and individual investors to differentiate firms in the shipping sector, and to vary their investments accordingly.

The data on which ships carry oil from which countries are available from commercial services such as Lloyd's (Lloyd's List Intelligence, 2016). Independent metrics that score states on the accountability of their governance are available from many respected sources, such as the Polity

Project (2016), the World Bank (2017), Freedom House (2017), Transparency International (2016) and more. To balance out any bias, the disqualification index for the CHSI can be a 'metric of metrics' that averages the scores from several of these sources.

The CHSI can first rate listed shipping firms that operate oil tankers. The same methodology can then be used to expand the Index to firms whose ships carry oil products (LPG vessels), natural gas (LNG carriers) and minerals (bulk carriers).

Both institutional and individual investors can pressure shipping firms that perform poorly on the CHSI by adjusting their portfolios away from these firms toward firms that perform better. This investor action will incentivize firms to score better on the Index, by carrying fewer cargoes from disqualified states.

A Clean Trade IMO Convention

Even if all of the above policies are implemented, some exports from disqualified countries will continue. Shipping firms could get capital and insurance coverage from financial institutions and insurance firms not based in Clean Trade countries. Furthermore, they could gain extra financing from investors who choose not to hold a Clean Trade portfolio. A blacklisted firm could sell its vessels to a new firm, trying to bypass the shipping policies above.

Since the 19th century, the transnational nature of the shipping industry has generated a treaty-based regulatory regime that is now one of the world's most developed global governance systems. The central standard-setting authority of this regulatory regime is the International Maritime Organization. The role of the IMO is 'to create a regulatory framework for the shipping industry that is fair and effective, universally adopted and universally implemented' (IMO, 2015). The IMO is a promising organization for further reform of the seaborne trade of natural resources.

The IMO governance structure comprises an assembly, a council and four main committees, which in turn are divided in many sub-committees. These six bodies adopt new universal regulations, amend existing regulations and facilitate the implementation of regulations through conventions. Initially, the need for a new regulation is registered in one of the committees, through a representative or a coalition of representatives of member states. If the assembly or the council approves the proposal, the appropriate committee and sub-committees then formulate a draft convention that is put up for formal adoption in a conference in which all member states participate on equal footing.

During such a conference, governments and shipping organizations propose changes to the convention. The final version is adopted and opened for signature by member states. The specific conditions needed for a convention to come into force vary. For example, a condition could be that the convention will come into force when a certain number of member states ratify it, or when member states whose combined merchant fleet comprises a specific percentage of the world's tonnage ratify it.

The IMO does not itself enforce a convention: individual member states have an obligation to do so through the adoption of domestic legislation. While IMO member states cannot be forced to enforce a convention, in the past majority enforcement has spurred other states to join in, even when the reforms needed have been costly.

One IMO convention of this kind is the Maritime Pollution Convention (MARPOL), which aims to minimize pollution from ships (IMO, 2015). MARPOL currently applies to 152 member states that represent 99.2 per cent of the world's tonnage. One provision of this convention requires that tankers should change their ship design to reduce CO_2 emissions. This provision will gradually extinguish the current generation of tankers, requiring replacement costs of several millions of dollars for large shipping firms.

Another treaty of this kind is the Ballast Water Management Convention (2004), which aims to stop the flow of micro-species from one ecosystem into another, and which will cost shipping companies up to $1 million per vessel for compliance. Another example is the 2006 Maritime Labour Convention (MLC), drafted in collaboration with the International Labour Organization (ILO) (ILO, 2006). The MLC made shipping the first industry that has unified, enforceable and universal labour standards that transcend national borders.

In the past, the IMO treaty-based framework has been criticized for being unduly slow in the process by which treaties are ratified and amended (Lister, 2015). These defects have recently been addressed by both the IMO and individual governments. The IMO has, for example, introduced a tacit acceptance procedure for amending conventions, which establishes that an amendment will enter into force on a particular date unless objections are received by a particular number of member states (IMO, 2015).

One notable effort to accelerate the ratification process was successful in the case of the Ballast Water Management Convention. This convention had been in a lengthy gridlock, with states home to only 30.4 per cent of the global fleet signing the convention, while at least 35 per cent of the global fleet was needed for the convention to enter into force (Eason, 2013).

The US decided to unlock the process by adopting domestic enforcement regulation before the convention entered into force (Eason, 2013). This regulation required shipping firms to install a ballast water mechanism on any vessels trading into the US. The majority of shipping firms wanted to retain their ability to trade in the US, because of its importance as a major importer of seaborne goods. This US strategy created a 'two-tier' market that played an important role in encouraging more states to join the convention, and brought the convention into force in September 2016.

A Clean Trade shipping convention will require vessels to carry resource exports only from countries that meet the minimal conditions for popular resource sovereignty. The convention will be managed with a certification scheme that is widely used for other IMO conventions such as MARPOL. Every vessel will need a valid Clean Trade certificate in order

to trade, with the certificate maintained through the IMO vessel registration mechanism.

Enforcement of the convention will take place through the existing IMO framework. Countries will adopt Clean Trade domestic legislation that penalizes violators. Port state controls, flag states and classification societies will inspect all vessels periodically to check for a valid Clean Trade certificate. Penalties for violating the Clean Trade IMO regulations can include blacklisting a firm's vessels, denying finance and insurance, detention of blacklisted vessels in domestic ports, as well as fines. The IMO's tacit acceptance provision can be used to amend the list of disqualified states whenever a state crosses the line that marks the conditions for popular resource sovereignty.

Clean Trade states should propose the convention in the IMO in parallel with their respective domestic legislative procedures for adopting a Clean Trade Act, to allow time for drafting, adopting and implementing the convention. The combined unilateral implementation of the convention's requirements by the Clean Trade states will then pressure toward wider acceptance of the convention.

As the trend within the IMO shows, majority enforcement of a convention can pave the way towards near-universal implementation. If Clean Trade is included in the IMO regulatory framework, then any shipping firm that decides to carry unauthorized cargo will forfeit its ability to trade in the increasing number of regions where the convention will be enforced.

It might be objected that international consensus is difficult to reach on such contested issues. Some states will always be willing to register ships in ways that would allow them to avoid international regulation, reducing the effectiveness of the policies described.

It is true that agreement on global reforms can be difficult. Nevertheless, an international consensus on these reforms would not be necessary. As the Ballast Water Management Convention and the Iranian case suggest, shipping firms do decide to bear serious costs in order to retain their right to call at US ports. So the policies described could succeed even if only one major import zone, such as the US or the EU, were to implement them. Persuading individual states to take a stand on fighting the resource curse remains a challenge, but one that is significantly easier than achieving universal consensus.

The virtue of the Clean Trade convention is that it utilizes an already-existing global governance regime. Yet it might be argued that such a novel convention falls outside the mandate of the IMO, which has hitherto focused on safety and environmental issues. We contend that a Clean Trade convention would not be beyond the remit of the IMO, and indeed that the organization must decide its position on this core issue.

Enforcing property rights should be a priority in every market, and should be a prime concern of every organization that regulates trade. The question of who is a legitimate vendor of a nation's resources is one that the shipping sector, by its very nature, must answer every day. Those who affirm the principle that a country's resources belong to its people will see today's violation of those property rights as a legitimate concern for the IMO as the global shipping regulator. Indeed, to reject the Clean Trade convention, the IMO would need to endorse the old rule that natural resources can rightly be exported by whoever can control them by force – a difficult position for a UN-based organization to take in the 21st century.

World opinion as reflected in major treaties, the pronouncements of politicians, and polling across all regions, favours popular resource sovereignty. Reforms to the global governance of shipping – even progressive ones such as those proposed here – should be possible when they are based on a principle that so many are already convinced is true.[3]

Objections and replies

Utilizing shipping governance strategies in order to alleviate the resource curse is an innovation that is bound to raise questions among policy practitioners. Here, we aim to address some concerns regarding practicability and efficacy.[4]

One issue that might be raised regarding the proposed policy is that it would only have negligible additional impact for states that have already decided to end imports of authoritarian oil. Going Clean Trade and ending authoritarian imports is the big step, it may be said; these shipping policies add little more beyond that.

We maintain that these shipping policies will add significant extra impact to a national boycott of authoritarian oil. As the Iran case shows, regimes targeted by shipping sanctions receive substantially lower revenues from oil. And non-boycotting countries, like China, will also see their imports from the target country decline.

Another worry is that the shipping policy will be circumvented through refineries in non-adopting countries. The thought here is that non-adopting countries could blend unauthorized oil with other fuels in their local refineries, making the efficient implementation of the policy difficult. For example, a non-producing country could import oil from a disqualified country, refine it and then send it onwards on a non-blacklisted vessel.

Even though this is a possibility, it would not undermine the proposed policy. The policy aims to prevent unauthorized oil from entering the global supply chains by reducing the commercial fleet that is willing to transport it from the country of origin. The main benefit of this strategy is that less oil would leave disqualified countries, because private shipping firms would want to avoid the adverse effects of the proposed policies. So, even though some unauthorized oil would reach refineries, the main policy goal of reducing unauthorized oil exports going onto the market would be achieved.

In a similar vein, it might be said that the proposed policy could be bypassed via reflagging: vessels may fly a flag of convenience or sail under the flag of an oil-exporting country. After all, flags of convenience are being used widely in the shipping sector in order to avoid other regulatory

burdens such as increased taxation or specific crew requirements.

One of the unique benefits of the shipping governance strategies proposed here is that they cannot be circumvented through flags of convenience. These policies will remain largely unaffected by flags because they utilize the IMO identification number, which remains in effect for the whole life of the vessel.

This argument is supported by the Iranian case, during which all vessels that loaded oil from Iran were prohibited from US ports, regardless of their flag. For example, a vessel which violated the sanctions was blacklisted by the US, even though it sailed under different flags (Barbados and Tanzania) between 2009 and 2013, while the corresponding ship owning company was registered in Panama during the same period (Rosett, 2015).

Another concern is that the proposed shipping policy would adversely affect the economic health of the shipping market. The blacklisting of vessels, combined with the ship finance policy, could render certain shipping firms unviable, resulting in defaults on shipping loans, with negative effects on global trade.

In the long term, the policies proposed here will improve the stability of the oil sector, and so the economic health of the shipping market. The most significant cost that shipping firms now face is the resource-curse inflated political uncertainty risk premium incorporated in the global price of oil (Wenar, 2016). Bunker fuels account for 70 per cent of a commercial vessel's operating expenses (Timmer, 2015). The policies proposed here will alleviate the political resource curse, thus decreasing this political uncertainty risk premium which in turn will improve the economic health of shipping firms by decreasing their operating expenses.

Yet one may remain unconvinced regarding the counterbalancing effects of the proposed policy on the shipping market. One could argue that shipping firms would still face losses in the long-run contrary to their purpose, which is to generate profit through economic activity.

We concede that this may be the case, but offer that this is not a decisive argument against the policies proposed. For consider that outlawing *any* undesirable practice will result in the loss of some of the cash flows that were generated by participating in an unregulated market. Regulations against money laundering and terrorist financing, for example, have undoubtedly resulted in hefty losses for financial institutions. Fortunately, firms now are willing to incur some losses in order to join transnational governance regimes. Another example of willingness to bear costs can be seen by the widespread corporate endorsement of *The UN Guiding Principles on Business and Human Rights* (United Nations, Human Rights Council, 2011).

Clean Trade is based on the principle of popular resource sovereignty, and ultimately on the idea of respect for property rights. The resources of each state belong to its citizens – the resources start out in their hands. Respect for property rights is a deep principle of business relations; indeed, without such respect a genuine market cannot even be said to exist. In order to participate in a market, where property rights are respected, shipping firms should not receive revenues that stem from goods that have been, by this widely-endorsed principle, stolen from the people of the country of origin.

Given the political challenges of a shift towards popular resource sovereignty one might wonder whether more limited measures, such as the implementation of shipping transparency policies, would be a more realistic goal. This argument for these more limited policies would be bolstered by the relatively established international consensus on voluntary transparency partnerships, such as the Extractive Industries Transparency Initiative.[5]

It is true that transparency policies would be more easily implemented than the policies described above. It is also true that a focus on transparency would be supported by institutional investors, who have an interest in more complete information. There is no reason to oppose greater transparency in the shipping industry, and indeed we endorse transparency-based reforms enthusiastically.

Nevertheless, even though transparency adds significant value and must be promoted, it will not make a significant difference on its own (Kasekende et al., 2016; Sovacool et al., 2016). Transparency can facilitate better governance in countries where citizens are well-educated on resource issues and already have proper mechanisms to hold their governments to account. In contrast, in resource-cursed countries, where citizens lack bare-bone rights and liberties, improved information will often be of little help. This is because citizens lack the skills to make use of the information that is revealed, or they lack safe avenues to use the information that they have to effect political change (Kolstad and Wiig, 2009).

Finally, one may object that the policies will not be effective because the market will re-adjust. As long as there are states that are willing to buy stolen oil and ships that will risk transporting it to them, the proposed policies will not decrease the amount of stolen oil circulating in the oil market.

The proposed policies are structured in a way that would make a simple re-adjustment of the oil market difficult. As mentioned above, the fact that firms would be unwilling to forfeit their right to call at the ports of major importing countries would reduce the commercial fleet that will be willing to carry stolen oil. This decrease would reduce the outflow of stolen oil in the global supply chains, preventing a simple adjustment of the market to a new equilibrium, where the same amount of unauthorized oil would be circulated and only the agents involved would change.

Finally, it might be argued that even if private shipping firms respond as expected to the proposed policy, blacklisting could still be circumvented by wealthy non-adopting states. For example, a country like China might expand its state-owned fleet in order to compensate for reduced availability of privately-owned vessels.

While this is a possibility, the costs of taking this route would be quite high. Existing shipyard capacity could not meet such an ambitious project, so vessel delivery would

need to be stretched over an extended time-scale. More, even holding aside any costs for expanding ship-yard capacity, building a state-owned fleet that would compensate for the unavailable privately-owned vessels would cost *at least* 84.6 billion dollars.[6]

Conclusion

For over 40 years, the resource curses of authoritarianism and civil war have damaged the prospects of major resource-exporting countries, and the violence from these countries has spilled over borders to create serious threats to major resource-importing countries as well. The shipping industry, which carries resources from the former to the latter, is a promising location of reforms to fight the resource curse. With peaceful unilateral and multilateral action, states can restructure the shipping industry so that it respects the property rights of all peoples in their natural resources. These policies will reduce the conflict and extremism that today emanates from resource-rich states, stabilizing the international system and clearing space on its agenda for addressing other urgent global challenges.

Notes

1. In order for a vessel to be entirely uninsured, both these types of insurance cover must be denied.
2. See Clean Trade (2016).
3. It is important to note that Clean Trade shipping policy is designed to be WTO compatible under the General Agreement on Trade in Services (GATS). Bartels (2015) confirms the WTO compatibility of the major Clean Trade policies.
4. We are very grateful to the editor and three referees of this journal for raising objections and suggesting lines of argument that have improved the paper throughout.
5. The list of actors that have openly supported the effort to improve governance in resource-rich countries includes not only EITI participants (49 countries and 90 major companies) but also 84 global investment institutions, the EU, the African Union, the G20 and the United Nations (EITI, 2017).
6. This calculation was based on the current vessel market prices (Clarksons Research, 2017). It assumes that a VLCC tanker, with a capacity of 320,000 dwt, costs $84.5 million.

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