

ENERGY

Cryptocurrencies & Blockchain Make Inroads Into Energy Markets, For Good And For Bad

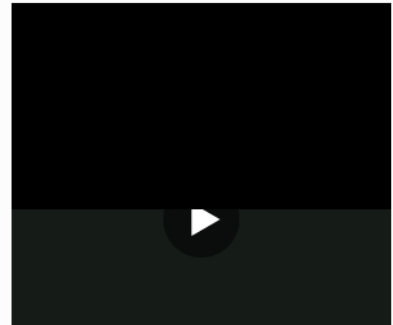
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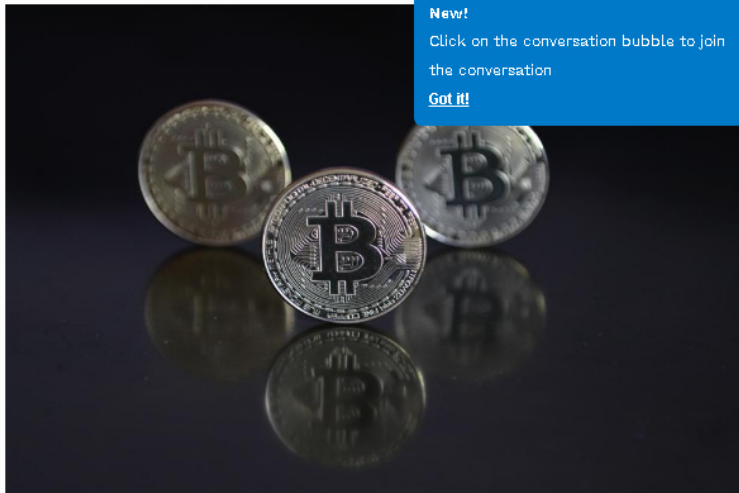
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Bitcoin has a complex relationship with oil FUTURE PUBLISHING VIA GETTY IMAGES

In June, the FBI warned the public of a [LinkedIn scam](#) where users were lured into making significant investments in fraudulent cryptocurrencies. After trust was established, victims were convinced to move investments to controlled sites before they had their accounts drained. This cyber scam was only notable for how stolen cash was subsequently used: purchasing sanctioned oil.

Illegal cryptocurrency accounts received a record-breaking \$14 billion in

transactions in 2021. The decentralized nature of blockchain technology which makes these technologies possible means that every account can be monitored by everyone else, although individual actors remain private. Paradoxically, individuals are anonymous but collective illegal activity is discernable. Illicit crypto participation in energy markets is only increasing, and rogue states are moving into this void. Should they continue their activities, already volatile energy markets will be further undermined.

The illicit marketplace for the oil and gas trade has long plagued the energy industry. Developing countries and those affected by conflict are at particular risk, as armed groups siphon oil for resale. The Nigerian National Petroleum Company Limited (NNPCGROUP) lost **\$1 billion** from oil theft in the first quarter of 2022 alone, with Shell subsidiaries claiming illegal seizure poses an existential threat to the entire market.

In Latin America, oil theft has increased sharply due to price hikes. In particular, **Mexico and Columbia** have seen companies such as PEMEX and ExxonMobil XOM +2.2% suffer due to their inability to clamp down on powerful drug cartels and other criminal elements utilizing cryptocurrency to sell oil.



Oil theft is so endemic in parts of rural Mexico, the Mexican military must patrol pipelines to ...
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As nefarious organizations, individuals, and rogue states consider energy acquisitions, cryptocurrency provides a useful alternative to traditional forms of black-market trade. It's easily transferred, invested, fungible, and secure. Crypto is also already ensconced in the energy sector financial ecosystem due to the nature of cryptocurrency production. Cryptocurrency is so energy intensive to mine that cryptocurrency mining operations have **partnered** with energy providers such as [CanaanPhilling](#) and [Moxther Oil](#).

such as ConocoPhillips [COP +2.4%](#) and Marathon Oil [MRO +3.7%](#).

On a larger scale, the interplay between cryptocurrency, oil, and the black market has already been observed. In 2018, the Venezuelan government launched a cryptocurrency backed by oil to circumvent US and international sanctions. The “Petro” intended to [link](#) crypto investment with Venezuelan crude, commodifying token purchases with one barrel of oil. This seemed a perfect niche for capital generation as Venezuela has the largest proven oil reserves in the world. The currency failed to gain traction largely due to its [lack of utility](#) and placement away from mainstream trading websites. Its failure meant a shift to traditional cryptocurrencies, and to selling smuggled oil on the black market along the [Columbian border](#). Crypto quickly became a viable medium for the black markets in the region. Yet, the highly traceable nature of transactions has complicated operations.



Venezuela's President Nicolas Maduro delivers a speech during a press conference to launch to the ... [+]
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Blockchain tech has also its bright side when it comes to energy as even established companies like IBM [IBM +0.2%](#) and Nvidia can attest. Though mainstream cryptocurrency accounts and trading are privately managed, all transactions are publicly recorded in a “[blockchain](#),” where it’s theoretically possible for investigators to identify sellers and buyers. Tracing technologies have proven to be useful in tracking illegal crypto activities. In February, the [FBI](#) announced it had followed blockchain to seize \$3.6 billion in stolen cryptocurrency. For the energy industry, such blockchain examples present an opportunity to explore improved tracking of oil shipments down to each barrel. Companies like IBM, Deloitte, and Ernst & Young are exploring these developments, arguing that blockchain can [increase security](#), [reduce trade times](#), and create a system that covers the entire [transaction life cycle](#).

The ability to trace oil via blockchain could dissuade black marketeers from selling stolen oil with cryptocurrencies, as investigators have proven their mettle in following purchases to apprehend wrongdoers. There is also an additional proactive utility for states, law enforcement, and oil companies. Blockchain could allow for automatic invoicing and total peace of mind in controlled tracking. Every single barrel of oil could

be publicly tracked drastically simplifying international sanction enforcement. Introduction into the developing world could also prove beneficial, with companies like Shell Nigeria and [Ecopetrol](#) standing to benefit from decreased black market activity.

Companies are also considering blockchain usage to facilitate fluctuations in amounts and prices of electricity. In 2017, a [consortium of start-up companies](#) raised \$300 million to apply blockchain to the energy market. They found its usage most helpful in enhancing trade by facilitating reliable peer-to-peer transactions, thereby lowering cost. Some even [suggested](#) using the technology to track clean-energy production, an increasingly important metric.

While blockchain is further developed and implemented across business sectors, policymakers and private companies should consider its use in expediting safer transactions. For the energy industry, widespread adoption of blockchain tracing will discourage illicit market activity. While staring down the possibility of a protracted energy crisis, ensuring reliable fuel operations will be vital for economic recovery and transition.

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