



Degrading ISIL's Financial Base

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The Islamic State in Iraq and the Levant (ISIL), the vicious and repugnant violent extremist organization that has terrorized communities in Iraq and Syria, presents a unique and gravely concerning security threat. From the perspective of those trying to attack and degrade its ability to raise and move money, thereby denying the group the funds it needs to operate, ISIL poses several distinct challenges in comparison to other terrorist groups. This is due to its extended territorial reach and its successful and varied methods for rapidly raising a large amount of money. Significantly underpinning the group's flush finances is an ability to raise and move cash with relative impunity in large parts of Iraq and Syria and the valuable assets, such as oil, under its territorial control. I will focus my remarks on efforts to degrade ISIL's fundraising, particularly in the oil sector, and some of the strategies and considerations that may shape these efforts in the future.

Estimates of ISIL's budget range widely, from between several hundred thousand dollars to as much as \$2 billion.¹ It is unlikely to be anywhere near the top of that spectrum now, given coalition efforts to degrade ISIL financing last year, but it is without a doubt extraordinarily substantial for a terrorist organization. Additionally, it is difficult to know exact figures for ISIL's proceeds because so much of its revenue is generated through opaque black market and criminal activities, where there is no oversight or insight. ISIL's means of fundraising include sale of stolen oil, kidnapping, theft, extortion, bank robberies and various other criminal activities, and donations from supporters outside of Iraq and Syria.²

It is notoriously difficult to attack ISIL's criminal enterprises as outsiders cannot use many traditional regulatory or law enforcement tools to halt this activity. Moreover, when it comes to raising money from foreign donors, there is a limited amount that the United States and allies can do without more active cooperation of political and regulatory officials in the countries in which donations are made, bundled and transported. To date, and as has been noted by senior Treasury Department officials, such cooperation is inadequate to halt this funding source.³

The revenue ISIL generates from illicit trade in crude oil and lightly refined oil is fundamental to its organizational strength. It earns perhaps a few million dollars a week in oil revenue now, down from a peak of

¹ Dina Temple-Raston, "U.S. Moves to Lock Up ISIS's Abundant War Chest," *NPR Morning Edition*, 20 June 2014, <http://www.npr.org/2014/06/20/323844507/u-s-moves-to-lock-up-isis-s-abundant-war-chest>.

² Matthew Levitt, "Don't bank on bankrupting ISIS, but here's how we shrink its wallet," *The Hill*, November 19, 2014, <http://thehill.com/blogs/pundits-blog/defense/224611-dont-bank-on-bankrupting-isis-but-heres-how-we-shrink-its-wallet>.

³ Remarks of David Cohen, "Confronting New Threats in Terrorist Financing," (Center for a New American Security, Washington, March 4, 2014).

perhaps two to three million dollars a day.⁴ This amount accounts for the deep discount ISIL has to offer to sell oil in the black market.⁵ ISIL sells oil to middlemen in Turkey and to Iraqi Kurds who then sell it to end users in Turkey, Syria and sometimes refine it for transport back to consumers in Iraq. Traffickers of this stolen oil or refined product use tanker trucks or smaller transports and networks of primitive pipelines and supply chains.⁶ This oil smuggling network is among the most sophisticated in the world. The region has a long history of sanctions evasion and illegal oil market trafficking, honed during the Saddam Hussein-era oil for food program.

Though we are aware of ISIL's means of oil production, processing and transport, as well as the existence of a network of middlemen who take the oil from ISIL to where it is sold to end users, this is an unregulated space in loosely monitored border regions and there are limitations on the will and capacity among ISIL's territorial neighbors to crack down on these illicit activities. There is also much work to be done to identify the individual middlemen and where they bank, where they incorporate their businesses and with whom they insure their trucks and storage facilities. This is information which can and should be used to penalize them for their activity, raise ISIL's costs of engaging in the oil smuggling business and deter would-be entrants into this criminal smuggling enterprise from trying to backfill those who decide the expense and risk is no longer worth it.

The key strategies that the United States and its coalition partners are using to attack ISIL's ability to raise oil revenue are bombing some oil-related targets, primarily including the smaller, primitive refineries ISIL uses to process crude oil in Syria.⁷ These primitive refineries produce as little as 100 barrels per day.⁸ Destroying these facilities decreases the amount of refined product ISIL has to use or can sell to raise money. Turkey and the KRG have expressed commitments to limit the stolen Iraqi oil that ISIL is selling into their territory,⁹ which is largely an exercise of greater control over porous borders and greater oversight of commercial activities. These efforts have met with some success, chipping away at the volumes of refined product that ISIL can benefit from, primarily in regions of Syria.¹⁰

But we must do much more to attack ISIL's revenue generation and we need further measures to disable ISIL's ability to earn money on oil sales. In this domain, there are some important parameters to consider about what steps we should avoid in efforts to attack ISIL's finances, and what strategies could hold promise in the future.

First, there are a variety of targeted economic measures that are not well-suited to the task of degrading ISIL's oil revenues and should not be part of the strategy. It may be tempting to think that causing major damage to oil fields or major energy infrastructure, such as larger refining operations, processing facilities and significant pipelines, within ISIL territorial control is a good strategy to degrade ISIL's fundraising. This would deny ISIL the ability to produce, process and transport significant amounts of oil, and benefit from this commodity and its sale. However, it would make it much harder for the Iraqi people to meet their current, basic energy needs, or for Iraqi, Peshmerga or other coalition fighters to operate in areas they seize from ISIL. Also, it

⁴ Gopal Ratnam and John Hudson, "Kerry: Assad and ISIS have 'Symbiotic' Relationship," *Foreign Policy*, November 17, 2014, <http://foreignpolicy.com/2014/11/17/kerry-assad-and-isis-have-symbiotic-relationship/>.

⁵ Dr. Valerie Marcel, "ISIS and the Dangers of Black Market Oil," Chatham House, July 21, 2014, <http://www.chathamhouse.org/expert/comment/15203>.

⁶ Ibid.

⁷ "U.S. Partner Nations Conduct 13 Strikes Against ISIL in Syria," U.S. Central Command News Release, September 24, 2014, <http://www.defense.gov/news/newsarticle.aspx?id=123257>.

⁸ Deborah Amos, "How the Islamic State Smuggles Oil to Fund Its Campaign," *NPR Morning Edition*, September 9, 2014, <http://www.npr.org/blogs/parallels/2014/09/09/346844240/how-the-islamic-state-smuggles-oil-to-fund-its-campaign>.

⁹ Remarks of David Cohen, "Attacking ISIL's Financial Foundation" (Carnegie Endowment for International Peace, Washington, October 23, 2014).

¹⁰ Ibid.

would cause significant, long-term damage to oil reservoirs and infrastructure assets and make it extraordinarily difficult and expensive, perhaps prohibitively so, for Iraqis to eventually rebuild in a post-ISIL environment.

Iraq's central government is struggling financially, particularly in this oil price environment. It is hard to see how the Iraqi government would ever be able to afford reconstruction of a major infrastructure asset, such as a refinery that costs billions of dollars. Moreover, the global refining sector is relatively oversupplied, and while that will eventually abate, there may not be international investor appetite to build any significant refinery capacity in Iraq for the foreseeable future, even if security can be assured. In short, destroying major energy infrastructure in ISIL's territory is not an optimal strategy for degrading ISIL finances because of the tremendous costs it will exact on Iraqis today and the significant, maybe even insurmountable, economic handicap it will put on the ability of Iraqis to rebuild energy assets when ISIL is defeated.

What are constructive additional steps that the international coalition can take to degrade ISIL's ability to raise oil revenue? As has been outlined by the Treasury Department, the United States can and should go after the middlemen who buy oil and refined products from ISIL and sell it to end users.¹¹ The United States should enhance work with Turkey and the KRG to better monitor borders. Especially in Turkey, the United States should work with local authorities to help create much greater banking and financial regulatory oversight to monitor for those who may trade oil with ISIL, and create legal and monetary penalties for those individuals who traffic in illicit oil.

There may be other steps that the United States and allies can take to degrade ISIL's ability to earn energy revenues. A novel idea that deserves further consideration is an effort by the international coalition to work with Turkish authorities to expand the supply pool in Eastern Turkey and make it less attractive to buy smuggled oil from ISIL that is cheaper than alternatives in this region. It will not be possible to stop shadowy oil trading from occurring in ISIL border regions as long as there is any commercial incentive to do so. However, efforts that change the access to affordable supply for people in Eastern Turkey can force ISIL to take an even lower price and earn less money. This could land a serious blow against ISIL revenue generation if paired with an effort to crack down on middlemen trading oil purchased from ISIL and a stepped up bombing campaign of some smaller ISIL-linked energy infrastructure in Iraq and Syria.

Efforts to degrade ISIL's ability to raise and move money must be at least as diverse and creative as ISIL's nefarious and varied strategies for gathering it in the first instance. Additionally, efforts to degrade ISIL's funds will work best when in close coordination with the various other diplomatic, military and intelligence means that the United States and our allies have for striking at ISIL. Beyond the efforts of the international coalition of governments united in the fight against ISIL, there is an opportunity to incorporate expert views and strategies from independent scholars and experts as well. Using new energy market-based techniques, strategic supply chain management and enhanced cooperation with banks and financial regulators in Turkey and the KRG to apply pressure on ISIL and those who deal with the organization may be promising new fronts for this campaign. They may offer effective new means for meaningful pressure on ISIL and are worthy of serious additional consideration by those leading the fight.

¹¹ David Cohen, "Attacking ISIL's Financial Foundation" (Carnegie Endowment for International Peace, Washington, October 23, 2014.)