



A new front in the war on ISIS: Cut off its cash

John W. Schoen | @johnwschoen

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Even before last week's Paris attacks, U.S. officials had opened up a new front in the war on ISIS: cutting off its cash flow.

The self-proclaimed Islamic state has "revenue streams (that) are, to be sure, diverse and deep," David Cohen, a senior Treasury official, said during a Washington speech last year, making it "probably the best-funded terrorist organization we have confronted."

While funding for the jihadists' global terror operations and ongoing control of Iraqi and Syria territories come from a variety of sources, an accurate accounting is problematic.

A large portion of the group's war chest comes from cash that has been stolen from Iraqi banks, along with other valuable assets seized during its invasion of Mosul last year, according to various analysts, who estimate the group made off with hundreds of millions of dollars.

This summer, concerned that cash flowing through the Iraqi banking system might still be ending up in ISIS accounts, the U.S. Treasury and Federal Reserve temporarily suspended transfers to Iraq's central banks, according to The Wall Street Journal. Payments were resumed after Iraqi central bankers warned that they were running out of cash, the newspaper reported.

But the suspension came as U.S. officials seek to track down the financial footprints of the terrorist group and coalition forces step up military strikes to turn back territorial gains by ISIS.

"It's a matter of developing the names of the individuals who control these accounts and working your way back thorough there," **Kroll Associates Chairman Dan Karson told CNBC.** "Once you have the control of the account and the cooperation of the exchange, or the control of the network, then you can work your way back and find out who these people are who are contributing to the network itself."

Much of the cash raised by ISIS, though, doesn't flow through conventional financial channels.

The Islamic State raises millions of dollars a week from "taxation" and outright extortion of businesses and local government and civilian workers, according to Howard Shatz, a senior economist at the Rand Corp.

"ISIS raises much of its money just as a well-organized criminal gang would do; it smuggles, it extorts, it skims, it fences, it kidnaps and it shakes down," he wrote in a blog post.

Last year, ISIS raised as much as \$20 million from kidnapping alone, according to Cohen at the Treasury Dept.

The group is also generating millions of dollars a week from the sale of stolen oil from oilfields and makeshift refineries in territory it controls. Those facilities have recently become fresh targets for a stepped-up round of air strikes for coalition forces.

In one of the latest strikes, coalition aircraft hit the Qayyarah oil refinery in Iraq just after midnight local time Oct. 16, according to U.S. Central Command. The attack — captured in a video released by CentCom — was aimed at cutting off ISIS funding from the sale of "oil stolen from the people of Iraq," according to a statement from military officials.

In addition to training camps and armories, coalition forces have identified a half-dozen Syrian oilfields under ISIS control as potential targets, according to The New York Times.

Syrian oil production had been falling even before civil war. Since peaking in the mid-1990s, Syria's oil output has steadily declined as its aging oilfields have become depleted.

Once a major source of revenue for the Syrian government, proceeds from oil sales were sharply curtailed in 2011 following the imposition of sanction by its European customers. Sales of Syrian crude oil to those European countries amounted to some \$3.6 billion a year, according the U.S. Energy Information Administration.

Since then, the ongoing Syrian civil war has severely curtailed output as the government has lost control of major oil facilities.

As of last year, ISIS controlled as much as 350,000 barrels per day production capacity in Iraq and Syria, but was only able to produce 50,000 to 60,000 barrels a day, according to estimates from IHS.

The oil is sold on the black market, mostly via trucks smuggling it over the border to Turkey, a route first established more than a decade ago by former Iraqi dictator Saddam Hussein, who used the black market to evade sanctions on oil sales.

That supply chain, created to evade the UN's oil-for-food program, still provides a ready market for oil and diesel fuel produced at facilities seized by ISIS.

The group has set up what amounts to its own oil company, recruiting trained engineers and managers through a human resources department and offering competitive salaries; some formerly worked at the oilfields now under ISIS control, according to the Financial Times.

By targeting a cluster of ISIS-controlled oilfields, the U.S.-led coalition is hoping to put a serious crimp in the group's oil production and cut off an important source of cash.

The loss of oil revenues would further strain the terrorist group's ambition to establish a true state and deliver basic services to the people it is trying to conquer. By way of comparison, the Iraqi government budgeted more than \$2 billion to provide services in the provinces where ISIS operated last year, Treasury's Cohen noted, far more cash than ISIS is generating.

No matter how well the rest of the world is able to isolate ISIS financially, however, efforts to curb ISIS's terrorist ambitions by restricting its cash flow can only go so far, according to Kroll's Karson.

"Money is only part of it," he said. "You don't need a lot of money to move across borders and you don't need a lot of money to buy explosive devices. So it's a part of the puzzle, but it's by no means the entire thing."