



The ISIS Economy: Will Losing Territory Cripple Islamic State?

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OE Watch Commentary: Two recent offensives in Syria against the Islamic State of Iraq and Syria (ISIS) have squeezed its so-called caliphate into a small pocket of territory between the Syrian and the Iraqi border. More crucially, these two successful operations have almost ended the group's ability to generate the revenue necessary to sustain its operations. As the first accompanying passage notes, on 12 November 2017, the SDF, a coalition of Sunni/Kurdish fighters spearheading the offensive against ISIS in eastern Syria, seized the al-Tanak oilfield in Deir al-Zour province from the group. Just a few weeks earlier, on 21 October, the Syrian army wrested control of the al-Omar oilfield, also in Deir al-Zour province, from ISIS. The ground operation, supported by air power, ultimately deprived the terrorist group of the most important energy asset under its control since 2014.

Since the establishment of its self-proclaimed caliphate in 2014, ISIS had effectively reached economic self-sufficiency through the illegal exploitation of energy, business, agricultural and commercial assets in territory under its control in Syria and Iraq. As such, it was frequently described as the richest terrorist organization in history. Without that constant flow of cash replenishing its coffers and underpinning the attempts at governance and the highly bureaucratic structure it set up, its caliphate (used in this article to refer to the administrative body of ISIS) would probably never have reached the semblance of a functioning entity.

At the time, ISIS's finances were based on four pillars. The first was the production and smuggling of energy-related products, such as oil, natural gas and gasoline. Second, ISIS had a pervasive system of taxation on the population and on the profits of all commercial activities held in areas under its control as well as the confiscation of commercial assets and properties. Third, ISIS conducted a range of illegal activities, including bank robberies, drug and antique smuggling, kidnappings for ransom and the exploitation of local resources such as agriculture. Finally, ISIS managed state-run businesses, including small enterprises such as transport companies or real estate agencies.

At the peak of ISIS territorial strength in Syria and Iraq, around late 2014, the group was exploiting more than 360 oil and gas fields in the two countries, including those in the oil-rich Deir al-Zour province, home to two-thirds of Syria's energy assets. Meanwhile, about nine million people were living in the caliphate and were compelled to pay taxes and fines to the group or face brutal punishments. Major population centers — including Mosul, Ramadi and Tal Afar in Iraq, and Raqqa, Deir al-Zour and Mayadin in Syria — provided the group with crowded markets from which a share of the profits ended up in its own treasury. This strict control over populace and territory, coupled with the lawlessness in Syria and western Iraq, ultimately enabled ISIS to create a parallel economy to sustain its territorial gains and fund its war machine.

However, providing basic services to the local population, running militant training camps and supporting thousands of fighters and their families who had migrated from different parts of the world to pursue their dream of living in a state “truly governed by Islamic law” all required regular funds. As this system was largely dependent on the exploitation of territory, ISIS' ability to generate money has always been strictly correlated to its level of territorial control.

By about mid-2015, for instance, when its caliphate still encompassed large swaths of territory in both Syria and Iraq, ISIS' overall monthly revenue was estimated at around \$80 million. Approximately 50% of this came from taxation and confiscation, while some 43% came from oil revenue. In early 2016, as its territorial control started to decline rapidly, the group's monthly revenues dropped by about 30 percent— as the population living within the caliphate declined to around six million people, leaving it with fewer people and businesses to tax and less property and land to confiscate. Meanwhile, oil production also went down from 33,000 barrels to 21,000 barrels per day. This was the result of energy assets being retaken from ISIS' control, especially in Iraq, and the increased military efforts of the US-led coalition to degrade the group's ability to produce energy-related products. Almost all of the main oilfields operated by the group were targeted by airstrikes, resulting in reports of extensive structural damage and the slowing of oil production.

By June 2017, three years after ISIS leader Abu Bakr al-Baghdadi declared the caliphate, the group had lost more than 60 percent of its territory and 80 percent of its revenues. There was a steady decline in the group's financial streams: oil production and smuggling, taxation, confiscation and other illicit activities. As the second accompanying passage notes, average monthly oil revenue went down by 80%, and income from taxation and confiscation has fallen by 79 percent. Territorial losses have played a key role in contributing to this loss of revenue. In particular, the group has been hurt by the recapturing of heavily populated Iraqi cities, such as Mosul, and oil-rich areas in the Syrian provinces of Raqqa and Homs.

As the group's strategic priority will now be waging a guerrilla style insurgency in both Syria and Iraq, the group will likely channel the money it has stockpiled over the years to fund its future campaigns. This is a considerable amount, and will be sufficient for ISIS to remain relevant in the years to come, even without territory under its control to exploit. **End OE Watch Commentary (Carlino)**

“The sharp decline in territory has also damaged IS's ability to collect revenue from oil production and smuggling, taxation, confiscation, and other similar activities.”

(continued)



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Source: عاصفة الجزيرة تحرر حقل التنك النفطي وقرية البصيرة (Al-Jazeera Storm liberates the al-Tanak oilfield and the town of al-Busayrah), *Hawarnews*, 12 November 2017. <https://goo.gl/9Ubivs>

Al-Jazeera storm [the name of the SDF operation] today liberated the Al-Tanak oil field and the village of Al-Basira in the countryside of Deir Al-Zour from the hands of mercenaries."

Source: "IS has lost 60% of territory, 80% of revenue: analysts," *Al Monitor*, 29 June 2017. <http://www.al-monitor.com/pulse/afp/2017/06/syria-conflict-iraq-is.html#ixzz54Nq6Lt4H>

"The sharp decline in territory has also damaged IS's ability to collect revenue from oil production and smuggling, taxation, confiscation, and other similar activities.

IHS Markit said IS's average monthly revenue has plummeted by 80 percent, from \$81 million in the second quarter of 2015 to just \$16 million in the second quarter of 2017."



Flags of the Syrian Democratic Forces, People's Protection Units, and Women's Protection Units at the center of the city of Raqqa after its complete capture by the SDF.

Source: By Voice of America Kurdish via Wikimedia Commons, https://commons.wikimedia.org/wiki/File%3ASDF%2C_YPG%2C_and_YPJ_flags_in_Raqqa_centre.png, Public Domain.



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