Low oil prices: A double-edged sword in the fight against ISIL/Da'esh

Since its establishment in 2014, ISIL/Da'esh has become one of the most dangerous terrorist organisations in history, due to its ideological appeal, territorial expansion, and diverse sources of revenue, including from oil sales. As plunging oil prices reduce the 'caliphate's' profits, they may also bear a negative impact on the capacities of the anti-ISIL/Da'esh coalition.

Recent evolution of the oil market

Driven by weaker demand and robust supply growth, the benchmark price of Brent crude oil has dropped from a peak of US$115 per barrel in June 2014 to a 12-year low of US$26 a barrel on 20 January 2016, although by 7 March it had recovered to above US$40 a barrel. Although the macroeconomic situation is expected to improve in 2016, the International Energy Agency forecasts that global oil demand will slow to 1.2 million barrels a day, in line with the long-term trend. In February 2016, the representatives of several oil producing countries – Kuwait, Iraq, Oman, Russia, Saudi Arabia, and Venezuela – agreed to freeze their output levels to stabilise the volatile oil market. The real impact of the deal, however, will depend on the implementation of its provisions and the production levels of other important players – such as Iran and Kurdistan Regional Government (KRG) – whose national budgets are dependent on high production volumes. It is also unlikely that Saudi Arabia and its OPEC allies – Kuwait, Qatar and the United Arab Emirates – will drastically change their strategy, which aims to make oil production unprofitable for higher-cost energy producers (especially in North America) and ultimately drive its competitors from the market.

Double-edged sword: damaging ISIL/Da'esh, undermining the coalition

Since its establishment in 2014, ISIL/Da'esh has slowly turned the territory it occupies – the self-proclaimed 'caliphate' – into a functioning state, issuing identity cards, collecting taxes, putting its own legal system in place, and maintaining its own army of up to 25 000 fighters. According to the Financial Action Task Force (FATF), ISIL/Da'esh represents a new form of terrorist organisation where funding is 'central and critical' to its activities. In order to fund these activities, ISIL/Da'esh relies on multiple sources of funding; including up to US$1 billion seized from Iraqi banks; hundreds of millions in taxes and extortion taken from eight million civilians living in the territory under the group's control; revenue from agriculture; and millions of dollars from looted antiquities and ransom claims. A large share of the 'caliphate's' budget comes from the illegal trade in oil generated through operation of numerous oilfields in eastern Syria (e.g. al-Omar, Tanak and Jafra) and in western and northern governorates in Iraq (e.g. Nineveh, al-Anbar, and Salaheddiin). ISIL/Da'esh involvement in the oil business is partly built on criminal networks that developed following the imposition of UN sanctions on Iraq in 1990, which explains how the group was able to build a profitable business in such a short time. At the end of 2014, the annual income from refining and smuggling oil was estimated at between US$730 and US$1 460 million. Payments are mostly made in cash, which makes transactions difficult to trace and disrupt.

At the same time, low oil prices have adverse effects on anti-ISIL/Da'esh coalition efforts. Kurdish Regional Government (KRG) oil revenues are significantly lower than expected, resulting in an estimated US$14 billion debt, of which US$4 billion is owed to oil companies (including Norwegian, Turkish and UK contractors). The risk of potential lawsuits by foreign companies might adversely affect the KRG's capacity to counter the threat posed by ISIL/Da'esh, and may pose a risk to KRG stability in general, given that one in six Iraqi Kurds are considered KRG employees. The government in Baghdad has offered to support the Kurdish Regional Government in Abril with a subsidy – equal to about 17% of Iraq's budget – in exchange for delivery of KRG's

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oil to Baghdad's oil marketing company. KRG President Massoud Barzani's low popularity, and the risk of instability, may be additional disrupting factors, given that most of the territorial advances against ISIL/Da'esh throughout 2015 were made by the Kurdish Peshmerga and the Kurdish People's Protection Units (YPG), supported by the US-led coalition and Iraqi security forces. In addition, the International Monetary Fund estimates that the revenues of Saudi Arabia and other countries in the Persian Gulf which are heavily engaged in conflicts in Syria and Yemen – will fall by US$300 billion in 2016, which may diminish their commitment.

Diplomatic efforts to cut demand

The foundations for the UN response to terrorism financing were laid down in United Nations Security Council Resolution (UNSCR) 1373 (2001). UNSC resolution 2161 (2014) obliges member states to ensure that no funds, financial assets or economic resources are made available, directly or indirectly for the benefit of ISIL/Da'esh by their nationals or by persons within their territory. To achieve that aim, states are obliged to freeze ISIL/Da'esh funds and other financial assets or economic resources without delay. UNSC resolutions 2170 (2014) and 2199 (2015) list several ISIL/Da'esh revenue funding streams, including revenue generated from control of oil fields and related infrastructure (i.e. mobile refineries, trucks). The latter, in particular, condemns any engagement in direct or indirect trade with ISIL/Da'esh, and reiterates that such actions would constitute support for terrorism and may result in inclusion on the United Nations ISIL (Da'esh) and Al-Qaida Sanctions List. UNSC resolutions 2178 (2015) and 2199 (2015) also oblige all states to ensure that financing, planning, preparation or perpetration of terrorist acts or in supporting terrorist acts are established as serious criminal offences in domestic law and their perpetrators brought to justice.

Military response to curb supply

The US-led operation 'Inherent Resolve' strategy has gradually evolved from one focused on destroying industrial refineries to one aimed at disrupting the ISIL/Da'esh oil supply chain, including the bombing of long lines of trucks, and destroying ISIL/Da'esh's cash reserves. According to some estimates, ISIL/Da'esh was making US$40 million a month on oil alone in early 2015, but US-led airstrikes have significantly reduced this amount. In September 2015, the US Department of State offered a US$5 million award for information that would help disrupt the group's trade in oil and trafficking of antiquities. As of 9 February 2016, the military operation in Syria had resulted in the destruction of, or caused damage to, 1 216 oil infrastructure-related targets. In addition, although not part of the US-led coalition, Russian airstrikes in Syria have also contributed to disrupting ISIL/Da'esh commercial channels for the sale of oil.

Short to medium-term implications

The international campaign to curb ISIL/Da'esh funding has had mixed results, and the group still poses a significant threat. Firstly, the focus on reducing payment of oil revenues to the ISIL/Da'esh budget, and restraining its capacity to maintain an army of foreign fighters, has reportedly resulted in 50% salary cuts, leading some fighters to leave the group. However, thanks to the growing pressure on its finances, ISIL/Da'esh focus on alternative sources of revenue is likely to grow. This may lead to more reliance on funding from resource-rich 'provinces' (*wilayat*) in Libya, Yemen and Nigeria, or a more aggressive posture (including kidnapping for ransom) in pockets of instability in Africa and the Middle East. The group may also opt to intensify its propaganda campaigns and for more frequent attacks, as a way to energise its supporters worldwide. Secondly, political instability in countries suffering from low oil prices may increase the risk of social discontent, leading to domestic instability, which in turn might create an advantageous environment for radicalisation. This is particularly the case of petro-states such as Saudi Arabia, Nigeria and Russia, which are cutting public spending to deal with lower revenues whilst facing increasing ISIL/Da'esh activism on their territory or in neighbouring countries. Finally, while the work on developing an international legal framework to counter terrorism financing continues – including the EU Action Plan of 2 February 2016, to strengthen the fight against the financing of terrorism and the proposed Directive on combatting terrorism – the implementation of this regime requires additional effort. Although recognising general progress in criminalisation of terrorist financing, the FATF report to G20 leaders of November 2015 concluded that a majority of jurisdictions remain too slow in implementing UN targeted financial sanctions. In addition, several countries have traded accusations of involvement in oil trading with ISIL/Da'esh. In February 2016, Russia submitted a letter to the UN, in which it provides examples of Turkey's involvement in trade in oil from ISIL/Da'esh-controlled territories.