

A Dark Pool in the Mideast: The Problem of ISIS Oil Sales

Prepared by Minority Staff for Ranking Member Lisa Murkowski
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Introduction

The rise of ISIS has stunned the world.¹ On September 10, President Obama vowed to “redouble our efforts to cut off its funding.”² The Treasury Department elaborated in a statement published on the same day:

“But we are mindful that ISIL [a.k.a., ISIS], unlike many other terrorist groups, also relies on significant funding derived from sources internal to Syria and Iraq, including criminal conduct such as smuggling, extortion, and robbery...**And the group also benefits from sales of Iraqi and Syrian oil.**”³ [emphasis added]

This report assesses the quality and scope of public information available concerning ISIS black market oil sales.

Apples and Oranges on Production

It is likely that no one – probably not even ISIS – knows exactly how much oil ISIS is producing, how much it is selling, and how much revenue this activity is generating. The mechanics of the group’s petroleum operations are shrouded in uncertainty, and estimates vary based on assumptions and parameters.

It is unlikely that ISIS produces as much oil as the theoretical capacity of the oilfields it seizes, as equipment is often damaged and skilled labor – whether foreign or local – may flee the violence. One analyst at the RAND Corporation noted:

“Oil is ISIL’s biggest source of revenue but also presents the biggest problem. ISIL controls about a dozen fields in Syria and Iraq, in addition to a number of refineries, including mobile refineries. Based on media accounts, RAND has estimated the total production capacity of these fields to be more than 150,000 barrels per day, although actual production is estimated to be much lower.”⁴

¹ Congressional Research Service, “The ‘Islamic State’ Crisis and U.S. Policy,” September 11, 2014 (R43612).

² Statement by the President on ISIL, Office of the Press Secretary (September 10, 2014): <http://www.whitehouse.gov/the-press-office/2014/09/10/remarks-president-barack-obama-address-nation>.

³ Under Secretary David S. Cohen, “Combating the Islamic State of Iraq and the Levant’s Access to Financing,” Treasury Department (September 10, 2014): <http://www.treasury.gov/connect/blog/Pages/Combating-ISIL-.aspx>.

⁴ Howard J. Shatz, “To Defeat the Islamic State, Follow the Money,” *Politico Magazine* (September 10, 2014): <http://www.politico.com/magazine/story/2014/09/to-defeat-isil-follow-the-money-110825.html>.

Actual production is split between the Iraqi and Syrian territories that ISIS has captured. Sheer geography dictates that ISIS controls more of Syria's potential production than that of Iraq, where the principal petroleum centers lie in the south of the country and have, so far, been largely unaffected by the war. The Iraq Energy Institute estimates that ISIS produces 30,000 barrels per day from its Iraqi fields and 50,000 barrels per day from its Syrian fields.⁵ Another estimate by a Brookings Doha Center scholar put the Iraqi share of ISIS production in a range between 25,000 and 40,000 barrels per day.⁶ Chatham House published an expert comment in July that summarized the latest thinking at the time:

“According to estimates made by the Syrian Observatory for Human Rights, total Syrian production in the hands of rebels, tribes and local families amount to approximately 60,000 barrels per day (b/d). And ISIS controls more than 60 per cent of Syria's oil, according to the interim Syrian opposition government. ISIS production methods are said to be primitive, meaning they are not extracting the crude anywhere near maximum flow rates. Syria's largest field, Omar, for instance, is a mature field, which requires water injection to enhance recovery. ISIS has managed to produce around 20,000 b/d from this field, from a maximum capacity of 75,000 b/d, according to recent Economist Intelligence Unit estimates.”⁷

The approximation of 60,000 barrels per day mentioned in the comment above, however, does not include a more granular breakdown specifying how much is in ISIS hands. It is also unclear whether the 60 percent figure applies to oil reserves, oil production, or perhaps the number of oil fields in Syria.

These estimates of ISIS production from Syrian fields conflict with overall Syrian production estimates. In February 2014, the U.S. Energy Information Administration reported:

“The latest EIA estimates indicate that Syrian crude and condensates production has fallen to barely 25,000 bbl/d—including production outside the control of the Syrian government—or a drop of roughly 90% since March 2011 when the conflict began.”⁸

While this estimate may be dated, a recent assessment from earlier this month by the International Energy Agency – which estimates Syrian production at 30,000-40,000 barrels per day – is strikingly similar to the EIA assessment.⁹ It is unclear how or whether ISIS

⁵ Cited in John Defterios, “ISIS' struggle to control its oil riches,” CNN (September 4, 2014): <http://edition.cnn.com/2014/09/03/business/defterios-oil-isis/>.

⁶ See the reference to Luay al-Khatteeb in David E. Sanger and Julie Hirschfeld Davis, “Struggling to Starve ISIS of Oil Revenue, U.S. Seeks Assistance from Turkey,” *New York Times* (September 13, 2014): <http://www.nytimes.com/2014/09/14/world/middleeast/struggling-to-starve-isis-of-oil-revenue-us-seeks-assistance-from-turkey.html>.

⁷ Valérie Marcel, “ISIS and the Dangers of Black Market Oil,” Chatham House (July 21, 2014): <http://www.chathamhouse.org/expert/comment/15203>.

⁸ EIA, “Syria” Country Analysis Brief (February 18, 2014): <http://www.eia.gov/countries/cab.cfm?fips=sy>.

⁹ IEA, Oil Market Report (September 11, 2014).

production is higher than overall Syrian production. Some claims for ISIS volumes reach as high as 180,000 barrels per day just from the Syrian fields, which is highly unlikely. Meanwhile, another report, which estimates ISIS production capacity at 55,000 barrels per day, notes that ISIS “has adopted a scorched earth policy of torching oil fields in retreat,” adding additional uncertainty to these figures.¹⁰

Revenue Variables

All estimates of ISIS trade flows must be treated with a great deal of caution. For example, it is likely that a purchaser of oil from ISIS may not always know the origins of the oil in question. The group could be taking oil directly from a field, loading it onto a truck, driving the truck the border, selling the oil at a massive discount, and pocketing the revenue.¹¹ In other cases, the group could collect a “tax” on black market operations run by smugglers and criminals. It is also possible that some oil could simply be bartered for weapons, food, and other materiel or services – or even put into storage for later use. ISIS might even permit illicit trading by others for its own purposes.

ISIS also likely does not export all of its production. Domestic markets in Syria and Iraq would purchase some portion of ISIS crude oil. (Whether ISIS sales of Iraqi oil to customers in Syria, or vice versa, count as exports is another vexing analytical question.) One analyst at the Royal United Services Institute estimated ISIS exports and pricing as follows:

“IS [Islamic State] exports about 9,000 barrels of oil per day at prices ranging from about \$25-\$45 (£15-£27). Some of this goes to Kurdish middlemen up towards Turkey, some goes for domestic IS consumption and some goes to the Assad regime, which in turn sells weapons back to the group.”¹²

Total revenue accruing to ISIS is another question. The oft-cited Iraq Energy Institute estimate of \$3.2 million (\$2 million from Syrian oil, \$1.2 million from Iraqi oil) assumes an average of \$40 per barrel for 80,000 barrels. Another estimate put the figure at \$50-60 per barrel.¹³ An earlier estimate pegged the price at \$30 per barrel, and assessed revenues at \$1 million per day from Iraq and potentially \$100 million per month for ISIS production

¹⁰ “ISIS Oil Revenue Streams May Prove Resilient,” *Weekly Energy, Economic & Geopolitical Outlook* (September 12, 2014), Middle East Energy Survey, pp. 12-13.

¹¹ See Benoit Faucon and Ayla Albayrak, “Islamic State Funds Push Into Syria and Iraq With Labyrinthine Oil-Smuggling Operation,” *Wall Street Journal* (September 16, 2014): <http://online.wsj.com/articles/islamic-state-funds-push-into-syria-and-iraq-with-labyrinthine-oil-smuggling-operation-1410826325>. According to this report, ISIS produces 100,000 barrels per day and earns some \$2 million per day, using rafts, pipelines, and even mules – in addition to trucking – to transport the oil.

¹² Michael Stephens, “Islamic State: Where does jihadist group get its support?” BBC News (September 1, 2014): <http://www.bbc.com/news/world-middle-east-29004253>.

¹³ Richard Mallinson cited in Karen Leigh, “Examining the ISIS Oil Business,” ABC News/Syria Deeply (September 13, 2014): <http://abcnews.go.com/International/examining-isis-oil-business/story?id=25472284&singlePage=true>.

from both Iraq and Syria.¹⁴ These are averages, of course, so it is conceivable that individual ISIS oil transactions could close at prices lower or higher than these ranges under certain circumstances.

Conclusion

Substantial uncertainty pervades our understanding of the mechanics, volume, and revenue associated with the terrorist group's black market petroleum operations. Inconsistent methodologies, varying assumptions, and understandably questionable data account for these differences, as well as the evolving situation on the ground. This uncertainty does not in any way detract from the threat ISIS poses. Depriving ISIS of whatever dark revenue pool it generates from its sales of oil will put additional strain on an organization with little capacity to expand its oil field operations.¹⁵ If the coalition is able to take ISIS production off-line, the historic growth in U.S. oil production could easily make up the shortfall to global oil markets, whether ISIS production is 25,000 or 80,000 barrels per day.¹⁶ Rapid growth in North American petroleum production, in fact, partly explains why global benchmark oil prices have fallen despite the rise of ISIS.

¹⁴ Robin Mills and Theodore Karasik cited in Karen Leigh, "ISIS Makes Up To \$3 Million a Day Selling Oil, Say Analysts," ABC News/Syria Deeply: <http://abcnews.go.com/International/isis-makes-million-day-selling-oil-analysts/story?id=24814359&singlePage=true>.

¹⁵ Borzou Daragahi and Erika Solomon, "Fuelling Isis Inc," *Financial Times* (September 21, 2014): www.ft.com/cms/s/2/34e874ac-3dad-11e4-b782-00144feabdc0.html. This report cites Chatham House's Valérie Marcel, who suggests that ISIS is evolving from "a constellation of little middlemen with small volumes crawling around the whole territory" into a more sophisticated organization that is "easier to target."

¹⁶ See, for example, *Crude Oil Export Decision: Assessing the Impact of the Export Ban and Free Trade on the US Economy*, IHS Energy (May 29, 2014): "Over the past three years— coinciding with a period of very strong increases in US and Canadian oil production—there have been significant production outages in key crude supplying countries outside of North America. Today, roughly 3 million B/D of production is off the market due to various production issues...Meanwhile, between 2008 and March 2014, US production on an annual basis has grown by 3.2 million B/D—an increase of 64%." (p. 80)