Access to oil makes ‘Islamic State’ a greater threat than al-Qaeda

Iran, the Arab States of the Persian Gulf region and North Africa discovered oil in the first half of the 20th century. They used the proceeds of oil sales – boosted by the 1973 oil embargo and various nationalizations – to advance their societies. Governments from Libya to Iraq to Saudi Arabia and Oman have used oil to fund education, healthcare and social welfare programs. Oil has vastly changed the social landscape in the Gulf region, turning Bedouins and pearl fishermen into oil sheikhs and desert tents into the grandiose skyscrapers that dot the shorelines of Kuwait, Saudi Arabia and Dubai. However, oil States, monarchies and republics alike have also used oil wealth to pursue covert regional and international political agendas. Libya’s defunct dictator Mo’ammar al-Qadhafi financed Palestinian nationalists as well as pet rebellion projects in Africa and the Philippines. The Saudis have used the oil wealth to back Arab monarchs and strategic allies; they also used it to finance the anti-Soviet mujahedin in Afghanistan in the 1980’s setting the stage for the Taliban and for al-Qaida. Recently, the Saudi royals have used oil proceeds to ‘buy’ their population out of the socio-political phenomenon known as the ‘Arab Spring’ thanks to USD$ 100/barrel oil.

The Iraqi government seems to have no doubts and believes that Saudi Arabia has been Islamic States main financial sponsor. In June, the Iraqi Prime Minister Nouri al-Maliki declared it openly: “We believe Saudi Arabia responsible for the moral and financial support provided to ISIS”. This is a rather ‘hot potato’ for the United States, (the Saudis’ main political and military ally). Washington has rejected al-Maliki’s allegations. There may be some truth to them in that private wealthy Saudis, as in the case of al-Qaida, may well have financed IS or ISIS in the context of the deepening divide between Shiite and Sunni Muslims, a struggle that is has come to define the geopolitical calculations of the entire Middle East. The problem is that IS is far too wealthy for it to be funded through ‘gifts’. It has regular income. The fact that IS, which professes as similar ‘salafist’ interpretation of Islam as the Saudi Wahabbism has raised the concerns of the Saudi monarchy (deploying several thousand troops along its entire northern border with Iraq, Jordan and Kuwait) suggests that even if they had some influence over IS, they are now afraid of it.

It comes as no surprise, therefore, that the terrorist group Islamic State (‘IS’, formerly known as Islamic State in Iraq and Syria or ISIS) has also financed itself through oil. IS has been fighting to control the Baiji refinery, which accounts for one-third of Iraq’s total oil production. In Syria, where IS gained strength by fighting against the Asad regime and other rebels, IS gained control of oil fields in eastern Syria. It then went back to Iraq and gained more oil fields along with two refineries, which turned IS into a virtual oil power in its own right. Some analysts have described it as the wealthiest terrorist group in history and its fortune amounts to an estimated USD$ 2 billion with revenues of over USD$ 2 million per day when oil proceeds are added to the ‘ taxes’, extortion and kidnapping. In this sense, Islamic State is much more sophisticated and dangerous to the region than al-Qaida, which relied on the personal wealth of Osama bin-Laden and other wealthy patrons – whose funds could be eventually controlled and checked by authorities. IS’s funds come from oil and revenues from local businesses that are difficult to identify.

The group’s ability to raise funds is closely linked to the territory it controls, which makes it impervious to sanctions, anti-money laundering laws and banking regulations. Gaining access to oil fields and refineries is clearly IS’s main tactic, boosted by its gains in the loosely controlled regions of post-Saddam Hussein Iraq. Surely, ISIS benefited from the (western encouraged) funds originating in Turkey, Saudi Arabia, Qatar or Kuwait at the time of the first uprisings against the Syrian regime of Bashar al-Asad. Moreover, several organizations took advantage of the humanitarian emergency and have used the Syrian crisis as a cover to donate large sums of money to extremist Islamist groups, using funds coming mainly from mosques and social media. IS has also relied on such income sources as extortion, kidnappings and the Jizya tax that Shari’a law imposes on non-Muslim communities. All of these contribute vast sums and groups like al-Qaida and the various offshoots have more or less worked along similar lines. What makes IS so different and so dangerous is crude oil, which no doubt accounts for the largest share of the Group’s revenues.

IS has robbed some USD$ 400 million from banks in Mosul but it also controls wells with a production capacity of over 80,000 barrels per day, which is then sold vastly below cost – between USD$ 25 and 60 dollars per barrel according to reports – to buyers that share no part of Islamic State’s medieval and brutal political and social ideas. Oil has become simply too expensive for governments in the region to pass up the opportunity to buy oil at bargain basement prices. Intermediaries arrange for the oil to ‘flow’ from ISIS controlled regions and wells in Iraqi Kurdistan and Syria to Jordan and Turkey. The official Syrian government led by al-Asad has also been accused of buying oil from ISIS – leading some analysts to suggest that al-Asad has cooperated with ISIS. Indeed, the intermediaries, given that the oil producing region in question is in and around Mosul, are none other than Kurds – the very Kurds who have also been the targets of atrocious attacks by IS itself. Kurdish traders in the border regions straddling Iraq, Iran and Syria buy oil from IS and then ship it to Pakistan where it is sold “for less than half its original price,” according to a captured IS fighter. Given, the difficult social and infrastructure reconstruction process in Iraq, many oilfields and refineries in the country remained outside government control.

Control of regular oil income gives IS the ability to hire and to use funds to govern, pay salaries and even extend ‘largesse’ in the same way that other States continue to do. It is just a question of scale. IS has the power and funds to build infrastructure, pay for social services and recruit new ‘staff’. IS cannot simply be fought as a terrorist group. It is a State in its own right as the name suggests and it has much more money than al-Qaida, which, supposedly pent little more than a million dollars to fund the 9/11 attacks against New York and Washington. Even, if IS had access to a fraction of its alleged USD 2 billion fortune, the Middle East and the world face a very dangerous foe. Perhaps that is why President Obama and other world leaders are so confused about how to deal with IS. They can use drones and send special forces to win individual battles, scoring temporary victories, but they won’t be able to stop IS until they break their stranglehold on their independent source of oil. Indeed, the strategy to defeat IS – short of defeating the internal combustion engine and converting the world energy system to alternative or nuclear power – is to target the intermediary smugglers of crude oil – and its buyers. In other words, it’s a case of the war on terror borrowing from the ‘war on drugs’ playbook.

The Iraqi Government has already made it illegal to buy oil in Iraq without official authorization. Iraq’s Oil Ministry said: “International purchasers [of crude oil] and other market participants should be aware that any oil exports made without the authorization of the Ministry of Oil may contain crude oil originating from fields under the control of [ISIS]. The only seller of Iraqi crude oil authorized by the Ministry of Oil is [Iraq’s state-owned oil company] SOMO.” IS has merely exploited already existing smuggling networks, which escalated last May when Kurdish smugglers began exporting oil via the Turkish port of Ceyhan. The Iraqi government accused the Kurds of engaging in “smuggling” blocking public sector salaries in Erbil – leaving them vulnerable to IS offers.

The nightmare scenario – and well within the realm of the possible if not probable – would see IS take over much of Iraq and extend its advance toward the Gulf region causing a major problem to oil supplies and production. In other words, turning Iraq into the perceived threat that led the world to coalesce against Saddam Hussein in 1990 after his forces invaded Kuwait. President Obama will be hard pressed to avoid re-deploying ground troops in Iraq or even of effectively helping Asad deal with IS in Syria…

The ISIS led war in Iraq keeps oil prices high and protects OPEC interests

The Saudis have not liked the United States’ re-orientation of strategic interests in the Middle East – thanks to its greater energy autonomy. Syria and Iran have been at the heart of this re-orientation of American priorities – a shift that the Saudis might well describe as a ‘betrayal’ from what has been their historical ally in the Middle East. Obama’s decision not to intervene militarily against Syrian President Bashar al-Asad has left the Saudis more isolated as Washington chose to follow Russia’s plan for the elimination of Syrian chemical weapons. And of course, the rift between Riyadh and Washington over Syria has only widened by the possibility of talks between the U.S. and Iran over how to contain the threat of the Islamic State (formerly known as ISIS), a radical Islamic group, which has declared an intent to establish a ‘Caliphate’ (an Islamic State) stretching from West Africa to Central Asia. Meanwhile, Saudi Arabia has been producing oil at rates not seen since the 1970’s.

Saudi Arabia’s Fellow Gulf Cooperation Council members Kuwait and the UAE are also producing at record levels, in order to compensate for the sharp drop in production in such countries as Libya, where the pervasive anarchy and emergence of militias at the expense of an ever weaker central authority, has forced massive drops in oil production. The Saudis have used their oil supremacy – at prices that remain stubbornly above USD 100/barrel – to back up their aggressive, and disruptive, regional policy. The International Energy Agency has upgraded the Kingdom’s oil output capacity from 12 million to 12.5 million bpd thanks to Saudi Aramco’s Manifa offshore field. The Saudis are producing at over 10 million bpd, while Kuwait and UAE are producing at some 2.8 million barrels a day (bpd). By happy coincidence, Venezuela, Algeria and Angola have also been producing at lower levels while non-OPEC oil supplies have also dropped, leaving China and India wondering who might be able to sustain the kind of levels they need to grow in the mid and long terms.

This has only served to boost their reliance on Sheikhs of Arabia, who will in turn exploit it to their strategic advantage. The Saudis have better technology allowing them to increase production further while its fellow Gulf rivals have no proven methods to increase extraction for at least the remainder of this decade. Saudi Arabia is China’s main oil supplier and as the European Union starts to show signs of an economic and industrial recovery, the Kingdom’s influence can only grow. This raises the paradox of Saudi foreign policy and its strongest domestic ‘Awakening’ fears. Why would the Saudis be so keen to sponsor the most radical and reactionary of fundamentalists in Syria?

There is, in effect, an ‘oil war’ between the rising Shiite Iran and Iraq have been waging against Saudi Arabia, OPEC’s leader and point of reference for Sunni Islam in order to increase oil and gas production to weaken the Saudis’ geopolitical influence. The “oil war” of the Shiites could be a game changer in the battle for supremacy with the Sunnis in the Middle East.

In recent years, and certainly in the past few months, the key events in the Middle East have revolved much less around peace-building between Israel and the Palestinians and more on energy and military-strategic considerations related, in some way, to the rivalry between the Iranians and the Saudis. The Iranians have been especially determined to disrupt the old balance that has kept them in isolation for years by securing better relations with the West while maintaining a nuclear program to please hardliners such as Supreme Leader Ayatollah Khamane’i.
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After decades of isolation for Iran – and wars for Iraq – that have stunted both countries’ growth and development it is not surprising that both countries consider the increase of oil and gas exports to serve as the primary tool to resume growth. But oil in the Middle East is not just a source of energy: it is a strategic weapon. Not long ago, the Saudis, for example, triggered a collapse in oil prices in order to weaken then Iranian President Ahmadinejad foreign and nuclear policy ambitions. Similarly, as Iraq and Iran were starting to increase oil production this year, this would have hurt Saudi

Arabia, which needs high oil prices in order to maintain expensive social welfare programs that were expanded in scope and value to avert the effects of the 'Arab Spring' revolts.

In the new long-term energy scenario, characterized by oversupply, new oil powers have emerged beyond OPEC as a result of new technology allowing for the tapping of unconventional sources such as shale gas and oil (Brazil, Kazakhstan). At the same time, economic growth has not returned to pre 2008 crisis levels, leading to excess supply and an automatic weakening of Saudi Arabia. In the Middle East oil States, including Iran (but much less so than Saudi Arabia) oil export revenues are essential in maintaining the social order and the massive welfare benefits. Oil revenues also give these states the necessary 'currency' to play their regional and international political games from Syria to Lebanon, Egypt and beyond.

The emergence of ISIS, therefore, has been something of a boon to Saudi Arabia and to OPEC. Cynics and conspiracy theorists may even go as far as suggesting that some Saudis have aided ISIS, helping it expand beyond the Syrian borders, where the group acquired a great deal of combat experience, to Iraq in order to prevent or slow down, the rise in Iraq's oil exports. Indeed, while Iraq is producing at a rate of three million barrels a day (bpd), the government said it wants to boost production to about nine million BpD, which is just about on par with the Saudis. Iran and Russia, meanwhile, want to establish a pipeline linking the oil and gas fields of Iraq and Iran to the Mediterranean via-Syria. ISIS has achieved a number of military successes in Iraq, taking Mosul and Tikrit, reaching the gates of Baghdad. ISIS was stopped from accessing oil by the Kurds' mighty 'Peshmerga militia, which has maintained the safety of hydrocarbon resources of Kirkuk and the surrounding area.

The price of oil has increased but should the expanding ISIS conflict extend to the areas that are richest in hydrocarbons

– far north and far south (where the Russians have interests….) the increases will be far sharper than at present. In fact, ISIS will be trying to move south because that is where the richest oil reserves are located; some 2.5 million BPD, exported toward Asian ports via the Persian Gulf from Basra. If war reaches Basra, cutting oil production and supply routes, it would leave a 2 million BPD shortfall that would require the International Energy Agency to take action. Some oil companies, fearing the safety of staff and related security repercussions, may act as happened in Libya: they will leave even before the war reaches them. Iran will, suddenly gain more negotiating currency, as it will be called to make up some much of the shortfall but this will also require the Americans to negotiate more seriously with Iran over the nuclear issue and ending most of the sanctions targeting Iran. Both steps are necessary in order to restore Iranian oil exports, and promote hydrocarbon industry investment, toward the West and beyond.