

Daesh, "the Islamic State", is collapsing. But Daesh, the organization, is not. What Forbes once declared to be "the richest terrorist organization the world has known" with an annual turnover of US\$ 2 billion, is simply shifting tactics and preparing to resume guerrilla warfare, writes Joe Fallon..

Daesh, the ideology, remains potent and resilient. Its narrative is of a Manichean world of good (Daesh) and evil (all others). Highly embellished with selected citations from the Quran and the hadiths on end-times "proving" Daesh will be victorious, it calls on Muslims to take direct action now to establish a "true" Islamic state on earth. Such a narrative appeals to many extremists. Despite military setbacks, despite the failure of the prophecy of the battle of Dabiq to be fulfilled, by which the Daesh version of Islam would achieve ascendancy over the West, its "true believers" continue to believe. Passionately.

It is estimated by U.S. intelligence and counterterrorism experts that, to date, some 60,000 Daesh fighters have been killed. And still they fight.

As U.S. Lt. General Michael K. Nagata, Special Operations Officer, observed in a recent interview for the Combatting Terrorism Center at West Point, "When I consider how much damage we've inflicted and they're still operational, they're still capable of pulling off things like some of these attacks we've seen internationally, we have to conclude that we do not yet fully appreciate the scale or strength of this phenomena."

This is why Daesh remains a clear and present danger. Daesh documents show its adherents are not limited to the Middle East and Europe, but span the globe stretching from Afghanistan to Nigeria to Trinidad to Florida to California to Australia, Indonesia, and the Philippines.

For now, Daesh has eclipsed its rival, al-Qaeda, because it has accomplished three, unprecedented acts: 1) creating a state, even if temporary, in defiance of the West, 2) achieving self-financing on a previously unimaginable scale, and 3) creating an extensive network of "agents" that can fill the depleted ranks of its army or act as terrorists either as "lone wolves" or in cells. According to a July 25, 2016 CNN report "Since declaring its caliphate in June 2014, the self-proclaimed Islamic State has conducted or inspired more than 140 terrorist attacks in 29 countries other than Iraq and Syria..."

Daesh, the Islamic State, has existed for this long because it had a large population to tax, banks to loot, antiquities to sell on the black market, but, most especially, because it controlled some of the largest oil fields in Syria and Iraq.

According to Caliphate in Decline: An Estimate of Islamic State's Financial Fortunes, a report by The International Centre for the Study of Radicalisation (ICSR), Department of War Studies King's College, London, total revenues derived by DAESH from oil for the three years, 2014-2016, range from \$785 million to \$1.2 billion.

There is conflicting information as to Daesh control of/or access to oil fields in Iraq. Iraq Oil Report claims, as late as August 2017, Daesh is stealing oil from oil fields in Salahaddin Province in Iraqi Kurdistan and still controls 75 percent of the Alas Dome, one of the three sections of the Hamrin oil field. This is at variance with reports from Reuters and Oil & Gas 360 that claim Daesh had been expelled from its last oil wells in Iraq in the fall of 2016.

What is definite in Iraq is that Daesh in 2017 does not control the number of oil fields it did in 2015. According to BBC, "The Iraqi forces' success leaves Daesh in control of just a few urban areas and some barren desert in central and western Iraq."

But Daesh originated in Syria; its de facto "capital", Raqqa, is in Syria. It is now relying on its oil assets in Syria for approximately 70 percent of its revenues. They are the oil fields at al-Omar, the largest oil field in Syria, the adjacent ward oil fields in Tanak, and Jafra; the Jazal and Shaer oil fields near Homs, and a number of oil fields near Raqqa. They produce 80,000 barrels of oil a day, an estimated \$22 million per month.

Daesh oil revenues have been derived from the process of oil laundering, whereby Daesh oil is sold at market prices then mixed with oil from other sources making it is impossible to trace.

Daesh makes its money up front selling to a network of middle men who take the risk and make, if successful, a significant profit. This network uses routes across Syria and Iraq into Turkey and the ports of Ceyhan or Dortyol for export.

As International Business Times reported, these routes, which predate Daesh, "are impervious to politics". In part, because they are also the same transportation routes serving such international oil giants as ExxonMobil, Chevron, Hess, and Marathon. The Daesh network also use the numerous feeders off the main Kirkuk-Ceyhan pipeline to "dump" its oil. Bribing or threatening local Syrian or Iraqi officials to accept their oil and pay them the market price for it, Daesh oil is then mixed with the oil in the pipeline, becoming untraceable. "The problem is, there's no one on the ground tracking this...the few local officials who are aware of the illicit oil trade are also profiting from it."

As long as it is a profitable enterprise, Daesh will have a network of such "venture capitalists", who for a percentage, will assist its financial operations -- operations essential for its existence -- such as oil laundering. As Carole Nakhle wrote in Al-Jazeera, December 6, 2015, "...the grim reality is that black markets have a highly organised and extensive web of shadow partners and clients, who are attracted by the money, irrespective of their nationalities, religious beliefs or principles, if they have any, and are active in Iraq, Syria and Turkey."

In March 2016, James Jeffrey, former US Ambassador to Iraq, explained why it is virtually impossible to stop oil laundering. "Oil is fungible, it is hard to track...Smuggling was happening under our noses [in Iraq] in the 1990s and we tried to stop it. But the smuggling of oil business into Turkey is deeply rooted in infrastructure. It is impossible to shut down without shutting down the entire thing."

Because of the way oil laundering operates, it cannot be eliminated by traditional law enforcement methods against smuggling or money laundering.

According to the analysis of the ICSR report, Caliphate in Decline: An Estimate of Islamic State's Financial Fortunes, "In short, Islamic State finances have declined not so much because of specific measures aimed at "countering terrorist finance" but mostly because of the wider political and military campaign to isolate the group and re-take its territory."

Military actions to date have reduced Daesh control of territory, population, and oil fields resulting in a dramatic decline in revenues; initiating a crisis of financial viability. Its territory has been reduced 62 percent in Iraq and 30 percent in Syria. As a result, oil revenues have fallen by 88 percent and revenues from taxes and confiscation have dropped by 79 percent.

Because of oil-laundering, and plausible deniability on the part of buyers, the Daesh network had customers world-wide. These customers include Europe, Israel, and the U.S. According to a four month investigation by International Business Times, March 29, 2016: "The recently refurbished tarmac at Maine's busiest airport contains the usual mixture of gravel, water and chemical binder, but what gives this asphalt its jet-black color is crude oil supplied by the Islamic State group. The Portland International Jetport's new pavement isn't the only blacktop of its kind on American soil. Four hundred miles south, highways outside Philadelphia are lined with the same mixture, as are hundreds of potholes on the streets of New York City..."

The Islamic State group "makes money to fuel attacks...by selling a steady stream of oil that flows from ISIS (Daesh) -controlled territories in Iraq to the U.S., parts of Europe and Israel. It's a constant source of money â€” as much as \$1 million per day at its height â€” that U.S. and Iraqi officials have failed to halt."

According to IHS Markit, a global leader in intelligence analysis, as of June 29, 2017, "Although the Islamic State still appears to be involved in some commercial activity, especially oil production, there are indications that it is attempting to increase its financial 'reserves,' accelerating the shift from a highly bureaucratic and centralized quasi-state economy towards funding a future insurgency through a real war-economy,"

Through oil laundering, the West effectively subsidized Daesh, the Islamic State. As that state collapses, we are witnessing the next chapter. Daesh, the organization, is preparing to return to guerrilla warfare and terrorist acts. But with a difference. Before 2014, it had limited funds. Now Daesh has financial reserves derived, in part, from its oil operations. More importantly, Daesh hopes to increase its finances by stealing oil from wells and refineries and employ the same oil laundering tactics it used successfully as a "state" to have the West help finance its guerrilla operations in Syria, Iraq, Libya, and Yemen, as well as future attacks in Europe and the U.S.

Joseph E. Fallon is a U K Defence Forum Research Associate. He is a subject matter expert on the Middle East and Central Asia. He has taught at the U.S. Army War College, U.S. Army Intelligence Center: lectured at the Defense Institute of Security Assistance Management, and for the U.S. Defense Department's Cultural Knowledge Consortium. In addition to his primary focus on the greater Islamic World and domestic and international terrorism, he has researched and written on the situation of various indigenous peoples in Asia, Africa, and North America.