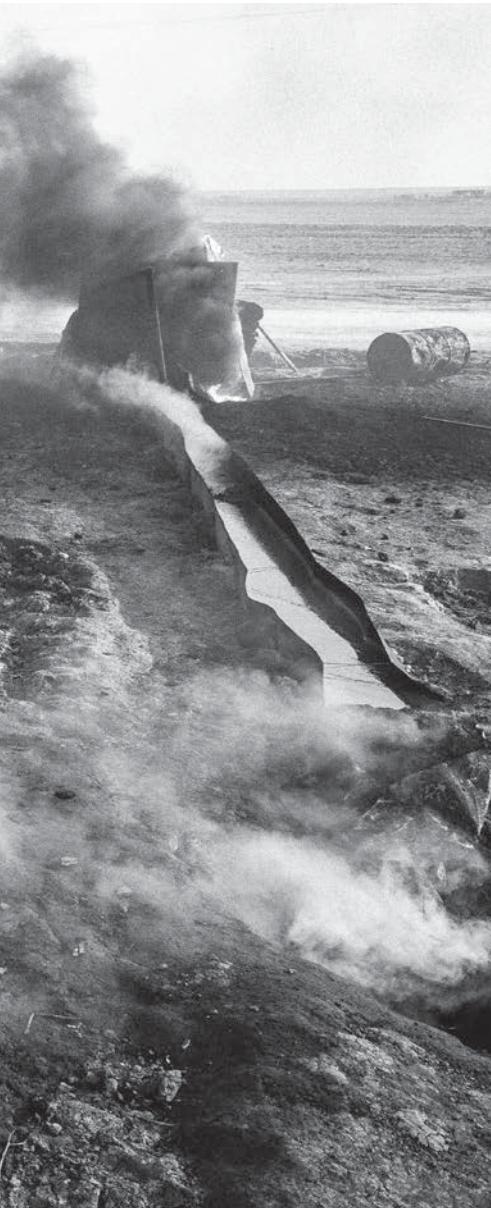


Opening Remarks

It's More Than Just Oil

So far, U.S. efforts to cut off Islamic State's funds have failed. Here's why
By Cam Simpson and Matthew Philips





Weeks before the attacks that killed 129 people in Paris, U.S. warplanes resumed sorties above Syria and Iraq, targeting anew oil fields and other parts of a vast petroleum infrastructure that fuels—and funds—Islamic State, one of the richest terrorist armies the world has known.

These airstrikes were launched not because U.S. officials were prescient. They came after the Obama administration found and quietly fixed a colossal miscalculation. U.S. intelligence had grossly overestimated the damage they'd inflicted during airstrikes on the militants' oil production apparatus last year, while underestimating Islamic State's oil revenue by \$400 million. According to U.S. Department of the Treasury officials and data they released in the wake of the Paris mayhem, the terrorist group is actually taking in \$500 million from oil a year. What's more, just a few hours before the first Islamic State suicide bomber blew himself up outside Stade de France stadium on Nov. 13, U.S. Army Colonel Steve Warren conceded at a press briefing that some American airstrikes disrupted IS oil operations for no more than a day or two.

The Obama administration “misunderstood the [oil] problem at first, and then they wildly overestimated the impact of what they did,” says Benjamin Bahney, an international policy analyst at the Rand Corp., a U.S. Department of Defense-funded think tank, where he helped lead a 2010 study on Islamic State's finances and back-office operations based on captured ledgers. He says the radical revision on oil revenue came after Treasury officials gained new intelligence on Islamic State's petroleum operations—similar to the ledgers Rand used for its study—following a rare ground assault by American Special Operations Forces this May. U.S. forces, operating deep into the group's territory in eastern Syria, targeted and killed an Islamic State “oil emir,” a man known by the Arabic nom de guerre Abu Sayyaf, Pentagon officials said at the time. (Treasury officials, who are charged with leading the administration's war on Islamic State's finances, declined to comment specifically on whether Abu Sayyaf's ledgers were at the root of their new estimates, but the agency has said the figures are extrapolated from the militant group's oil earnings from a single region in a single month earlier this year.)

It's not clear how the U.S. got it so wrong, Bahney says, but he suspects that the latest round of airstrikes are directly related to the administration's new math. “You have to go after the oil, and you have

The terrorist army has diverse nonoil assets—ranging from hostages to fertile farms—and a sizable cash surplus

to do it in a serious way, and we've just begun to do that now,” he says. Yet even if the U.S. finally weakens the group's oil income, Bahney and other analysts in the U.S., the Middle East, and Europe contend, Islamic State has resources beyond crude—from selling sex slaves to ransoming hostages to plundering stolen farmland—that can likely keep it fighting for years. In any case, \$500 million buys a lot of \$500 black-market AK-47s.

Islamic State got into the oil business long before it captured global attention through barbaric beheading videos in the summer of 2014. It seized Syrian border crossings to profit from oil smuggling. And it tapped a network that's operated for decades, dating to at least the 1990s, when Saddam Hussein evaded sanctions by smuggling billions of dollars worth of oil out of Iraq under the United Nations' Oil-for-Food program.

Most often refined in Syria, the group's oil is trucked to cities such as Mosul to provide people living under its black banner with fuel for generators and other basic needs. It's also used to power the war machine. “They have quite an organized supply chain running fuel into Iraq and [throughout] the ‘caliphate,’” says Michael Knights, an Iraq expert at the Washington Institute for Near East Policy, using the militant group's religiously loaded term for itself. Because the U.S. apparently believed the real money for Islamic State came primarily via selling refined oil, rather than crude, last year's strikes heavily targeted refineries and storage depots, says Bahney. He and other experts say that strategy missed an important shift: Militants increasingly sell raw crude to truckers and middlemen, rather than refining it themselves. So while Islamic State probably maintains some refining capacity, the majority of the oil in IS territory is refined by locals who operate thousands of rudimentary, roadside furnaces that dot the Syrian desert.

Pentagon officials also acknowledge that for more than a year they avoided striking tanker trucks to limit civilian casualties. “None of these guys are ISIS. We don't feel right vaporizing them, so we have been watching ISIS oil flowing ►

◀ around for a year,” says Knights. That changed on Nov. 16, when four U.S. attack planes and two gunships destroyed 116 oil trucks. A Pentagon spokesman says the U.S. first dropped leaflets warning drivers to scatter.

Beyond oil, the caliphate is believed by U.S. officials to have assets including \$500 million to \$1 billion that it seized from Iraqi bank branches last year, untold “hundreds of millions” of dollars that U.S. officials say are extorted and taxed out of populations under the group’s control, and tens of millions of dollars more earned from looted antiquities and ransoms paid to free kidnap victims.

The taxes bring in real money. One example: Islamic State allows policemen, soldiers, and teachers in its territory to atone for the “sin” of having worked under religiously inappropriate regimes—for a fee. Forgiveness comes in the form of a repentance ID card costing up to \$2,500, which requires an additional \$200 a year to renew, according to Aymenn Jawad al-Tami, a fellow at the Middle East Forum who closely follows the group.

Arguably the least appreciated resource for Islamic State is its fertile farms. Before even starting the engine of a single tractor, the group is believed to have grabbed as much as \$200 million in wheat from Iraqi silos alone. Beyond harvested grains, the acreage now controlled by militants across the Tigris and Euphrates river valleys has historically produced half of Syria’s annual wheat crop, about one-third of Iraq’s, and almost 40 percent of Iraqi barley, according to UN agricultural officials and a Syrian economist. Its fields could yield \$200 million per year if those crops are sold, even at the cut rates paid on black markets. And how do you conduct airstrikes on farm fields?

For his part, Bahney contends that the group’s real financial strength is its fanatical spending discipline. Rand estimates the biggest and most important drain on Islamic State’s budget is the salary line for up to 100,000 fighters. But the oil revenue alone could likely pay those salaries almost two times over, Bahney says. He also believes they’ve been running at a surplus. Bahney says that if the U.S. and its allies are going to diminish the threat from Islamic State, they must recognize that knocking out oil, while critical, isn’t enough. “They’ve built up quite a bit of excess cash flow in the last year,” he warns. “So they’re going to be able to keep this going for a while.”

—With Donna Abu-Nasr in Beirut and Larry Liebert in Washington

Paris Must Not Lead To Barricades

After terrorists strike, the first instinct is to raise walls. But democracies thrive on openness. By Peter Coy

The priority of every person and every society is to survive. President François Hollande declared the emergency closing of France’s borders after terrorists struck Paris on Nov. 13. The following Monday he announced to Parliament, meeting in Versailles, that Europe as a whole must keep out enemies, or France will take matters into its own hands. Lives, he said, were at stake. “If Europe doesn’t control its external borders, it is the return of national borders or walls and barbed wire,” Hollande said. After the speech he and the lawmakers sternly sang *La Marseillaise*.

It’s not just a shaken France that’s talking about walls and barbed wire. Hungary just built a wall along its border with Serbia. India has walled itself off from Bangladesh. Israel has fenced the West Bank and Gaza. Morocco built a sand berm to block attacks by separatists from Western Sahara. And in the U.S., Donald Trump leapt to the front of the race for the Republican presidential nomination by promising to build “the greatest wall that you’ve ever seen” on the long border with Mexico.

A wall going up is prima facie evidence that something bad is going down. Terrorism isn’t the only thing, of course: Trump and Hungarian Prime Minister Viktor Orbán have both mentioned keeping out rapists and job stealers as justifications for their barriers. But terrorism is what has taken wall building from a fringe concern to the mainstream. Concrete barriers, metal fences, barbed wire, searchlights, guard dogs, and jeep patrols along borders are physical evidence of the damage that terrorism has done to the sense that we’re all in this together.

The tragedy is that walls hurt those who obey the law more than terrorists,

who usually find a way to go over, under, or around them. What’s worse, isolating entire communities and nations because potential terrorists live among them often backfires, engendering more of the hatred that it’s meant to protect against. That’s what makes terrorism so diabolical: Like an autoimmune disease, it provokes civilized societies to behave in self-defeating ways.

A terrorism-induced backlash against migration would harm rich and poor alike. Wealthy, aging nations need young workers, while immigrants need jobs and money to send home to their families. Nations such as Japan that are allergic to immigration are paying a stiff price for their splendid isolation in terms of low growth, while immigration-friendly countries like Germany are reaping rewards. Even in this chaotic year, the German Institute for Economic Research in Berlin calculates that the immigration surge will account for about 0.2 percentage points of Germany’s estimated 1.8 percent output growth, mostly because of the Keynesian stimulus of higher government spending.

Europe provides some of the strongest evidence of the benefits of openness. Per-capita income would now be 50 percent lower in Ireland and 25 percent lower in Denmark and the U.K. if they hadn’t joined the predecessor to the European Union in 1973, according to a calculation by Nauro Campos of Brunel University, Fabrizio Coricelli of the Paris School of Economics, and Luigi Moretti of the University of Padova published last year by the U.K.-based Centre for Economic Policy Research.

Europe’s Schengen agreement, which allows passport-free travel between signatory nations, is at risk of unraveling under the stress of mass migration (itself

fueled by terror in the Middle East) and now the Paris attacks. Schengen, concluded in 1985 and effective since 1995, is one of the proudest achievements of modern Europe—more popular and more widely adopted than the euro. The ability to drive between countries without so much as tapping the brakes has promoted tourism, trade, and the free movement of labor. Italian companies do more business with the Swiss, because their trucks don't get stopped at the border. And Chinese tourists are more likely to visit Germany if they know they can swing through France and Spain as well without getting another visa. When two countries are in Schengen, trade between them increases an extra 0.1 percent each year, says Dane Davis, a commodity researcher who co-wrote a paper on Schengen published last year in the *World Economy*, an academic journal.

To young, cosmopolitan Europeans, the threat to reimpose border controls inside Europe is as alarming as it would be to Americans if New York announced it was going to check documents at the George Washington Bridge. Austria, the Czech Republic, Germany, the Netherlands, Slovakia, Slovenia, and Sweden have begun some form of emergency border checks. If Schengen dissolves, trade and investment ties could begin to unravel as well, because countries would begin to lose the sense of European unity, says Adriano Bosoni, a Barcelona-based analyst for geopolitical consulting firm Stratfor. "Once you start

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abolishing the founding principles of the EU, it's like a domino effect," he says.

The trick, as always, is to target the bad guys—terrorists, organized criminals—without harming innocent people in the communities that they've wormed their way into. Walls rarely accomplish both goals. The fence between India and Bangladesh has stopped trade in fish but not in contraband Indian-made cough syrup, consumed as a narcotic, that "is wreaking havoc with our youth," Bangladeshi social activist and business leader Sabera Ahmed Koli told Al Jazeera.

There's mounting evidence that Western banks have overreacted in complying with anti-money-laundering laws aimed at cutting off terrorists' access to financing. Through strict implementation of the new rules, big banks are making it harder for people to remit money to family members and "driving people to go back to informal channels where [the transactions] are less visible," says Nestor Espenilla Jr., deputy governor in charge of supervision at the central bank of the Philippines. In Somalia, "the fear is that without remittances, the terrorist group Al-Shabaab will take advantage of the desperation of Somalis," Representative Keith Ellison (D-Minn.) said earlier this

year. A U.S. Department of Treasury spokesman says it's "working hard to facilitate legitimate financial flows."

Terrorists are quick to work their mind games on immigrants who feel isolated or abandoned in the wealthy nations they now call home. It's worth remembering that most refugees want nothing to do with terrorists, who since 2000 have committed 97 percent of their murders in poor nations such as Nigeria, Syria, and Afghanistan, according to the Institute for Economics and Peace. In the U.S. and in Europe, governments need to strengthen their ties to immigrant communities to get early warning signs of disaffection, anger, and radicalization, says Eli Berman, a specialist on the economics of terrorism at the University of California at San Diego. In other words, break down walls that terrorists would rather build higher. Says Berman: "Radicalism is all about creating distance from mainstream society."

Hope, not walls, is the best protection against terrorism, says Jamal Nassar, a political scientist at California State University at San Bernardino, who was born in Jerusalem two years before Israel was founded in 1948. "You cannot build a wall around the world. People will find a way, tunnel under walls, fly over. They will find a way if they are determined to bring about violence." Conversely, Nassar says, "when there is light at the end of the tunnel, people will move forward and try to improve their lives."

That ode to openness is hard to absorb when the killers are at your door. The tendency is to withdraw, to defend. And politicians don't help matters when they play to the worst instincts of their people. Governors of at least 26 U.S. states have said they oppose efforts to have refugees from Syria relocated to their states. In Germany, Chancellor Angela Merkel is under fire from opposition politicians for inviting about 1 million asylum seekers into the country this year. To his credit, Hollande isn't all about barriers. He vowed on Nov. 18 to take in 30,000 immigrants over the next two years.

The best reason not to wall oneself off is that most people around the world, most of the time, are pretty reasonable. Islamic State is a dramatic exception. Ultimately, though, its bloody extremism makes Islamic State its own worst enemy. Even al-Qaeda doesn't like it. Says Berman, the expert on the economics of terrorism: "The suicidal shooter, that's an effective strategy. The suicidal caliphate, that's a doomed strategy." **E**

