«The workings of the IS are similar to those of multinational companies»

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Start-up capital is indispensable. This is true both for business enterprises and for terrorist networks such as the so-called Islamic State. It obtains its finance not only from sales of oil but also from abduction and extortion, as terrorism expert Louise Shelley explains.

SRF: At present, the main source of revenue for the so-called Islamic State is proceeds from petroleum sales. Who’s buying that oil?

Louise Shelley

Louise Shelley is an expert on terrorism, international criminality, and corruption. The professor was the founder, and is the director, of the center of studies in this field at George Mason University in Virginia. Her latest book, «Dirty Entanglements: Corruption, Crime, and Terrorism», appeared in July 2014.

Louise Shelley: The buyers of the oil are in Turkey, they’re in Syria, and in Iraq. The oil is funneled into the usual oil streams. These are then conducted into the channels of the global oil trade, and may well end up in western factories and households, here and elsewhere in Europe.
But are the buyers of the oil, for instance those in Turkey, aware where the oil is coming from?

The people who are buying the oil are in there to make money. They pretend to be blind. The IS sells the oil at a reduced price, which gives them a trading advantage. There are individuals and families that have been smuggling oil since the times of Saddam Hussein. As Kurdish media have revealed, there are high-ranking government officials, political-party functionaries, and members of the military who have been involved in facilitating this oil smuggling.

It was only during the second phase that oil became a source of revenue for the IS. Who or what was funding the start-up of the IS ‘enterprise’?

The precedents of the IS received funds from the Gulf States, from the diaspora. They were running an illicit trade in cigarettes and other contraband goods. Today, as I’ve said, oil is their main source of money. But the IS fighters are also making money from abduction. Moreover, they will impose taxes on transports crossing the territory occupied by them; jihadists from Europe will sell their cellphones and passports to fight their way through the first few months. So there are many different sources of revenue.

This almost sounds like the business model of a ‘normal’ organization of criminals. Does the IS work like the Mafia?

In some way it’s like the Mafia in that it controls territory and blackmails the people who live there. But in some other ways, the IS works like a major company that keeps looking forward. It diversifies its sources of revenue, picks top-quality employees, and avails itself of the best growth opportunities. There is a lot of similarity between the IS and a multinational company.

![Image](image-url)

Tracing the finance of «Islamic State»
5:46 min, from Echo der Zeit, of January 20, 2015

Just as any other criminal organization does, the IS will be hiding its business activities from the public, for obvious reasons. What are your sources of information?

I have many contacts in the Middle East who have been fighting and studying these phenomena. Also, the IS is not keeping a low profile, as is often assumed. Add to this that the local press is covering many stories that you can read in Arabic, Kurdish, or Turkish. They can be accessed by people living in the region, and speaking the respective language. But there is also some rather more hands-on material, such as IS bookkeeping, which was confiscated by the military. IS commanders are meticulously keeping records regarding their expenses and income, and also their wage payments. It’s not the only
illegal organization to do this: the Farc in Colombia and the PKK in Turkey have been doing it as well.

Legitimate companies work with banks extending credit, keeping accounts, and making investments. How is the IS providing for its money flows?

At the moment, the IS is in control of a vast expanse of territory in Iraq, including Mosul, the country’s second-largest city. There are banks there. The IS has seized the money on account in these financial institutions, but it is also in a position to trade via these banks. In that respect, it does not have the same problems as other terrorist organizations that need to launder all their cash. Moreover, the Middle East has a tradition of barter transactions involving goods: one way of moving money within barter societies is the so-called trade-based money laundering. This means that money is laundered through bartering – another way of moving funds around.

200 million dollars or your life

The latest IS extortion attempt: In a video, a terrorist who has gained a doubtful reputation as «Jihadi John» presents two Japanese clad in orange overall. He says that Japan needs to pay 200 million dollars in ransom or else these two will be beheaded. The Japanese government has rejected the demand, and pressed for the immediate release of the hostages.

The U.S. military is currently active in the region, flying sorties against the terrorist militia. Are bombs and drones the proper reply to the IS?

I think it is a very partial type of solution, and it's certainly not a final one. The IS works like a business enterprise, and is capable of adapting its sources of revenue. If necessary, the IS might switch to computer-based crime, for instance. They’ve got the knowledge it takes – al-Qaeda in South East Asia was doing this as early as ten years ago. Add to this that due to lack of alternative and also to dissatisfaction with the Iraqi government, the Sunni population has been tolerating the IS. This dissatisfaction has provided the foundations for the illicit trade, and for recruitment. You cannot fight this through bombing. On the contrary: bombing can increase antagonism, and make it possible to recruit even more people.

The fight against terrorist networks such as al-Qaeda, or now the Islamic State, has been going on for twenty years now. Why hasn’t the U.S. become any smarter, or more skillful, in the meantime?

Because we haven’t been doing it properly over the whole period of time. In Afghanistan, we have been fighting terrorism but ignoring the drug trade and corruption – rather than understanding that a population in a corrupt society will oftentimes perceive crime as their only future prospect. So this is no way to change a society with a lasting effect. We
told ourselves: let’s put up with some corruption and crime so we can fight terrorism. But it doesn’t work that way.

But how could it work after all? Do you have a solution to such a complex problem?

What we need is a multi-dimensional approach. In the Kurdish parts of Iraq, a press campaign might be helpful for citizens to pressurize their government into putting an end to the oil trade with the IS. It also takes businesspeople who understand the workings of the illicit trade, and it takes multinational organizations right on the spot. Furthermore, we need a readiness on the part of Western countries to refrain from doing business with corrupt politicians so that capital for development remains in the countries in crisis. Only this will create jobs for young people, rather than pushing them into criminal activity. There is no simple answer, but without using a multi-layered approach, we’re not even going to see the beginnings of a solution to the problem.

The interview was conducted by Isabelle Jacobi.