

SPECIAL REPORT

TERRORISM, BUSINESS OPERATIONS AND LEGAL IMPLICATIONS: THE CASE OF ISIS IN IRAQ AND SYRIA



Executive Summary

This special report discusses the relationship between business entities and a terrorist group like ISIS. It majorly puts emphasis on transit and trade routes, business regulations of conducting business in conflict areas, and several ramifications related to them. Further, the report divides business entities into large Multi-National Corporations (MNCs) and local/regional business groupings.

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Executive Summary

- Islamic State of Iraq and Syria (ISIS) was formed in 2004 but some media reports suggest that the group was formed as early as 1999. ISIS gained prominence since 2011 under the leadership of al-Baghdadi.
- ISIS dwelled on an extortion racket by robbing, looting and taxing people in order to fund its running. According to the US estimates, the ISIS had access to money equivalent to half a billion USD from 2014-2016.
- Important transit routes utilised by ISIS for trade purposes were Highway 47, Highway 10-al Karama border crossing, and some illegal routes with lack of information available on the internet.
- Both large and local/regional entities like Lafarge, Ericsson and the Katergi Group were reported to have an involvement with ISIS in conducting business operations either directly or indirectly. These entities range from oil to telecommunications to cement industries.
- Despite the International Regulations to conduct business in conflict-prone areas, these entities were reported to have infringed them and were penalized by international regulation authorities for more than \$250 million.
- ISIS was also involved in coercion, ransom and other criminal activities to coerce companies operating in Iraq and Syria.
- The ISIS also sold oil for \$20 to \$35 per barrel and its middle men went on to sell the oil and gas products at \$62-100 in local markets.
- In 2022-23, with the resurgence of ISIS, similar business activities could be foreseen which may further infringe upon the international regulations and bring such entities under the aegis of international regulatory bodies.
- There remains an extreme risk of terror activities like suicide attacks, ransom and hostage-taking by ISIS affecting human resources and supply-chain operations in conflict-prone areas like Syria and Iraq in 2023.

Introduction

In Jun 2014, ISIS captured global attention after its strategic seizure of Mosul, Iraq and its self-proclaimed establishment of a Islamic Caliphate*. The ISIS drew its greatest strength from its financial networks encompassing criminal activity, oil revenue, confiscations for income, looting banks, human trafficking and kidnapping ransom. ISIS enforced a standardised zakat system (an Islamic type of almsgiving) in 2014 throughout its jurisdiction. Regardless of whether it is a factory or a cargo truck, the Islamic State demanded 2.5% of the tax or Zakat from citizens and corporations. The fundamentalist organisation also charged farmers the equivalent of 5% of irrigated crops and 10% of those fed by rain. Important to point out is that almost all facets of the local economy were being controlled by ISIS. Money from crude oil, trade, agriculture, and remittances, Iraqi government-salaried employees & also trafficking of ancient antiquities filled the pro-caliphate fighters' vaults with millions of dollars annually. It raised money from social media as well via propaganda as well. Moreover, some large business entities have also been found to have financial relations with the militant group. Business corporations from local to regional to international went beyond regulations and conducted business with them if not directly then indirectly via using ISIS as a conduit to safeguard their supply-chain operations in Iraq and Syria. With the terrorist organization resurging in 2022-2023 in their strongholds, this special report will pave the way ahead to fathom the relationship between business corporations and a terrorist grouping like the ISIS by taking real-life cases into consideration.

**Caliphate (Khilafat)- Islamic way of administration in adherence to Shariah laws under an Islamic leader/Caliph who claims succession from Prophet Muhammad.*

BUSINESS REGULATIONS FOR MNCs IN CONFLICT ZONES

Companies are encouraged to take adequate steps to identify the interaction between their core business operations and conflict dynamics and ensure that they do not inflict any harm. They are encouraged to adapt measures to the specific needs of conflict-affected and high risk contexts. Adapt operations to minimise negative risks and impacts.

Companies are encouraged to monitor their business relations, transactions as well as flows of funds and resources and to develop a rigorous supply chain management system to assess and monitor how their suppliers obtain resources and raw materials in conflict-affected and high-risk areas. In so doing, companies can help to ensure that they are not providing funding or support to armed actors who may benefit from revenues generated by the sale of such goods and resources.

Companies are encouraged to engage proactively with relevant civil society organisations and international organisations, with independent and informed third parties to communicate the company's business principles, values, and commitment to UN Global Compact Principles.

Companies are encouraged to develop clear policies and robust management practices to prevent corrupt relations with government officials. Within legal and commercial constraints, companies are encouraged to promote transparency with host governments and be as transparent as possible with other stakeholders about their relationships with governments.

Communities in high-risk and conflict-affected areas frequently suffer from severe stress and trauma as a result of ongoing violence, insecurity, or displacement. Businesses need to pay special attention to monitoring and adapting their operations to their surroundings due to the previous strain on the populace and the instability of the setting. Grievance procedures can act as early warning systems and give the business continual information about their effects. This information can be used to modify practices, stop disagreements from getting worse, and, when necessary, inform a process for resolution.

Companies are encouraged to take all necessary measures to avoid complicity in human rights violations by government actors in relation to all aspects of the company's operations.

**The regulations have been taken from the UN Global Compact's "Guidance on responsible business in conflict-affected & high-risk areas: A resource for companies & investors", 2010.*

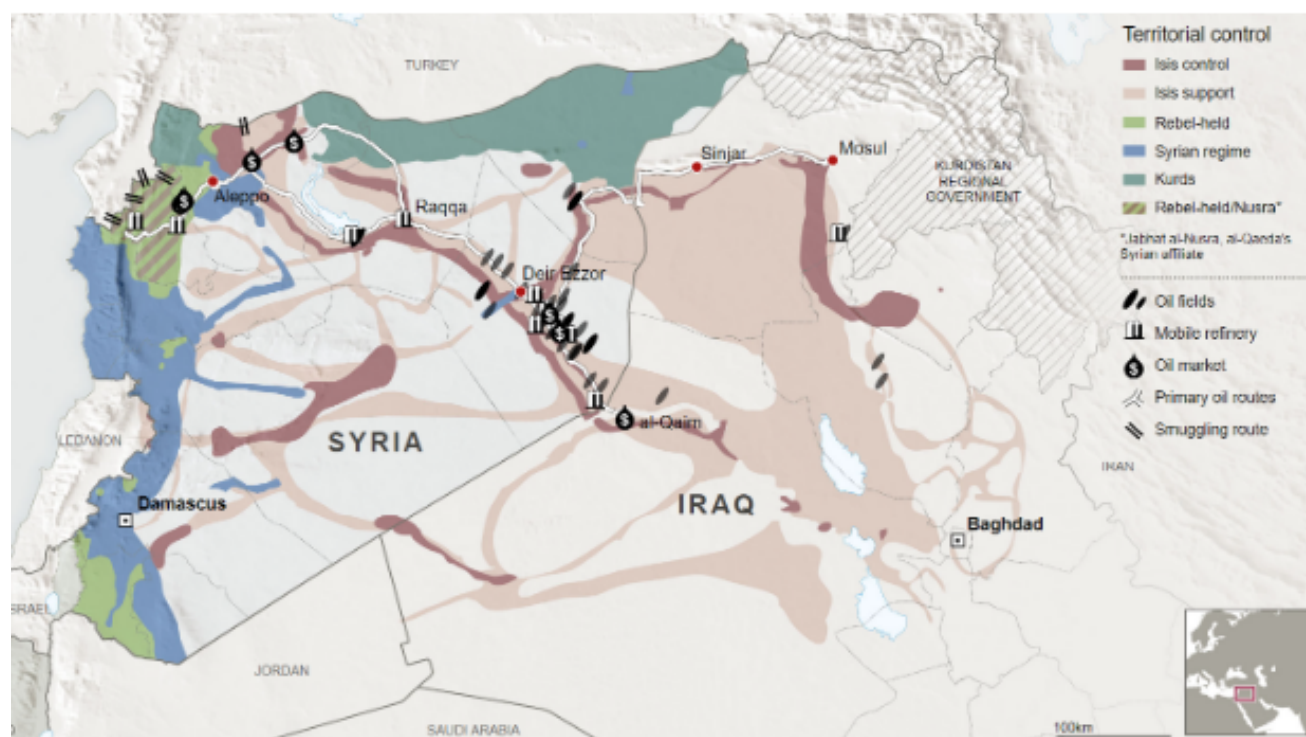
ECONOMY OF ISIS TILL 2017

TAXES ON GOVERNMENT SALARIES

- The Iraqi government implicitly became of the biggest source of income of the ISIS in 2014-15. When the fundamentalist group started expanding, around 400,000 Iraqi government employees were in the ISIS-held territories including Mosul, according to a World Economic Forum report in 2015. As revealed by Iraq's Parliamentary Finance Committee, the salary payments to these employees amounted to more than \$1 billion.
- These salaries were subject to taxes with rates ranging between 10% and 50% levied by the Islamic State.

FINANCING FROM OIL AND GAS

- According to the US-based Rand Corporation, oil sales comprised the single most important source of revenue for ISIS. The Islamic state controlled oil fields and oil infrastructures falling under its territory.
- The ISIS sold oil for 20 to \$35 per barrel and the middle men went on to sell the oil and oil products onwards at \$62-100 in local markets.
- Around 80% of the Islamic state's profit came from petroleum and petroleum products and by selling the same to the local customers, middle men and smugglers who go on to sell such illicit petroleum and petroleum products across the territory.
- Much of these smuggling routes were largely autonomous profit motivated and along the border regions, especially the Syria-Turkey border.
- According to the US Department of Treasury, in 2015, ISIS made approximately \$ 1 billion dollars in total revenue, \$500 million of which came from the sale of oil.
- ISIS's prime oil yielding region was Deir Ezzor province, in eastern Syria, producing 34,000-40,000 barrels a day.
- The group also controlled the Qayyara oil field near Mosul in northern Iraq which produced around 80,000 barrels a day. The group sold most of its crude oil directly to independent traders from Iraq & Turkey at the oil fields.



Source- Financial Times

EXTORTION, RANSOM AND CRIMINAL ACTIVITIES

- The ISIS made around \$8 million per day from oil smuggling, theft and extortion, according to a report by CNBC in the year 2014.
- The militant group derived a significant portion of its wealth by controlling the bank branches in its territory. More than 20 banks operating in Syria had branches falling in ISIS held territory. It levied a 5% tax on all customers withdrawing cash from the banks under the pretense of collecting zakat.

TRANSIT ROUTES UNDER ISIS

Designated by the United States as a Foreign Terrorist Organisation on 17 Dec 2004, the ISIS levied hefty taxes on business and trade occurring on the transit routes in its territory of operation. The ISIS extorted large transit fees of \$300-\$400 per truck for using the road and routes falling in its territory. These transit routes were one of the biggest sources of income for the group.

Highway between Raqqa & Mosul, also known as Highway 47

- was a strategically crucial main road that connected ISIS strongholds between Raqqa (IS's self-claimed capital in Syria) & Mosul (ISIS largest stronghold in Iraq).
- Highway 47 had once been the most active supply route of ISIS that runs through the Sinjar Mountain area. The Sinjar area is mainly inhabited by the Kurdish-speaking Yazidi religious minorities. ISIS captured the Sinjar town along Highway 47 in 2014.
- In Nov 2015, the Kurdish fighters in coalition with the US-led airstrikes recaptured the highway and freed the Sinjar town from the Islamic State's shackles.
- Highway 47 & the Sinjar town is now under the jurisdiction of the Kurdish Workers Party (PKK) and clashes between the PKK and the Iraqi govt forces erupts now & then.



Highway 47; Source- BBC

Highway between Amman & Baghdad (Highway 10)-Turaibil/ Al Karamah border crossing

- is a key trade route between Jordan and Iraq. In 2014, the Islamic State seized the border crossing along with the nearby village of Al-Rutba.
- The militant group frequently clashed with the Iraqi and Jordanian security forces who were gravely attempting to retake its control.
- Truckers passing through the route had to pay high custom fees to the IS militants, thus becoming a high source of income for ISIS.
- On 30 Aug 2017, the Al karamah border crossing was reopened after 2 years of closure, after recapturing it from the group's control.
- Governments of both Iraq and Jordan have been trying to fully revive this economically crucial trade route.



Al Karamah border crossing/Turaibil border crossing

RELATIONSHIP WITH BUSINESS ENTITIES

Companies that are operating in conflict-affected regions often profit from the unstable situation. Not desiring to shut down their thriving business and the ensuing profit-generation, the business entities often enter into alliances & agreements with the militant groups who now control the regions under which their business branches fall. Some of the prominent cases of such business groups and firms have been discussed below.

THE CASE OF LAFARGE

- Lafarge, operating in almost every continent, is one of the world's biggest Multinational Companies (MNCs) specialising in construction-materials.
- This France-based company has been accused of entering into business relations with ISIS, a US-designated terrorist organisation, in order to continue operating and keep making profits in Syria.
- Cement manufacturing firm Lafarge and its subsidiary Lafarge Cement Syria (LCS) were sued by Sherpa & European Center for Constitutional and Human Rights in 2016 for their commercial activities in Syria.
- Allegations are that Lafarge may have contributed to the financing of ISIS in Syria through its economic transactional relationships with it, making it complicit in both war crimes and crimes against humanity.

CONDUCTING BUSINESS WITH ISIS

- From approximately May 2010 to Sep 2014, Lafarge, through Lafarge Cement Syria, operated a cement plant in the Jalabiyeh region of Northern Syria.
- During 2013, as conflicts intensified and ISIS seized the north of Syria, Lafarge made arrangements with ISIS in order to keep selling cement and making profit.
- Lafarge and Lafarge Cement Syria (LCS) allegedly schemed to pay ISIS in exchange for permission to run a cement plant in Syria from 2013 to 2014, according to the Department of Justice of the USA.
- This enabled LCS to earn approximately \$70.3 million in revenue.
- Lafarge and its Syrian affiliate made monthly payments to the Al-Nusra Front (ANF) and the Islamic State between Aug 2013 and Oct 2014 totaling about \$5.92 million.
- In order to keep the deal from becoming public, the corporation allegedly also concealed its payments, signed contracts and negotiations.



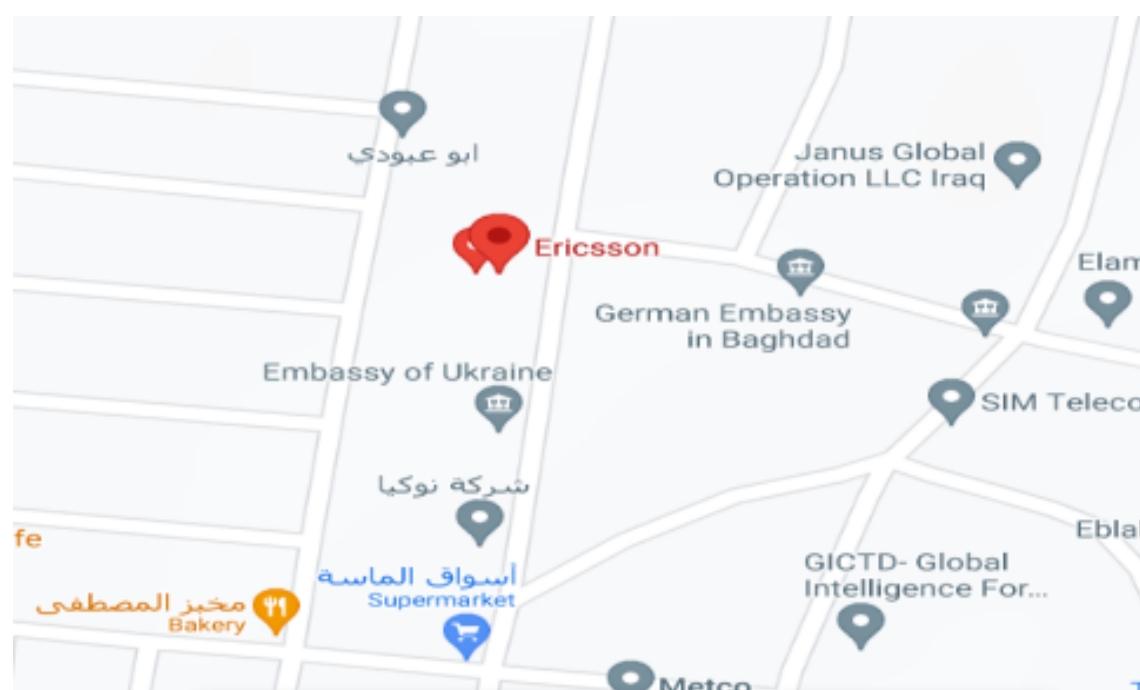
Jalabiyeh Cement Plant ; Source: Google Maps

RAMIFICATIONS FOR LAFARGE

- The FBI's New York Joint Terrorism Task Force was involved in investigation of the case.
- On 18 Oct 2022, in a federal court in Brooklyn, New York, Lafarge and its subsidiary, LCS, admitted & pleaded guilty of paying and negotiating revenue-sharing agreements with ISIS and the Al-Nusrah Front (ANF), to seek continued economic advantage from 2013-2014.
- On 18 Oct 2022, the Department of Justice of the USA hit Lafarge with one of the largest penalties a corporation has ever paid for providing material support to a US-designated terrorist organisation. Lafarge has been sentenced to pay a financial penalty of \$777.78 million as a result.
- Lafarge also faces criminal charges in France, where it is the first corporation to be indicted on charges of complicity with crimes against humanity.
- As the first firm to be indicted on charges of participation with crimes against humanity, the MNC is also facing criminal prosecution in France.
- 8 former corporate executives, including two former chief executives, were indicted by French authorities in 2018 on charges of financing terrorism and jeopardising the lives of their employees in Syria.

THE CASE OF ERICSSON

- Another MNC caught in the nexus of business with militant groups is Ericsson. Headquartered in Stockholm, Sweden, Telefonaktiebolaget LM Ericsson (just Ericsson) is a multinational telecommunications company.
- A leaked investigation report by the International Consortium of Investigative Journalists (ICIJ) revealed that Ericsson reportedly paid the Islamic State to continue operating in territories under their control & made a profit of millions of dollars amidst the humanitarian crisis in the region.
- The leaked documents also showed how Ericsson jeopardised the lives of their contractors in Iraq in the pursuit of profits, even after IS took control of Mosul.
- In addition to the findings about the alleged payments to IS, the investigations uncovered allegations the company was involved in corruption in at least 10 countries across four continents.
- Ericsson's operation in Iraq amidst the ISIS control grabbed attention the most.



Ericsson in Baghdad, Iraq

RAMIFICATIONS FOR ERICSSON

- In 2019, Swedish telecom giant Ericsson admitted to years-long corruption & criminal conduct in 5 countries (Djibouti, China, Vietnam, Indonesia & Kuwait) to solidify its grip on telecommunications business, all in a misguided effort to ensure continued increase in profits.
 - Ericsson publicly admitted & pleaded guilty to the allegations by the ICIJ's leaked document showing bribes in Iraq. On 6 Dec 2019, the Swedish MNC agreed to pay total penalties of more than \$1 billion to US Department of Justice (DoJ) for violating the Foreign Corrupt Practices Act (FCPA).
 - The penalty of \$1 billion incorporated a criminal penalty of over \$520 million and approximately \$540 million to be paid to the U.S. Securities and Exchange Commission (SEC).
 - In 2019, Ericsson entered into a Deferred Prosecution Agreement (DPA) with the DOJ and with the SEC to resolve violations of the FCPA.
 - As part of the resolution, Ericsson agreed to engage an independent compliance monitor for a period of 3 years while committing to strengthen its culture and establish a rigorous anti-corruption, compliance and controls program & to conduct business in the right way in compliance with the international business regulation guidelines.
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THE CASE OF KATERJI

- On 6 Sep 2018, the US Department of Treasury's Office of Foreign Assets Control (OFAC) sanctioned the Syria-based Katerji Company for facilitating financial transactions and shipments of fuel and weapons to the Syrian government headed by Assad and the Islamic State.
 - The Katerji Company is a conglomerate based in Aleppo, Syria. It engages in selling products ranging from home appliances, to metal and construction machinery to oil and petroleum.
 - The company had been convicted of maintaining strong ties with the Syrian regime and conducting business with ISIS in the sectors of petroleum & food grain.
 - The company worked directly with ISIS representatives to provide oil products for ISIS.
 - It had also been convicted of shipping weapons from Iraq to Syria, besides being found guilty of acting as an exclusive agent for providing oil supplies to ISIS-controlled areas in its trade deal in 2016 between the Government of Syria and ISIS.
 - Besides the United States, the 06 members of the Gulf Cooperation Council have also blacklisted the Katerji Group- in the first such known act against prominent regime-affiliated businessmen by countries of the region.
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INVOLVEMENT OF INDIAN FIRMS

- In 2016, a study by Conflict Armament Research (CAR) revealed the involvement of 51 companies from 20 countries in a supply-chain network with ISIS.
- Of these 51 companies, 7 are from India that were involved in the selling of components to the Islamic State that made Improvised Explosive Devices (IEDs) out of them.
- These companies supplied detonators, detonating cord & safety fuses which were legally exported under Indian government issued licences to Lebanon & Turkey from where the exported items found their way to ISIS territory.
- For acquiring this information, the CAR began working in conjunction with the US-backed Kurdish YPG in Syria, the Iraqi Federal Police, the Kurdistan Region Security Council and forces of the Kurdistan Regional Government from 2014. This study was completed within 20 months.
- The CAR's report also proved that ISIS in Iraq and Syria were pretty self-sustaining -- acquiring weapons and strategic goods, such as IED components, locally and with ease.

Name of the Indian Companies	Items supplied
Solar Industries	Detonating Cord
Gulf Oil Corporation	Detonating Cord
Premier Explosives	Detonating Cord & detonators
Rajasthan Explosives & Chemicals	Detonating Cord & detonators
Chamundi Explosives	Safety Fuse
Economic Explosives	Detonators
IDEAL Industrial Explosives	Detonators

Source: Business Standard

ISIS IN 2022 AND ITS FUTURE

The Islamic State is not as powerful and influential it once. By 2022, the group has lost almost 90% of its territory and power and has been pushed into a corner. Much of its previously held regions like the Anbar province in Iraq is gradually bubbling to life and business again. However, the Islamic State is still a quite active and deadly insurgent force in the Middle East, especially in the outlying rural areas of Iraq and Syria. Daraa, a southern region in Syria is one of the last regions where ISIS is still active despite the presence of Syrian and Russian forces. The militants still carry out attacks in Daraa and surrounding regions frequently. With their once stronghold regions under Syria and Iraq getting out of their grasp, offshoots of ISIS could be seen emerging in other countries, most notably in Africa. Any terrorist organisation is challenging to take down, but one as sophisticated, well-equipped, and distinctive as ISIS has additional challenges. Cutting off ISIS's access to financial and military resources will best relegate the organisation, so believe by many experts. Analysing that the group extracted the bulk of its wealth from the oil resource, the US-led coalition air strikes and counter-operations have attempted to destroy these oil fields, thereby successfully diluting the ISIS's treasury to a large extent.

With it now pushed to the corner in remote locations, the Islamic state is in near-ruined condition but is now beginning to be survived by its ideology-sharing offshoots mushrooming in Africa like the Islamic State West Africa Province (ISWAP) and Islamic State in Somalia to mention a few. This is becoming worrisome as such militant groups are attempting to spread terror under the pretense of upholding their religious and ideological chauvinism. This is costing the stability of global and regional peace as well as upholding of Human Rights.



Source: Business Standard

ASSESSMENT AND FORECAST

Operational Risks

- Extreme possibility of terror activities like suicide attacks, ransom and hostage taking affecting human resources in conflict-prone areas like Syria and Iraq.
- Extreme possibility of supply-chain disruptions and damages via key transit routes across Syria and Iraq.
- Extreme possibility of spread of ISIS propaganda through mass media sources like radios, social media platforms amongst others.
- High possibility of the workforce being attacked by locals.
- High possibility of more attacks carried out by ISIS networks to disrupt business operations.
- Medium possibility of ISIS conducting ransomware attacks on entities in Iraq and Syria.

Legal Complications

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- Extreme possibility of local/regional/international business corporations coming under the radar of regulatory bodies and groups like International Humanitarian Law.
 - Extreme possibility of reputational risk to entities once information goes public.
 - Extreme possibility of constant surveillance of the home state on entities conducting businesses in conflict-areas.
 - High possibility of lack of information disclosure by those either investing or working in conflict-prone areas.
 - High possibility of US and European sanctions on companies from Iran, Russia, Turkiye amongst other if their coordination with ISIS is reported in future.
 - High possibility of these entities being penalized with over \$250 million in penalties by international regulatory bodies if their coordination is reported.
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Resurgence of ISIS

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- High possibility of them benefitting from the conflict between Kurdish groups and Turkiye in North and north-eastern Iraq.
 - High possibility of them benefitting from the turmoil in Afghanistan and US lack of emphasis on Middle East.
 - High possibility of them gaining leverage from political turmoil within Iraq and Syria.
 - High possibility of ISIS operating via its networks in 2023 in Africa and Levant.
 - Medium possibility of ISIS controlling the same amount of territory which they had between 2014-2017.
 - Low possibility of ISIS to be able to establish its caliphate.
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About the Author

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