Extent of Terrorist and Militia Fuel Oil Diversion Exposed in Iraq

by Michael Knights **(/experts/michael-knights)**

Aug 7, 2024

ABOUT THE AUTHORS

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Brief Analysis

Part of a series: Militia Spotlight (https://www.washingtoninstitute.org/policy-analysis/series/militia-spotlight)

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A mechanism for diverting Iraqi government oil to militias through non-operational factories was recently exposed, creating a panic shutdown of asphalt plants run by Iran-backed terrorists in Iraq.

On July 15 and 22, the Iraqi government's Ministerial Energy Committee of the cabinet held two subsequent sessions where decisions marked "very urgent" (see the four images on the right side of this report) were passed regarding the need to suddenly suspend the widespread diversion of Iraqi government fuel oil to fake end-users owned or taxed by U.S.-designated terrorist groups such as **Kataib Hezbollah (/node/16641)** (KH) and **Asaib Ahl al-Haq (/node/16715)** (AAH).

Republic of Iraq
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م/ تقرير لجنة الامر الديواني رقم (24573) لسنة 2024

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Figure 1: MEC decision on asphalt plants, page 1.

The MEC, chaired by Prime Minister Mohammed Shia al-Sudani, took these actions in early July, probably because the scale of this terrorism threat financing channel was likely to be exposed and acted upon by concerned international players in coming months. The action began in early July (Figure 5) when an emergency stop was put on oil allocations to Basra, where diverted oil is most easily smuggled abroad.

The method of the terrorist and militia fuel diversion has long been understood and was fully abetted by the Sudani government from its first days in office: the Ministry of Oil, Ministry of Industry and Minerals, and the Prime Minister's National Operations Center (PM-NOC) would allocate quantities of government-owned fuel oil to Iraqi asphalt factories at heavily subsidized rates. The operating capacity (and thus the fuel needs) of the factories would be greatly overstated in the allocation, and most (or in some cases all) of the fuel oil would be diverted to illegal export, mislabeled (with Iraqi government complicity) as exportable commodities such as flancoat. As flancoat is a solid material delivered in barrels, the exports are very obviously not flancoat because they arrive in road tankers that carry liquids.

Fuel oil smuggling been constrained by the previous government of Mustafa al-Kadhimi. In 2020-2021, the subsidized price of fuel oil to factories was raised from $70 per metric ton to $220 per metric ton (with militias blocking a 2021 effort by the Iraqi government to raise it even higher, to $375 per ton). (To give context, such oil could be sold outside Iraq for at least $500 per ton, so the higher the sales price, the lower the smuggling margins.) The 2020-2022 government also surveyed the real capacity of asphalt plants and drastically reduced the fuel oil allocation to plants to match these levels, often to between zero and 20%.

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Figure 2: MEC decision on asphalt plants, page 2.

Under Sudani, the reverse occurred: the subsidized price of fuel oil was lowered again to $100-150 per ton and the allocation of fuel oil to factories increased again well beyond their proven needs. Six completely non-operational plants run by U.S.-designated terrorist groups saw their allocations returned. The Sudani government rapidly expanded the licensing of new fake asphalt plants since 2022, including 37 new projects (versus one under the prior government), a near-doubling of the size of the pre-2022 industry. As the current MEC and Ministry of Oil decisions indicate, around 26 factories(including many of the new post-2022 additions) have neither the output nor the workforce to justify the allocations.

The Sudani government reaction was to hastily distance itself from the mechanism, though the leading PM-NOC role in fuel allocations is difficult to conceal. The MEC decrees ordered an immediate investigation of the real capacity of the asphalt plants, reducing allocations to 60% of capacity until the review is completed and increasing the price of subsidized fuel oil to $369 per ton. Within 90 days (i.e., by late November, on the far side of the U.S. election) the Iraqi committee will return its verdicts on which plants should remain open.


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Figure 3: MEC decision on asphalt plants, page 3.

It will be important to keep monitoring this situation in order to ensure that U.S.-designated terrorist movements are kept from profiting from subsidized and diverted fuel oil, which netted around $250 million a year in a similar scam that ended in 2019. Today, the expanded smuggling system probably nets more than $80 million a month or $960 million per year, based on rough calculations of volumes and pricing.

It will be important to monitor whether any asphalt plants really shut down. In a Ministry of Oil communique (Figure 5), it is shown that 26 (of 55) private sector asphalt factories have been found to have no legitimate claim to receive fuel oil allocations.The language in the MEC decrees leaves plenty of room for evasion and the factory owners (and terrorist and militia groups) are preparing to appeal and ameliorate the outcome.


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Figure 5: Iraqi Ministry of Oil directive on halting fuel oil allocations, July 4, 2024

Attention should be focused also on what happens now to the excess fuel oil instead funneled to state-owned plants of the State Company for Mineral Industries that are equally non-deserving due to their low productivity levels. Are these volumes diverted from there instead for the benefit of militias and terrorist groups.

Finally it bears watching other channels being activated to simply steal the newly available fuel oil through paperwork fraud and export it via Turkey, Iran or Syria using tanker trucks.

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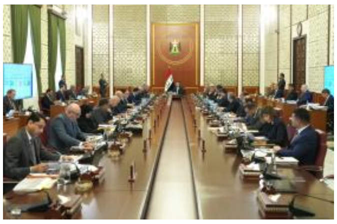

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