

 IRAQ OIL REPORT

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Insider's View Bulletin: Mosul update: trends in foodstuff pricing

June 5, 2016

Key points:

- Fresh fruit and vegetable prices in Mosul drop
- But cost of basic foodstuffs continues to rise
- Residents of Mosul rely on Syrian traders
- Local Mosul trader says goods arrive from IS and regime controlled parts of IS
- Often of Iranian origin

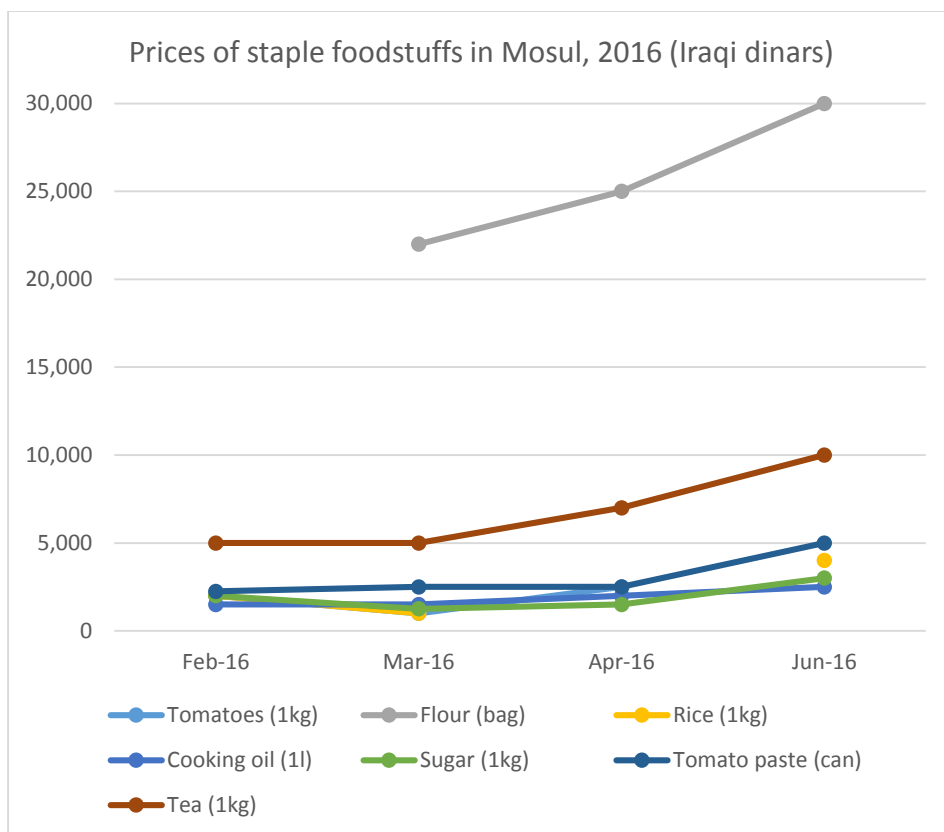
Potential IOC impact: IOCs should be aware that IS remains in full control of Mosul, with the local economy remaining resilient. The idea that the city will be liberated in 2016 (a rhetorical turn favored by PM Abadi) appears unrealistic given present information.

EXECUTIVE SUMMARY: Fresh fruit and vegetables are plentiful in Mosul's markets, driving down costs. However, the cost of processed foodstuffs has increased. IS is also seeking to control the flow of goods into Mosul by limiting who can act as an importer.

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Details: According to a Mosul resident, the price of fresh fruit and vegetables has fallen due to surplus supplies in local markets across IS-held territories. One kg of potatoes is three-quarters its cost in April, down from 2,000 Iraqi dinars (IQD) to 500 IQD. Oranges and bananas are available in Mosul for 1,000 and 1,500 IQD respectively.

However, the price of staple dry foods has continued to climb (see chart and table below for details). The biggest rises have been in the prices of flour, rice and tea: one kg of flour is up from 22,000 IQD in March to 30,000 IQD (roughly \$25); the cost of rice has quadrupled since March, now 4,000 IQD per kg; and the price of tea has doubled since February, reaching 10,000 IQD in June.



Product	Feb-16	Mar-16	Apr-16	Jun-16
Tomatoes (1kg)	2,000	1,000	2,500	
Flour (bag)		22,000	25,000	30,000
Rice (1kg)	2,000	1,000		4,000
Cooking oil (1l)	1,500	1,500	2,000	2,500
Sugar (1kg)	2,000	1,250	1,500	3,000
Tomato paste (can)	2,250	2,500	2,500	5,000
Tea (1kg)	5,000	5,000	7,000	10,000

Regulations on the flow of goods: A source in Mosul reported that IS allows Syrian traders to bring goods to Mosul, but it does not allow traders from Mosul to go to Syria to themselves import the products. This policy seems to have aggravated the price rises, as local sources say Syrian traders are unable to meet demands in Mosul for two primary reasons:

- They struggle to transport the products on unsafe trucking routes.
- They lack sufficient resources to procure goods and cover transport costs for resale in Mosul.

Goods arrive to Mosul from both IS and regime controlled parts of Syria, according to a Mosul businessman, who added that much of the processed foods arriving to Mosul from Syria are of Iranian origin.

Analysis: Iraq is generally reliant on imports for basic goods. The fact that traders can still get to Mosul from Syria indicates that supply routes may have been constrained, but have not been totally

disrupted by coalition airstrikes and anti-IS ground forces. Prices may be rising, but there must still be considerable transportation of food from Syria to supply a city the size of Mosul.

It remains unclear why IS only allows Syrian traders to bring goods to Mosul, but doesn't permit Moslawi traders from importing goods themselves. One possibility is that they fear the flight of Mosul residents to Syria. A second possibility is IS concern that allowing commerce from both ends will reduce the amount of goods available to IS controlled territory in Syria. A third possibility is some type of agreement between IS and Syrian traders to provide the latter with a monopoly on imports into the Caliphate.

The cheaper foods, including oranges, bananas, aubergines and tomatoes, can be grown in Iraq, so it is possible that the reported surplus is due to the domestic harvest - Ninewa has in the past been a productive agricultural area.

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Insider's View *Bulletin*: IS front update

June 6, 2016

Key points:

- After Peshmerga offensive in Khazir, IS counter-attacks
- IS launches artillery and ground attacks on Iraqi security forces in Makhmour
- All these IS attacks were repelled, but several involved chemical munitions
- Iraqi army reinforcements have arrived in Makhmour
- Potential offensive planned towards Qayara
- Allegations of explosion and leak at IS controlled sulfur facility near Mosul

Potential IOC impact: IOCs should be aware that IS continues to challenge Peshmerga and Iraqi security forces along the frontlines facing Mosul.

EXECUTIVE SUMMARY: Frontlines manned by Peshmerga at Khazir and by Iraqi security forces at Makhmour are active, with a flurry of IS counter-offensives and attacks since the end of May. Several of these incidents reportedly involve IS use of chemical weapons. More Iraqi army troops arrived at Makhmour on June 5, with a Kurdish IA source saying an offensive towards Qayara is imminent.

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Details: IS has been under intense pressure from the Khazir frontline. According to a Peshmerga source, Sheikh Ameer in Khazir was also among the villages liberated in the Peshmerga push which came at the end of May. As many as 30 IS fighters were reportedly killed. A source in Mosul's morgue reported that the bodies of 120 IS fighters had been received, killed in battles at the Khazir frontline, and a hospital source said it was treating some 50 wounded IS soldiers.

But IS responded, with counter-attacks on Peshmerga in Khazir by June 3, in a bid to reclaim villages they had lost during the previous week's Peshmerga offensive (see '**BULLETIN**': *Peshmerga goes on the offensive east of Mosul*,' May 30, 2016). According to the deputy commander of Peshmerga forces at the Khazir frontline, north-east of Mosul, IS attacked Peshmerga positions in Mufti, Zarakhtun and Wardak villages, using suicide bombers and car bombs. But the deputy Peshmerga

commander says his forces repelled the attack, with the help of coalition air support. He said "scores" of IS militants were killed, while one Peshmerga fighter was killed and six others injured.

Other Peshmerga sources said some 42 IS fighters were killed, and that six Peshmerga were killed, including a lieutenant. The deputy commander named the IS force who launched the attack as the Omari Bin Khatab brigade, led by Sa'ad Anbari, who the Peshmerga deputy commander claimed was killed in the battle. A member of the Kurdish Zeravani forces in Khazir reported that this was IS third attempt to regain the liberated areas, but that Peshmerga forces "have full control of the area." He said further attacks were expected.

Analysis: *Although these IS attacks were repelled, the incidents underscore the difficulty of securing newly liberated territories, particularly as IS is willing to commit troops to disruptive attacks. Anecdotal reports from frontlines across Iraq suggest that IS is relying more and more on suicide bombers.*

IS offensives on frontlines south of Mosul: Iraqi security forces (ISF) repelled an IS offensive on Nassir and Mahana villages, near the Makhmour frontline, on the morning of May 31. Coalition air support and Peshmerga reportedly aided the ISF, whose positions were hit by IS artillery including Katyusha rockets, and mortars. Some of the artillery was reported to have been tipped with poisonous material, affecting a number of ISF and government-aligned Sunni tribal fighters (Hashid al-Asha'iri). According to security sources, seven IS suicide bombers died in the attack and 25 IS fighters were killed.

ISF were also attacked by IS near Makhmour in Kabrouk and Kharbardan villages, part of al-Qayarra area, at 1230 on May 31. The 17th brigade of the Iraqi army's 15th division repelled the IS offensive, which again reportedly involved chemical weapons. Security sources said some Iraqi soldiers suffered the effects of suffocation. According to their accounts, 22 IS fighters were killed, including three suicide bombers.

Additional Iraqi forces: On June 5, additional Iraqi troops arrived in Makhmour. A PUK official in Makhmour said the military convoy including "16 tanks, 14 Humvees, 29 long transportation vehicles," as well as more soldiers. The PUK official said the reinforcement was "part of a military plan to launch a large-scale offensive in Makhmour in the near future."

A Kurdish officer in the Iraqi Army 91st brigade of the 15th division said the new forces are from the Iraqi Army 37th brigade of the 9th division. The same source said that another combined IA-Peshmerga offensive is likely to occur on Weds or Thurs of this week towards Qayara.

Analysis: *The fact that both these attacks happened on the same day indicates that IS still has the manpower to launch multiple offensives, possibly probing attacks to find weaknesses in the frontline. Given IS' continued attacks on the Makhmour frontline, it seems more likely that the troop reinforcement is intended to bolster defenses rather than representing a tactical surge.*

Uptick in reported IS chemical weapons deployment: In addition to the use of poisonous gas highlighted in IS offensives against military positions, civilians also appear to have been targeted. A Peshmerga source said that IS had bombed Kahriz village in Zamar, west of Mosul, with chlorine-tipped munitions for a second time at 0830 on May 30. Two children were said to have been killed by the gas, and 21 people suffered suffocation effects.

Analysis: *There have been reports of IS using ad-hoc chemical weaponry since at least mid-2014, but their continued ability to deploy the morale-sapping munitions will be of concern to ISF and Peshmerga commanders.*

Incident at sulfur plant: A source in Mosul reports a serious security breach at the Mushriq Sulfur Factory outside of Mosul. The facility is under IS control, with security sources in Kurdistan claiming it is now used to make rudimentary chemical weapons. The source in Mosul said there was an explosion at the plant that killed 12 IS militants located at the factory. 10 civilians died from poisoning following the explosion, according to the source.

Analysis: *An explosion and subsequent fire at the facility in 2003 caused a serious environmental episode. This account is single sourced, but if verified, it could potentially have significant environmental ramifications.*

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