

The International Dimension of Combating the Financing of Terrorism

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Chairman Baucus, Senator Grassley and distinguished members of the Committee: thank you for the opportunity to testify on the international dimensions of the fight against terrorist finance.

The United States is engaged in a long-term war against terrorists and terrorist organizations with global reach. I thank you for your support and for providing the necessary tools for waging this war. This fight requires actions on several fronts. A critical front is the effort to disrupt the financial networks that sustain these organizations and finance their operations.

Since our enemy has global reach and is supported by a global network, we need a global strategy. The State Department has been a close partner with Treasury, our law enforcement agencies, including the Department of Justice, and our intelligence agencies as the Administration formulated and implemented a comprehensive strategy to disrupt, dismantle and shut down the financial networks that support terrorism.

There is strong interagency teamwork: The intelligence agencies, with support from other agencies including the State Department, have led the Administration's efforts to understand the system of financial backers, facilitators and intermediaries that play a role in this shadowy financial world. The Treasury Department, working with other agencies, leads the process by which we examine the actions, including but by no means limited to asset freezes and seizures, by which we can disrupt these networks. The State Department has led the interagency process through which we develop the strategies and activities to win support and cooperation from other countries. All these activities operate under the direction of a policy-level committee established under the framework of the National Security Council and chaired by the Department of the Treasury.

At the State Department:

- Our Coordinator for Counter Terrorism, Ambassador Frank Taylor, leads our efforts to engage foreign countries on specific areas related to terrorist finance and oversees our broad international technical assistance program designed to strengthen other countries' ability to fight terrorist financing.
- Assistant Secretary of State Anthony Wayne, who heads our Economic Bureau at the State Department, works to build and maintain the international coalition against

terrorist financing and chairs the interagency body responsible for coordinating our diplomatic efforts against terrorist financing.

- And each of our regional Assistant Secretaries, together with our Ambassadors, their deputies and their economic officers all over the world, are actively involved in working directly with the leadership of foreign countries in order to translate our strategy into action.

I have sought to stimulate and coordinate these activities and represent the State Department in the interagency group that establishes overall policy and priorities.

The International Dimension of our Strategy

My testimony will focus on the international dimension of our strategy, which includes the following main elements:

1. Establishing norms and obligations: The Administration has established a clear set of international norms, expectations and obligations, primarily through United Nations Security Council Resolutions and international conventions.
2. Raising the profile of the issue: The Administration has put fighting terrorism, including the financing of terrorism, at the top of the agenda in our relationships with other countries, international organizations and institutions like the G7/G8.
3. Blocking assets: The Administration has worked with other countries to block the assets of terrorists and terrorist organizations.
4. Financial Action Task Force (FATF), the OAS, the Asia Pacific Economic Cooperation (APEC) group and the OSCE: Treasury and State have broadened the scope of FATF, the world's leading organization to combat money laundering, to include in its mandate action against the financing of terrorism. The Administration is working with international organizations to insert the issue of terrorist finance into their work plans in ways that complement the FATF's leadership in setting standards on this issue.
5. Law enforcement: We are working on many fronts to strengthen law enforcement cooperation on issues related to terrorist finance.
6. Technical assistance: We are extending training and technical assistance to other countries that have the will, but not always the capacity, to act against terrorist finance.

As I will detail, we have made considerable progress during the past year in winning practical support from other countries and international organizations. We have frozen significant amounts of terrorist funds. Today, it is much harder today for terrorists to raise and move money. Many who formerly provided financial support for terrorism seem to have backed away. Some facilitators have been arrested or captured. Terrorists can no longer safely use the international banking system.

As I also will discuss, there is much more to be done. As formal financial systems are purged of terrorist finance, terrorists naturally are inclined to resort to other, more costly and uncertain, but still serviceable mechanisms for moving resources. We are working with other countries to ensure that funds donated for worthy charitable purposes are not diverted to evil terrorist practices. In some countries we have not yet succeeded in discrediting prominent personalities who espouse popular causes while secretly fostering terrorist activity.

President Bush repeatedly has reminded us that the war against terrorism will be long and difficult and will require patience and persistence. The financial dimension of this war is no different. We have had some well-publicized successes, as well as other successes that, for the moment, are best not discussed. We have degraded, but by no means destroyed, the ability of terrorist groups to raise and move financial resources. We must stick with it.

Major Activities and Achievements of the Past Year

The United Nations has played a key role in our global strategy. Ambassador Negroponte, the President's representative to the United Nations, moved quickly in the UN Security Council to establish a broad framework of commitments among countries. The Security Council has adopted several resolutions, each of which creates obligations that are binding upon Member States in accordance with Chapter VII of the UN Charter. UN Security Council Resolution (UNSCR) 1267 is targeted at the Taliban. UNSCR1390 is targeted at Usama bin Laden and members of al Qaida, and updates the Taliban sanctions. UNSCR 1373 is aimed at worldwide terrorism in general.

Resolutions are good but implementation is vital. That is why we are working closely with the UN Counter-Terrorism Committee, which was established by UNSCR 1373, to review the measures taken under the resolution and to assist in the coordination of technical assistance provided to states to help them meet their commitments under the Resolution. We also are working closely with the UN Sanctions Committee established by UNSCR 1267. (UNSCR 1267 was adopted on October 15, 1999, and targeted the Taliban by freezing its funds and other financial resources and those of any entity owned or controlled by it.) The 1267 Sanctions Committee is currently working to implement the sanctions imposed by UNSCRs 1267 and 1390 on the Taliban, Usama bin Laden, the al Qaida organization, and those linked or associated with them. In this Committee, we consolidate the names of all individuals and entities whose assets UN member states are required to freeze pursuant to resolutions 1267 and 1390.

The 1267 Sanctions Committee is a very useful mechanism for internationalizing financial or asset freezes against the Taliban, Usama bin Laden, al Qaida and those linked or associated with them, because all UN member states are obliged to enforce the UNSCR freezes. The names of targeted individuals and entities are submitted to the 1267 Sanctions Committee for inclusion in the committee's consolidated list. Once the names are on that list, all member states are required to take action against them.

We also have urged other countries to become signatories as soon as possible to the twelve UN conventions and protocols related to terrorism, especially the International Convention for the Suppression of the Financing of Terrorism. Before September 11, 2001, only two countries had become parties to all twelve instruments. Today sixteen countries, including the United States, are a party to each of the twelve conventions and protocols. Forty-four (44) countries have become a party to the Convention on the Suppression of the Financing of Terrorism.

During the past year President Bush, Secretary Powell and Secretary O'Neill have put the fight against terrorism, including the financial dimension of that fight, at the top of each of our international relationships. For example:

1. The European Union has worked with us closely:

- The EU has ensures that nearly every terrorist individual and entity designated by the United States has also been designated by the European Union. Recently the EU took action against the al-Aqsa Martyrs Brigade, a group that has taken responsibility for a number of cowardly suicide bombings in Israel.
- The Dutch Government recently took rapid and effective action against the financial assets of the "New Peoples Army" and its leader Jose Sison, the group and leader known to be responsible for the killing of American citizens in the Philippines.
- Earlier this week, France submitted the names of two terrorist organizations to the 1267 Sanctions Committee to be added to the asset freeze list.
- On September 26, Germany asked the 1267 Sanctions Committee to add four names of four terrorists to the Committee's asset freeze list.
- On August 29, the Government of Italy joined the United States in submitting to the 1267 Sanctions Committee the names of twenty-five individuals and entities linked to al-Qaida for asset freezes.
- And just two weeks ago, I led senior level meetings with the European Union here in Washington where the fight against terrorism, including terrorist financing, was at the top of our agenda.

2. The G7/G8 has served as an informal task force of like-minded countries on combating terrorist finance.

- In June, G8 Foreign Ministers endorsed a revised set of recommendations on counter terrorism. (Section 5 addressed the financing of terrorism.) The G8's endorsement included a commitment to full implementation of UNSCR 1373 and the FATF special recommendations on terrorist financing.
- The G8 also committed to practical measures, such as removing legal obstacles to effective common action, moving beyond freezing to forfeiture of terrorist assets, facilitating the traceability of terrorist funds and ensuring that mutual legal assistance is not refused on the grounds of bank secrecy laws.
- In April the G7 countries jointly submitted a list of ten names to the UN so that the assets of those individuals would be frozen worldwide.

3. The U.S. has worked bilaterally with a number of other governments in our fight against terrorist financing.

- We recently joined with the governments of Kyrgyzstan, Afghanistan and China in submitting the Eastern Turkestan Islamic Movement to the United Nations for inclusion on its list of terrorist individuals and organizations associated with al-Qaida, an important step toward greater cooperation on terrorist financing in Central Asia.

4. I would especially like to underscore the efforts we have made with friendly countries in the Near East. Drawing on the counsel of our Ambassadors and embassies in the field, we have worked closely to get effective actions to close down funding for terrorists. Secretary O'Neill traveled to the Middle East in March and discussed the issue of terrorist finance and our efforts in this area during his meetings with leaders in the region. I have engaged on this issue directly with regional leaders as well, as have other senior State Department officials. Through these numerous efforts, we have achieved a number of results:

- The United Arab Emirates, Bahrain, Egypt and Qatar have passed anti-money laundering legislation.
- All member countries of the Gulf Cooperation Council have increased oversight of their banking systems.
- Kuwait and Saudi Arabia have worked with us to devise ways to prevent the misuse and abuse of charities for terrorist purposes. Both countries are setting up government entities to oversee charities. Bahrain is passing its own legislation to prevent charities from being misused and abused.
- Last month, Saudi Arabia joined the United States in submitting to the 1267 Sanctions Committee the name of a Saudi supporter of al-Qaida, so that his assets would be frozen worldwide.

We also are working through a number of multilateral institutions to promote concerted action on terrorist finance. For example:

- FATF, a group of 29 countries devoted to combating money laundering, has adopted eight special recommendations on combating terrorist finance. FATF is monitoring compliance with its recommendations, has invited members as well as non-members to respond to a questionnaire on these recommendations and, in coordination with the UN Counter-Terrorism Committee, is assessing these countries' needs for technical assistance.
- In the Organization of American States, we have secured adoption of the Inter-American Convention against Terrorism. This Convention requires, among other things, that each signatory State establish a legal and regulatory regime to combat the financing of terrorism. Parties also agreed to improve controls at banks and other financial institutions and to establish financial intelligence units.
- In the Asia-Pacific region, we are working with multilateral entities such as the Asia Pacific Economic Cooperation (APEC) group, ASEAN, the ASEAN Regional Forum

and the Asia Pacific Group on Money Laundering to establish regulatory regimes consistent with its member countries' obligations under UNSC Resolution 1373.

- The goals are to set up Financial Intelligence Units, advance implementation of FATF's eight recommendations to combat terrorist finance, set new norms to prevent abuse of alternative remittance systems, and train officials and bankers to effectively implement these initiatives.
- Under U.S. leadership, APEC Finance Ministers meeting in early September adopted an ambitious anti-terrorist finance action plan. It includes tackling head-on the difficult issue of regulating hawalas and other alternative remittance systems. When the President meets with 20 Asia Pacific Leaders in Mexico in late October they are expected to endorse this action plan.
- The Organization for Security and Cooperation in Europe (OSCE) has incorporated terrorism finance into its work plan and agenda as well. OSCE specifically focused on this issue at its February Global Forum in Hong Kong, its May meeting in Prague and its June meeting in Lisbon. The OSCE agreed that it would urge its members to implement the eight FATF special recommendations on terrorist financing, and reports good success in this effort. Progress by member and non-member states will be the focus of the October FATF plenary in Paris in October.

Some countries that want to help in our efforts to combat terrorist financing lack the capacity to do so. Therefore, we have worked hard to build-up their capacity to do so through a variety of efforts.

- Through our technical assistance and capacity-building programs, we have identified and continue to find important vulnerabilities to terrorist financing, such as the lack of capacity in other countries to prohibit financial transactions with terrorist entities. We are working with our partners to redress these vulnerabilities. We are also integrating the lessons learned into training programs for relevant US agencies. I won't go into details since, for operational and investigative reasons, most of the details about vulnerabilities remain sensitive.
- These training and technical assistance programs are critical to the success of our efforts to combat terrorism financing worldwide, since many countries have the will to assist but lack the means or experience to do so.
- Our success in this arena cannot be measured solely through the number of assets or accounts frozen, but also must include the results of a range of efforts we have made and are making in combating terrorist financing. These include our intelligence efforts, our diplomacy both bilateral and multilateral, and our efforts to give technical and other help and support to other countries.

The UN Monitoring Group Report

In order to increase the effectiveness of international efforts against terrorist financing, UN Security Council Resolution 1390 asked a Monitoring Group to monitor the implementation of financial, travel and arms sanctions against al Qaida, Usama bin

Laden, the Taliban and those associated with them. The Monitoring Group reports to the 1267 Sanctions Committee, which oversees these sanctions. The U.S. supports the work of the Monitoring Group and the work it has done in pursuit of its mandate

The Monitoring Group recently issued its second report. This report makes valuable contributions by highlighting progress and spotlighting where the international community needs to improve its efforts to disrupt terrorist financing. We believe the report galvanized countries into stepping up their efforts on this front.

While offering various critiques and descriptions of areas for improvement, the report makes clear that the international community has undertaken, in the wake of the September 11th attacks, an unprecedented effort to change attitudes, to stimulate action and to confront terrorist financing. For example:

The report stresses that: a) since September 11th, the 1267 Sanctions Committee has established a list of individuals and organizations linked to al Qaida, the Taliban and Usama bin Laden whose assets UN member states are obligated to freeze; b) eighty states have either adopted new legislation, regulations and procedures to strengthen their ability to prevent terrorists from using their financial systems or are in the process of doing so; c) 71 additional states have signed the Convention for the Suppression of the Financing of Terrorism; d) the Financial Action Task Force (FATF) has committed its 29 member nations to ensure that non-profit organizations are not misused by terrorists and to develop best-practices on this issue for countries to follow; e) FATF members, as well as many non-member states, are working to implement new legal and regulatory measures imposing anti-money laundering rules on alternative systems used for transferring value, such as hawalas; f) FATF is requiring financial institutions in its member states to report suspicious transactions and to include accurate and meaningful originator information in money transfers; g) the G20 has called for the establishment of Financial Intelligence Units (FIUs) in each of its member states; h) many of the 69 FIUs that belong to the Egmont Group are taking steps to use their unique intelligence gathering and sharing capabilities to support the U.S. in its global war on terrorism; and i) the IMF and World Bank are launching programs to comprehensively assess their members anti-money laundering and terrorist financing regimes and performance.

-- The Monitoring Group's Report is valuable because it recognizes and focuses on this massive international effort and shows us where there is room for improvement, it identifies areas the international community should focus its attention, and it makes recommendations for improvements. These are not easy, quick changes to implement. Yet, they are key to strengthening the international community's ability to deprive terrorist of access to funding.

Working with our allies, the U.S. helped to take steps directly addressing concerns raised in the Monitoring Group's report. These include: a) the adoption of delisting procedures so people/entities can get off the 1267 Sanctions Committee asset freeze list (which we believe will increase international support for the sanctions regime against terrorist financing); b) improved coordination between the U.S. and the EU by establishing an

informal mechanism to coordinate and share information on the designation of terrorists and their supporters; c) the U.S. is providing the EU and its member states, whose courts do not have a body of jurisprudence in the area of terrorist financing, with substantial documentation to help them better defend litigation in this area; d) and the recent submission of names to the UN of terrorists and terrorist organizations by both Germany and France.

Moving to the Next Level

In large part as a result of the international community's efforts to block terrorists' access to the formal international financial system, terrorists have sought to evade these actions by developing alternative approaches to accessing and transferring funds. In order to address this challenge, the U.S. and the international community need to intensify efforts in other areas, including informal financial networks, charities and technical assistance. In this regard, I would like to note that FATF has taken a lead role internationally in getting countries to focus on and take steps to address their vulnerabilities in these areas.

We will need to strengthen our ability to monitor, disrupt and shut down less formal networks. We understand the threat posed by alternate remittance systems. Often these transactions are traditional and are intertwined with legitimate commerce, like wage remittances, through systems such as hawala. But such techniques of transferring value lend themselves to use in smuggling, corruption and narcotics trafficking, money laundering and, now, terrorist financing.

While there is no easy answer to the threat posed by alternate remittance systems, we are taking steps. Our embassies and consulates are reporting with details on these systems and discussing with foreign governments ways to address the problem. In cooperation with the U.S. Customs Service we are considering training and technical assistance programs that might be appropriate.

As noted earlier, the United States has taken action against charities that have allowed funds to be diverted to terrorist purposes. A number of governments are taking steps to exercise greater surveillance of charities. We will continue to block the assets and work with our allies to block the assets of charities that divert funds to terrorist purposes, especially when it is clear that there is witting complicity on the part of the charities' leaders.

At the same time, it is important that our work on charities not leave the impression that we are indifferent to the plight of poor people that legitimate Islamic charities assist. American citizens are the most generous supporters of charities in the world and we therefore respect organizations that raise funds here in the United States and in other countries for charitable purposes. What is important is to ensure that there be effective oversight on how such funds are used. Further work on this subject is a top priority.

As we move forward with refined strategies, it is likely that the role of technical assistance and training will grow. Coordination is always a challenge, even within a

single government, and it becomes even more of a challenge when several countries or organizations are involved. In the past year the United States, rightly in my view, put the greatest priority on moving quickly. In the next year I believe we will need to do more to develop improved training programs, establish clear benchmarks, exchange information on best practices and ensure that countries committed to the fight against the financing of terrorism get the help they need.

Mr. Chairman, you can see from this short summary that cutting off terrorist financing is an immensely complicated process. We welcome the strong support of the Congress as we confront this challenge.