

Testimony of
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Senate Foreign Relations Committee

9:30 a.m. March 18, 2003

The United States Senate

419 Dirksen Senate Office Building

Chairman Lugar, Senator Biden, and distinguished members of the Senate Committee on Foreign Relations, thank you for inviting me to testify today about the international efforts the Treasury Department has taken, in close coordination with the State Department and our other sister departments and agencies, to attack the financial networks and systems that support and facilitate international terrorism.

Since September 11th, we have led a global campaign to identify, disrupt, and dismantle the sources and means of funding for al Qaida and other terrorist groups. As President Bush stated on September 24, 2001, "If you do business with terrorists, if you support or sponsor them, you will not do business with the United States of America." We therefore have attacked the financial infrastructure of terrorist groups and held accountable those who bankroll terror.

The money used to fuel terrorism flows not just in dollars but in yen, euros, and pounds. The U.S. government has led an international effort to focus the world's attention on the threat of terrorist financing, and we have realized significant success. Certainly, the Treasury and the U.S. government have devoted extensive resources and expertise to fulfill this mandate, but this campaign has always been an international endeavor and has relied on the cooperation of our international partners to successfully achieve our goals.

International cooperation is critical for our overall success, especially when addressing the short and long-term threats of terrorist financing throughout the world. We cannot bomb bank accounts, and we therefore rely on international cooperation in all our efforts. We have shown quite clearly that our counter-terrorism mission is best served when we work collectively with our partners. Thus, our campaign to starve terrorist groups of funding and to bankrupt their

operations will continue to rely on our ability to work with our partners abroad to achieve collective success.

I would like to emphasize at the outset the importance of vigorous interagency consultation and cooperation in attacking terrorist financing, as well as to thank the State Department, the Justice Department, and other agencies and departments in our federal government for their work with us on this campaign. From our experience before and after September 11th, we know that terrorist financing is a complicated and multi-dimensional problem that both domestically and internationally implicates a range of legal, regulatory, financial, intelligence and law enforcement interests. Consequently, no successful attack on the financial underpinnings of terrorism may be advanced without coordinated interagency strategies on the use of legal, regulatory, private sector, law enforcement, diplomatic and intelligence-gathering tools required to combat this problem.

In this respect, the State Department has provided the Treasury Department with enormous support in our collective international efforts. In the multiple missions I and others from the Treasury Department have taken abroad and with a series of Treasury initiatives that have required international coordination, we have been well served by our Embassies abroad and by the State Department more generally.

Before I address the specific diplomatic and international efforts we have undertaken to advance the fight against terrorist financing, allow me to share with you the overarching efforts and strategy of the U.S. government in attacking this problem.

I. *Strategy to Combat Terrorist Financing*

Terrorism in the 21st century is a global enterprise consisting of both simple and sophisticated financial mechanisms. Al Qaida and other terrorist groups have learned to use the ease and freedom of the international financial system – both formal and informal – to support their international network and ambitions. The war against terrorist financing, therefore, is an immense undertaking because it requires us to preserve the openness and efficiency of our modern financial system, with the free flow of capital and information, while ensuring that it is not abused by terrorists and their financiers.

We know that terrorist groups tap into a wide range of sources for their financial support, including State sponsors, wealthy donors, charity and relief organizations, front companies, and common criminal activity, and that they use formal and informal ways of moving money such as informal value transfer systems and trade-based schemes. To address and disrupt the various ways that terrorist groups raise and move funds, we have developed a seven-part U.S. government strategy to attack terrorist networks and to prevent both the short and long-term effects of terrorist financing:

1. Targeted intelligence gathering.
2. Freezing of terrorist-related assets.
3. Law enforcement actions.

4. Diplomatic efforts and outreach.
5. Smarter regulatory scrutiny and International Standard Setting.
6. Outreach to the private sectors.
7. Capacity building for other governments and the financial sector.

The objective of our strategy is simple -- to prevent acts of terrorism in the short and long term by identifying and disrupting terrorist operations and the financial networks that support those operations. Because of the international and multi-faceted nature of terrorist networks, this is an integrated, inter-agency strategy requiring international cooperation.

II. *International and Diplomatic Efforts*

Treasury is in a unique position to work with the international financial sector – both government and private. Treasury officials have traveled abroad extensively to engage our partners in various ministries and central banks, as well as financial professionals in private industry trade associations and institutions, on the issue of terrorist financing. We are in daily contact with foreign financial officials and are engaged in bilateral and multilateral discussions regarding international cooperation and action against terrorist activities and financing. We are promoting technical assistance and training abroad to ensure that our partners have the requisite capacity to regulate vulnerable industries, enforce laws and share financial information.

The U.S. government has engaged in numerous international fora, including the G7, G8, G20, the Financial Action Task Force (FATF), the Egmont Group, and the international financial institutions to combat terrorist financing in a global, systematic way. We have worked with these international bodies and regional organizations such as APEC, the OSCE, and the Manila Framework Group to further coordinate international efforts to stop the financing of terrorism and to ensure that countries take concrete actions. In general, the United States has led the initiative to make the battle against terrorist financing a priority for the world, through bilateral and multilateral engagements as well as constant diplomatic pressure.

A. *Blocking Assets and Cutting Off Worldwide Channels of Terrorist Funding*

Our most public weapon in the financial war on terrorism has been the public designation of terrorist-related entities and the blocking of their assets pursuant to the President's September 23, 2001 Executive Order and the authority to designate terrorist organizations as Foreign Terrorist Organizations. To date, we, through the good work of the Office of Foreign Assets Control (OFAC), the State Department, and the inter-agency community, have blocked more than \$125 million worldwide based on our ability to internationalize these domestic efforts. Not only have we been able to cut off channels that served to move funds for terrorism, we have impelled an international process to confront the common threat of terrorism, regardless of the source of terrorist funds or the particular agenda of any terrorist group.

The United States has worked diligently with the UN Security Council to adopt international resolutions reflecting the goals of our domestic executive orders and providing the mechanism for UN member states to freeze terrorist-related assets. These UN Security Council

resolutions form the legal basis for freezing terrorist assets on a global basis. We have worked with our allies in the UN to pursue bilateral and multilateral designations of terrorist-related parties where possible and appropriate. We have achieved some notable successes in this area to date:

U.S.-Saudi Joint Designations - On March 11, 2002, the United States participated in its first joint designation of a terrorist supporter. The United States and Saudi Arabia jointly designated the Somalia and Bosnia-Herzegovina offices of Al Haramain, a Saudi-based NGO. These two organizations are linked to al Qaida and their names were forwarded to the Sanctions Committee for inclusion under the UNSCR 1333/1390 list. On September 9, 2002, the United States and Saudi Arabia jointly referred to the Sanctions Committee Wa'el Hamza Julaidan, an associate of Usama bin Laden and a supporter of al Qaida.

G7 Joint Designation - On April 19, 2002, the United States, along with the other G7 members, jointly designated nine individuals and one organization. Most of these groups were European-based al Qaida organizers and financiers of terrorism. Because of their al Qaida links, all ten of these names were forwarded to the UN Sanctions Committee for inclusion under the UNSCR 1333/1390 list.

U.S.-Italy Joint Designation - On August 29, 2002, the United States and Italy jointly designated 11 individuals and 14 entities. All of the individuals were linked to the Salafist Group for Call and Combat designated in the original U.S. Annex to E.O. 13224. The 14 entities are part of the Nada/Nasreddin financial network, [who are](#) two terrorist financiers designated on earlier E.O. 13224 lists.

U.S.-Central Asia Joint Designation – On September 6, 2002, the United States, Afghanistan, Kyrgyzstan, and China jointly referred to the Sanctions Committee the Eastern Turkistan Islamic Movement, an al Qaida-linked organization which operates in these and other countries in Central Asia.

Designation of Jemaa Islamiyya – On October 23, 2002, the United States designated the Southeast Asian terrorist group, Jemaa Islamiyya, suspected by many in the media of perpetrating the deadly attacks on a nightclub in Bali on October 12th. In the subsequent request of the United Nations to also designate this group for its ties to the al Qaida organization, the U.S. joined Australia, Indonesia, Singapore, and 46 other countries, including all the members of ASEAN and the EU, in requesting Jemaa Islamiyya's designation. This represents the most widespread show of support of any terrorist designation to date.

Three Chechen Groups – On February 28, 2003 the United States designated three Chechnya-based terrorists groups responsible for the Moscow theater siege. In the subsequent request of the United Nations to also designate these groups for their ties to the al Qaida organization, the U.S. was joined by UN Security Council members France, Russia, China, the UK, Spain, and Germany in requesting their designation.

These global actions to designate and freeze the assets of terrorist-related groups have only been effective because we have been able to use the international mechanisms in place to effect a global shut down of terrorist financial infrastructures. For example, the international designation of the al Barakaat network in November 2001, which was a money remitting

business used by Usama bin Laden to funnel money to associated terror groups, proved effective because the international community acted in unison. The recent designation of the worldwide network of Benevolence International Foundation, a Chicago-based charity that was supporting al Qaida, is another example of the international community taking common action to cut off the flow of funds to al Qaida. By working with our allies to implement an international mechanism for designation and freezing, we have made it much harder for terrorists to hide their money in the world's banks or send it abroad through formal financial channels. We have also sent a common signal to the bankers of terror. There will be no refuge from the gaze of the international community.

B. Regulation of Charities and Alternative Remittance Systems

Our international strategy has achieved success beyond designations and blocking actions. We and our allies have vigorously engaged multilateral institutions such as the IMF, the World Bank, the UN, and the Financial Action Task Force (FATF) in an effort to examine the measures the international community is taking to regulate and monitor those financial mechanisms being abused by terrorist groups.

Prior to September 11, 2001, the international community lacked focus on the specific means that terrorist groups were using to raise and move money. One example of this is al Qaida's perverted use of charities and non-profit organizations to raise money, move persons and materiel, and provide logistical support for their international operations. Nothing could be more reprehensible than the terrorists' use of images of widows and orphans to raise money for the killing of innocent lives. The international community has responded by blocking the assets of suspect charities, closing down and taking law enforcement action against others, and setting standards to protect charitable institutions from being abused as vehicles for terrorist financing. Through the 31-member Financial Action Task Force (FATF), the international community set forth the first international best practices to protect charities against potential terrorist abuse. The establishment of those standards has been followed by actions by several jurisdictions, including Gulf States, to monitor how their charitable organizations operate, especially in conflict zones.

The funding of suspect organizations can originate from both legitimate donations and illegal sources within our own borders. Because these organizations also support humanitarian and relief efforts, the commingling of legitimate and illegitimate funds makes it difficult to follow the money trail. The Internal Revenue Service - Criminal Investigation (IRS-CI) has worked with the inter-agency community abroad and continues to coordinate these efforts with its Tax Exempt/Government Entities Division, whose primary responsibility is administering the tax laws associated with charitable organizations, to specifically address issues involving terrorism fund-raising by these suspect organizations.

Our strategy has also begun to make progress in countering the prevalent use of informal systems of transferring money, often known as hawala, throughout the world, including South Asia, the Gulf, Europe, and North America, to fund terrorism. This previously largely unregulated financial practice has been abused by terrorist financiers and other criminals to move and launder large amounts of money quickly and surreptitiously. Along with the world community, we have worked to broaden regulatory structures for informal money service businesses, such as hawalas, and enforce regulations against those refusing to register. In May of

2002, I led an inter-agency delegation to the United Arab Emirates for the first international conference on this issue. As a result of this conference, nearly forty countries committed to regulate this sector through registration or licensing. Countries like the UAE, Pakistan, and others have responded by regulating this sector for the first time, which is proving important for information gathering and sharing and ensuring financial transparency within the informal financial sector. The FATF and other international bodies have further developed standards that are specific to this sector and will continue to work with countries to ensure that this sector is well regulated and overseen.

Overall, the concentration on these issues in the international arena is due in large part to the consistent work of the U.S. government to place pressure on the international community, in all relevant fora. We will continue to do so.

C. International Standard Setting

All of these efforts are part of a strategy to set global standards that will plug gaps in the formal and informal financial sectors to prevent, or at least minimize, the potential of abuse by terrorist groups and their supporters. As President Bush has stated on several occasions, the war against terrorism will be a long-term effort that will require us to think creatively and to ensure that our modern systems are not being used against us. With respect to terrorist financing, we have committed ourselves to promulgating and establishing international standards that serve to protect the integrity of all aspects of the international financial system

One critical way we have accomplished this is through the FATF, which has served since 1989 as the preeminent anti-money laundering multilateral organization in the world. The United States has played a leading role in the development of this organization as the primary forum for advancing international standards to combat terrorist financing. On October 31, 2001, at the United States' initiative, the FATF issued Eight Special Recommendations on Terrorist Financing, requiring all member nations to adopt a counter-terrorist financing regime. These Eight Special Recommendations have become the benchmark for counter-terrorist financing regimes and have led to several countries modifying and passing new laws to protect their financial systems from abuse by terrorists. The Eight Special Recommendations commit states to undertake the following measures against terrorist financing:

1. Ratify the UN International Convention for the Suppression of the Financing of Terrorism and implement relevant UN Resolutions against terrorist financing;
2. Criminalize the financing of terrorism, terrorist acts and terrorist organizations;
3. Freeze and confiscate terrorist assets;
4. Require financial institutions to report suspicious transactions linked to terrorism;
5. Provide the widest possible assistance to other countries' laws enforcement and regulatory authorities for terrorist financing investigations;
6. Impose anti-money laundering requirements on alternative remittance systems;

7. Require financial institutions to include accurate and meaningful originator information in money transfers; and
8. Ensure that non-profit organizations cannot be misused to finance terrorism.

The FATF has further elaborated on these Eight Special Recommendations, including devising a worldwide standard for the information required to travel in cross-border wire transfers and developing best practices for the regulation of charities. Together with the Departments of State and Justice, Treasury will continue to work with the FATF to build on its successful record in persuading jurisdictions to adopt anti-money laundering and anti-terrorist financing regimes to strengthen global protection against terrorist finance.

In addition, the Treasury Department will continue its close collaboration with the World Bank, the IMF, and the UN CTC to ensure that (a) countries are assessed based on the standards set by the FATF and (b) countries can be identified to receive priority technical assistance in order for them to come into compliance with the Eight Special Recommendations on Terrorist Financing. We will also continue to work with all relevant regional bodies to promote the common international standards being developed on all relevant financial matters.

We have had enormous success of late in moving countries to change their relevant laws and regulations in the area of anti-money laundering and counter-terrorist financing. Thanks in large part to the authority granted to the Secretary of the Treasury by Congress in Section 311 of the USA PATRIOT Act, countries have been fearful of the economic effects of designation as a “primary money laundering concern.” As a result, countries like Nigeria and the Philippines have taken action to avoid the stigma of this designation by the United States, and the Ukraine moved quickly to pass laws that would remove this designation from their country’s financial system. This power under the PATRIOT Act, in combination with the threat of international rebuke, is an effective tool in molding international behavior to comply with international financial standards.

D. International Information Sharing and Law Enforcement Cooperation

Information sharing is critical to fighting terrorism, and a critical element in our efforts to identify and dismantle terrorist financing is the ability to access quickly terrorist-related information received from our international partners. We have seen in recent days, with the capture of important al Qaeda leaders and operatives, the enormous impact and success resulting from close international cooperation in the law enforcement and intelligence communities. The U.S. government has forged ties around the world that are important in continuing to ferret out global terrorist networks. For example, soon after September 11th, a Caribbean ally provided critical financial information through its Financial Intelligence Unit (FIU) to the Financial Crimes Enforcement Network (FinCEN) that allowed the revelation of a financial network that supported terrorist groups and stretched around the world.

In order to improve the flow of information, in particular financial information related to terrorist financing, we have worked to establish and expand international information-sharing channels. Through FinCEN, we have directed the attention of the Egmont Group towards terrorist financing. The Egmont Group represents 69 FIUs from various countries around the world, and FinCEN is the FIU for the United States. The FIU in each nation receives financial

information (such as SARs) from financial institutions pursuant to each government's particular anti-money laundering laws, analyzes and processes these disclosures, and disseminates the information domestically to appropriate government authorities and internationally to other FIUs in support of national and international law enforcement operations.

Since September 11th, the Egmont Group has taken steps to leverage its information collection and sharing capabilities to support the United States in its global war on terrorism. On October 31, 2001, FinCEN hosted a special Egmont Group meeting that focused on the FIUs' role in the fight against terrorism. The FIUs agreed to: (i) work to eliminate impediments to information exchange; (ii) make terrorist financing a form of suspicious activity to be reported by all financial sectors to their respective FIUs; (iii) undertake joint studies of particular money laundering vulnerabilities, especially when they may have some bearing on counterterrorism, such as hawala; and (iv) create sanitized cases for training purposes.

Approximately ten additional candidate FIUs currently are being considered for admission to the Egmont Group at its next annual plenary meeting. Egmont has conducted and will continue to host training sessions to improve the analytical capabilities of FIU staff around the world. FinCEN is heavily engaged in these efforts and recently participated in the international training session held Oaxaca, Mexico, co-hosted with the UN.

IRS-CI contributes to international information sharing, law enforcement cooperation, and the overall strategy to combat terrorist financing through its Law Enforcement Attachés located in key international financial centers throughout the world. These attachés support ongoing terrorist financing investigations and aggressively develop liaisons with their foreign counterparts to facilitate the flow of information in this area.

In addition, we have worked closely with the Departments of Justice and State to establish new means of investigating terrorist financing cases. For example, the United States and Switzerland entered into a memorandum of understanding on September 4, 2002, that allows federal agents from each country to work hand-in-hand with their counterparts on related terrorist financing investigations. This cooperative international working arrangement is a novel way of ensuring close coordination and information sharing. We will continue to work on establishing these types of open channels of communication internationally to uncover terrorist networks.

In addition, we developed the Counter-Terrorist Financing Public Awareness and Rewards Campaign in coordination with the State Department, which we announced together on November 13, 2002. This partnership with the State Department's "Rewards for Justice Program" is a campaign to offer \$5 million for information on funding networks that support terrorist activities, including underground financial systems, illicit charities, and corrupt financial service providers. In addition, this program is intended to raise public awareness and understanding of how terrorist financing occurs. The State Department has been a strong supporter and advocate of this Campaign, and the Embassies are serving as an important medium for this information.

E. Capacity Building

Providing our international partners with the legal, regulatory, and enforcement capabilities to combat and prevent terrorist financing is an integral part of our overarching strategy. Along with the State and Justice Departments, we have engaged in several capacity-building initiatives with other governments and the private sector to defeat terrorist financing activity. For example, we have provided several countries in the Gulf with training related to trade-based money laundering, which is a scheme used by smugglers and perhaps terrorist financiers to move money intended for criminal purposes through commerce. Our international partners have welcomed this type of training, and we plan to provide it to other countries that are susceptible to this practice throughout the world. Treasury has in addition utilized IRS-CI's financial investigation expertise in conducting assessments of various foreign governments' law enforcement capabilities, developing courses, and furnishing instructors for training in financial investigative techniques. Moreover, Treasury has and will continue to contribute to the inter-agency law enforcement training programs at the various International Law Enforcement Academies (ILEA) around the world, including the recently established ILEA in Costa Rica.

In addition, Treasury is co-chairing a FATF Working Group on Terrorist Financing, which, among other issues, is charged with identifying technical assistance needs of various governments around the world. This Working Group is collaborating with donor states, the International Monetary Fund, the World Bank, and the UN Counter-Terrorism Committee in helping to identify jurisdictions in need of technical assistance. Bilaterally, members of my office, the Office of Foreign Assets Control (OFAC), and FinCEN, among other Treasury components in close cooperation with the Departments of State and Justice, have worked directly with foreign governments to increase their capabilities to freeze terrorist-related assets and to process and analyze financial information. We have also participated, along with the Treasury's Office of Technical Assistance, in several inter-agency assessments of technical assistance needs with respect to combating terrorist financing in various countries of strategic interest to the United States.

These efforts will gain strength as we enlist the further cooperation of other international donors. We have certainly seen recently a greater commitment from various countries to provide needed training and technical assistance to countries that have demonstrated a clear need and desire for assistance.

III. Challenges Ahead

Though the U.S. government has led the world in focusing attention on the problem of terrorist financing, there is still much work to be done. There are several specific challenges that lie before us that we must continue to address in the international context.

Foremost, we must maintain political and diplomatic pressure on our partners abroad and the international institutions in which we engage to continue to focus on the problems associated with terrorist financing. The further the world's memory of September 11th recedes, the harder it is to maintain a sense of urgency internationally to act against terrorism. We must ensure that we are constantly communicating the importance of this issue to our partners and that our own resolve, in particular abroad, is not seen as wavering.

We must continue to broaden and deepen our efforts worldwide. From improving the way the international community blocks assets to ensuring that charitable giving is not corrupted by terrorists, we need to be vigilant and ensure that all countries are taking the necessary steps to deter, detect, and disrupt terrorist financing. This is particularly the case in areas of the financial system that are especially vulnerable to abuse by terrorist groups, such as alternative remittance systems and charities in crisis locations.

In this endeavor, we will and must continue to address fundamental areas of concern with our partners. Since September 11th, the United States and the EU have campaigned jointly to designate terrorist entities and their financial backers in order to freeze their assets. For example, nearly every terrorist individual and entity designated by the United States also has been designated by the EU or some of its member states. Moreover, the United States and the EU have established a fluid, informal mechanism for sharing information on terrorists and their supporters.

Recent terrorist finance developments at the EU member-state level also are positive. Last September, we co-chaired with Spain an important meeting of the FATF to discuss international standards and measures being taken in the war against terrorist financing. In August, Italy joined the United States in submitting to the UN 1267 Sanctions Committee the names of 25 individuals and entities linked to al Qaida. The Dutch Government recently froze the assets of the "New Peoples Army" and its leader Jose Sison, both known to be responsible for the killing of American citizens in the Philippines. France, Belgium, The Netherlands and Germany have all submitted names in recent months to the UN 1267 list.

Nevertheless, differences remain that must be addressed. We have pressed the EU to join us in labeling Hamas and Hizballah as terrorist organizations. Thus far, most European countries have avoided this issue, on grounds of a supposed distinction between the "charitable" or "political" wing of Hamas and Hizballah and the militant/terrorist wing. The United States has rejected the notion that "firewalls" separate political or charitable activity from the terrorist activities of Hamas and Hizballah, and we urge our European counterparts to do the same. Not only is money fungible across all programs and activities of these terrorist organizations, but no evidence has been brought forward to establish the existence of any such "firewalls." Nor is there any reason to suppose that terrorists within either organization respect such niceties.

We are beginning to see some progress. Recently, for example, Denmark and Germany took concrete enforcement actions against the Al Aqsa Foundation -- a fundraiser for Hamas. In addition, the EU recently designated the al-Aqsa Martyrs Brigade, a Hamas-related group that has taken responsibility for a number of suicide bombings in Israel. These are important developments and movements in the right direction, but we have a long way yet to go. We also need to continue to press the EU on improving and streamlining the methods in which they designate parties under the Clearinghouse process.

Our EU counterparts know that the United States is pressing for resolution on these critical issues, which we believe will enhance the EU's ability to combat terrorist financing. We welcome the generally good cooperation of the EU in the financial war on terrorism to date, and we will continue to push for progress on these remaining issues.

In other regions of the world, we face challenges of capacity building to develop more transparent and accountable financial sectors and to establish greater oversight of the charitable sector. In the long run, our success in combating terrorist financing will depend upon the ability of other countries to police their own financial and charitable sectors, and we must assist them in developing these capabilities. We will continue to work through the FATF, the IMF, the World Bank, the UN CTC, various regional organizations and with other donor countries to coordinate the delivery of technical assistance to those countries with the political will but lacking the necessary means to combat terrorist financing.

IV. *Conclusion*

I was interested to note Senator Biden's recent speech in which he stated that "[o]ur new war is not a Cold War but a Borderless War." Indeed, we are engaged in a long, unconventional struggle that requires us to use all of the U.S. government's assets. In this mission, we must work tirelessly abroad to choke off the channels of funding to terrorist groups and to raise the standards in the international financial system. As part of this war, the battle against terrorist financing is a long-term campaign for the Treasury Department and the entire U.S. government. As I have said before, ours is a long-term mission to save lives by denying the terrorists the funds they need to train, to plan, to travel, to hide, and to attack. By denying these terrorists dollars and yen, , we are depriving them of bullets and bombs. I thank you for your support. I will be happy to answer any questions you may have.