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**FINANCIAL WAR ON TERRORISM: NEW MONEY
TRAILS PRESENT FRESH CHALLENGES**

**HEARING
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
ONE HUNDRED SEVENTH CONGRESS
SECOND SESSION**

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FINANCIAL WAR ON TERRORISM: NEW MONEY TRAILS PRESENT FRESH CHAL- LENGES

WEDNESDAY, OCTOBER 9, 2002

**U.S. SENATE,
COMMITTEE ON FINANCE,
*Washington, DC.***

The hearing was convened, pursuant to notice, at 10:11 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the committee) presiding.

Also present: Senators Grassley and Thomas.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The committee will come to order.

Following the terrorist attacks of September 11, the U.S. Government, in conjunction with our international partners, launched a global war against terrorist financing networks. Since the brutal attacks, \$112 million in terrorist assets have been frozen worldwide in over 500 accounts; \$34 million of those assets are frozen in the United States.

Under actions taken by the administrator, more than 230 individuals, entities and organizations are currently designated as supporters of terrorism. This includes 112 individuals ranging from organization leaders such as Osama bin Laden and his key lieutenants, to terrorist operatives. The list also includes 74 other companies and charitable organizations identified as supporting terrorism.

Shutting down the flow of funds to terrorists is crucial to our success in fighting terrorism. Accomplishing this task is dependent upon having a coherent strategy, a coherent strategic plan implemented by an army of highly-skilled financial investigators.

The investigators with the Customs Service, the IRS, and Secret Service are globally recognized as among the best and brightest of financial investigators in the world.

As the committee of jurisdiction over the Treasury Department, it is our responsibility to ensure that our Nation's financial investigators have the leadership, have the resources, and authority to bring down the terrorist financial network.

Terrorist financing is not about getting money into the hands of terrorists for their personal gain. Terrorists and terrorist organizations are not like drug traffickers, corporate crooks, or tax evaders

who engage in money laundering to conceal the fruits of their crime.

Rather, terrorists and their backers use global financial networks and other means to amass and disburse funds for the purpose of committing acts of cold-blooded murder.

We are dealing with an evil enemy that is not easily deterred. The lessons we have learned since September 11th make it clear that the financial dealings of terrorists and terrorist organizations are more difficult to investigate than typical money laundering cases.

Terrorist funding may come from the proceeds of otherwise legitimate businesses. They often receive donations from sympathetic entrepreneurs or charitable organizations that appear to be legitimate, humanitarian, social, and political enterprises.

Senator Grassley and I introduced yesterday legislation to automatically suspend the tax-exempt status of organizations designated as terrorist support organizations.

Many terrorist operatives resort to petty crime, credit card theft, illegal cigarette sales, and bulk cash smuggling to support their operations. Terrorists also move their funds outside their regular banking system. They frequently use underground banking systems called hawalas that do not leave paper trails for investigators to follow.

Making matters more difficult, is that the overwhelming bulk of terrorist assets, cash flows, and evidence lie outside the borders of the United States. Unlike looking for a needle in a haystack, some financial experts have characterized investigating terrorist transactions as looking for a needle in a pile of needles.

Nonetheless, we must sift through this pile of needles in a coordinated and comprehensive manner. Secretary Gurule's colleague at Treasury, Mr. David Oavhauser, recently stated that "stopping the money flow is the best way to stop terrorism. Audit trails do not lie. They are the diaries of terror."

Given the gravity of the terrorist threat, it is important that the Federal Government have a comprehensive strategy and make the best use of expertise, technology, and law enforcement resources.

Since 9/11, the government has established many task forces, including committees and inter-agency groups. For example, Treasury is leading Operation Green Quest. I see a chart over here. It is a multi-agency task force targeting terrorist funding. The Justice Department has established a Terror Financing Operations Section within the FBI.

Our witnesses today are on the front line conducting the financial war. I look forward to hearing about the measures they have taken to date to identify, attack, and disrupt terrorist financing.

I am also even more interested in learning about their strategy for improving coordination, cooperation, communication among the departments and various inter-agency task forces to ensure that we, in fact, do have an effective enforcement program going forward.

The Finance Committee stands ready to work with our witnesses—I want to make that very clear to all of you—and with the administrative to meet the challenges that lie ahead.

[The prepared statement of Senator Baucus appears in the appendix.]

Senator Grassley?

**OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S.
SENATOR FROM IOWA**

Senator GRASSLEY. I thank you, Mr. Chairman, for holding this hearing. You have heard me say many times that money laundering is the war industry of terrorism. It is important that we understand what steps have been taken, what resources are being used, and what additional steps may be needed to shut down this industry, because without funds, terrorists cannot purchase guns, explosives, any weapons that they need to conduct their activities.

The Chairman has already talked about the legislation we have introduced. The public probably does not understand why it takes weeks or months, and a lot of hoops and a lot of red tape to go through to get somebody off the terrorist list. Well, this legislation cuts right through that. The mere designation of a tax-exempt organization as terrorist-connected will eliminate that tax exemption.

Today's testimony will highlight our ongoing efforts to shut down this war industry. We have seen the effectiveness of cooperative efforts. It is important that we continue to work together, as I hope this hearing will highlight.

Working together, they have been able to take action against some of the funding sources that September 11th terrorists used. This is an important accomplishment which cannot be overlooked.

But I also hope to hear what steps are being taken to move beyond targeting individual terrorists and terrorist organizations. We need to shut down the funding mechanisms which make terrorism possible before they can strike again.

I do not minimize the important efforts being made to identify and halt the individuals and organizations responsible for September 11th. But if there is one thing that history has taught us, it is that there will always be individuals who will choose violence over negotiation.

As long as there is hatred, intolerances of differences, and fear of opposing views, there will be people who choose to use terror in accomplishing their goals.

To be effective, obviously they need financing. We cannot allow them to have easy access to our financial system to fund their evil deeds.

Each of the departments testifying today—and I thank you for being here—bring a unique skill set to the table. Through the actions of Operation Green Quest and the Terrorist Financing Review Group, we have arrested over 230 individual and frozen \$112 million of terrorists' funds. In some respects, the level of cooperation demonstrated by the effectiveness of these task forces is unprecedented.

But, at the same time, there are signs of bureaucratic in-fighting, one upmanship, and duplication of effort that too often have plagued law enforcement in the past, and these still exist.

The fact that we have two task forces with predominantly the same mission, working the same types of cases and asking for the same kinds of information from identical sources is an unfortunate

demonstration of the old school of thought. I hope the witnesses will address the level and nature of the coordination of our efforts.

Internationally, we have had success also. International cooperation and coordination of efforts has been an important component of our successes in the pursuit of terrorist financing.

While a vast majority of countries have cooperated with us, there are still those who have not come to the table. As the President stated, as he said in that message to Congress, you are either with us or against us.

I think the time has arrived when we should start talking about the handful of countries who have decided, for whatever reason, not to cooperate with either the United States or the United Nations. Cooperation should obviously be the norm, not the exception. We should talk about these exceptions.

So, I thank you all again, including the Chairman, for being here this morning on this very important issue. I look forward to the testimony.

Senator BAUCUS. Thank you very much, Senator. We look forward to our three very distinguished witnesses on the front line. I would remind the witnesses that the purpose of this hearing is to find out where we are, a status report to kind of update, and so forth.

My intention is, this will be the first of several hearings on this subject. At an appropriate time in the future, we will meet again, see what we have accomplished, what we have yet to do, again, working together, both branches of government.

So I will begin with you, Mr. Gurule, who is Under Secretary of Enforcement with the U.S. Department of Treasury. The Honorable James Gurule.

STATEMENT OF HON. JAMES GURULE, UNDER SECRETARY FOR ENFORCEMENT, U.S. DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Mr. GURULE. Thank you. Good morning, Chairman Baucus, Ranking Member Grassley. Thank you for inviting me to testify today about the measures the Treasury Department has taken and is taking to identify, attack, and disrupt terrorist financing.

Mr. Chairman, in the interest of time I will summarize my testimony and ask that my prepared statement be submitted for the record.

The CHAIRMAN. Without objection. I might add, all statements will be included.

Mr. GURULE. Thank you. Thank you.

[The prepared statement of Mr. Gurule appears in the appendix.]

Mr. GURULE. Initially, I am pleased that you and Senator Grassley have introduced legislation on a bipartisan basis that would ensure that entities designated as terrorist organizations do not otherwise continue to receive tax-exempt status in the United States.

The administration has been studying this matter and we fully support the intent of the proposal. We are looking forward to working with the committee and Congress to ensure enactment of the legislation that addresses our joint concerns in this area as expeditiously as possible.

I would also like to take this opportunity to thank this committee for the additional resources, authorirites and support that you have provided to assist Treasury in identifying, disrupting, and dismantling terrorist financial networks.

Of particular importance to our counter-terrorist efforts is the USA PATRIOT Act, which expands the law enforcement and intelligence community's ability to access and share critical financial information regarding terrorist investigations.

Let me just speak for a moment to the Treasury's strategy against terrorist financing. What distinguishes the Department of Treasury in its operational law enforcement components is the department's unique resources and extensive financial expertise, which have been developed over decades.

The resources and financial expertise in FinCEN, the IRS Criminal Investigation Division, the U.S. Customs Service, and other Treasury components are now being redirected from money laundering, in part, to combat terrorist financing.

At the same time, the Treasury Department is leveraging its relationships with domestic and financial institutions and organizations, and foreign finance ministers in the war against terrorist financing.

Treasury's focus is both systemic and financial. We are looking at systems, ways and methods that terrorists use to raise and move money globally. These methods are diverse and range from abuse of financial institutions such as banks, and non-traditional mechanisms such as charities, hawalas, bulk cash smuggling, trade, and other means.

Our objective is, simply and clearly, to follow the money, to follow the money trail, and dismantle entire financial networks and channels from moving money to finance terror.

The financial trails left by terrorists and their facilitators must be pursued and exploited. One of the Treasury assets that we rely upon in this effort is the Bank Secretary Database. With the powers of regulation, investigation, and designation, we can cripple terrorist access to these formal and informal financing channels and mechanisms.

Let me speak just briefly to the Treasury and the U.S. Government's designation process. The most visible and immediately effective tactic of our comprehensive strategy has been designating and blocking he accounts of terrorists and those associated with financing terrorist activity.

You have covered the details of the numbers with respect to the number of entities, individuals, and the dollars seized, so I will not repeat that. But I think that this effort is valuable, for a number of reasons.

First, it results in shutting down the pipeline by which designated parties move money and operate financially in the mainstream financial sectors. Second, it informs third parties who may be unwittingly financing terrorist activity of their association with supporters of terrorism.

Third, it deters undesignated parties that might otherwise be willing to finance terrorist activity. Fourth, it exposes terrorist financing, money trails that may generate leads to previously unknown terrorist cells and financiers.

Next, it forces terrorists to use more costly, informal means of financing their activities. Last, it supports our diplomatic efforts to strengthen other countries' capacities to combat terrorist financing.

As I stated, we are not only focusing on the more formal means, but we are looking at how we can shut down charities that are being abused, and how we can move effectively to investigate these alternative remittance systems, hawalas, and there's a great deal that we have learned about both of these methods of financing terror over the past year.

Let me just speak briefly to Operation Green Quest. This is an interagency task force that is focusing on enforcement efforts, again, intended to identify, disrupt, and dismantle terrorist financing networks.

I brought with me copies of a brochure that the Customs Service prepared that outlines Operation Green Quest, its mission. This pamphlet was created as part of our outreach effort to the financial community and is detailed here on these charts.

The CHAIRMAN. Your time has expired. But could you just outline, in a couple of minutes, the main points of Operation Green Quest, please?

Mr. GURULE. Thank you, Mr. Chairman. The pamphlet contains important information on terrorist funding, including indicators of suspicious activity that will aid financial institutions, businesses, and law enforcement, and flagging certain types of businesses and activities that may warrant scrutiny by the banking and trade communities.

So, in essence, it kind of raises a red flag for financial institutions, gives them some indicators of what they should be looking out for with respect to potential financing of terror and moving of funds to support terrorist financing globally. Again, this is being distributed on a mass scale to financial institutions and businesses.

With that, I realize my time is up. Again, I commend the chairman of the committee.

The CHAIRMAN. So this is a flagging system.

Mr. GURULE. It is a flagging system. It is a way to focus attention on some important indicators of abnormalities, perhaps, within financial systems with respect to moving money, and that if these indicators, these flags are identified, then certainly banks should be put on notice that they may need to be engaging in due diligence and digging a little deeper with respect to these transactions.

The CHAIRMAN. Thank you very much, Secretary Gurule. We appreciate that.

Our next witness is Hon. Michael Chertoff, who is Assistant Attorney General for the Criminal Division, U.S. Department of Justice.

Mr. Chertoff?

STATEMENT OF MICHAEL CHERTOFF, ASSISTANT ATTORNEY GENERAL, CRIMINAL DIVISION, U.S. DEPARTMENT OF JUSTICE, WASHINGTON, DC

Mr. CHERTOFF. Thank you, Mr. Chairman, Ranking Member Grassley, members of the committee. I appreciate being invited to appear before the committee to talk about one of the most impor-

tant priorities at the Department of Justice in the fight against terrorism, which is striking at those who finance terrorism.

I want to talk very briefly about how we bring our investigative and prosecutorial tools to bear on this problem. I will summarize my statement. I appreciate the Chair's willingness to make it part of the record.

Let me try to give the committee a sense of the scope of what we do by citing two examples. In the late 1990's, a local detective in North Carolina who was working off-duty happened to notice large numbers of individual young men loading vans with cigarettes, and also handling large amounts of cash.

As a result of his reporting of that to Federal authorities, the Joint Terrorism Task Force in North Carolina ultimately began an investigation into what appeared at first to be cigarette tax evasion, but ultimately emerged to be part of a scheme to finance terrorists through the violation of our laws involving taxing cigarettes.

The investigation continued into 2000, at which time 18 individuals were arrested who were connected with a Hizballah cell focused in Charlotte, North Carolina. This is an operation that was undertaken not only with domestic and local law enforcement support, but the support of our counterparts in Canada, as well as the intelligence components.

This past May, Muhammed Hammoud went to trial in the Western District of North Carolina, being charged with violating the laws against materially supporting terrorism because of his activities in connection with this illegal cigarette smuggling scheme.

In the course of the trial, evidence was presented showing that there was procurement of military-style items for Hizballah in Lebanon, there were declassified wiretap recordings showing that Lebanese Hizballah were directing people in the United States in terms of their activities, and there were photographs that showed Mr. Hammoud brandishing high-caliber rifles. This resulted, in June, with the conviction of Mr. Hammoud.

The second story illustrates the second type of financing we encounter which has to do with charities or nonprofit, non-governmental organizations. Court filings which are now public indicate that the Benevolence International Foundation and a chief executive officer have been involved in terrorist financing relating to Usama Bin Laden and his associates.

As described in a recent complaint filed in Federal court in Chicago, Mr. Arnaout has been involved in directing the charity to send hundreds of thousands of dollars to accounts overseas that are suspected of affiliation with Chechnyan rebels in Georgia.

In March of this year, law enforcement authorities in Bosnia searched eight locations affiliated with the charity and recovered firearms, military manuals on topics involving explosives and small arms, photographs of Bin Laden, and photographs of Arnaout himself handling weapons.

So both of these examples illustrate the kinds of techniques for terrorist financing that we have been addressing using our investigative and prosecutorial tools at the Department of Justice.

To give you two other examples, in the Nation of Columbia, within the last several months, we have indicted individual leaders of both the left-wing terrorist organization FARC, and the right-wing

terrorist organization AUC, for engaging in drug trafficking, which of course provides some of the money that is used to support terrorist activities. So, we are very focused on the relationship between illegal activities and terrorism.

How do we proceed, organizationally, to pursue this? Well, at main Justice, we have put together a Terrorist Financing Task Force, which includes individuals who are experts in terrorism, money laundering, and other similar kinds of prosecutorial techniques, and we have married them up with the FBI's Terrorist Financing Operations Section which collects and collates financial data and uses sophisticated mining techniques to analyze and target those individuals who appear to be financing and engaging in terrorism.

At the same time, taking advantage of our resources in the field, the Attorney General has directed each U.S. Attorney's office to construct a network of anti-terrorism coordinators who work with main Justice to ensure that we have adequate coverage in each of the 93 districts and is specifically tasked to look at the issue of terrorist financing and terrorism in general.

Finally, Congress has been enormously helpful in the last year in passing the USA PATRIOT Act, which not only gives us additional statutory criminal offenses that are directed at terrorist financing, but gives us the wherewithal to do increased information sharing, which is indisputably the most important factor in our ability to be successful in prosecuting terrorists.

Finally, let me stress that we are focused on the issue of terrorist financing, not only because we want to prosecute and imprison people who finance terrorists, but because through this we are able to detect and identify financial relationships that give us additional leads about potential threats.

Since prevention is, first and foremost, what our priority is, the use of these financial techniques to identify people that we need to look at and potentially intercept is probably the most important by-product.

Mr. Chairman, I see my time is up. I am more than happy to answer questions of the committee on these topics.

The CHAIRMAN. Thank you very much, Mr. Chertoff.

[The prepared statement of Mr. Chertoff appears in the appendix.]

The CHAIRMAN. Our third witness is Hon. Alan Larson, Under Secretary for Economic, Business and Agricultural Affairs at the U.S. Department of State.

Mr. Larson?

STATEMENT OF HON. ALAN LARSON, UNDER SECRETARY FOR ECONOMIC, BUSINESS AND AGRICULTURAL AFFAIRS, U.S. DEPARTMENT OF STATE, WASHINGTON, DC

Mr. LARSON. Chairman Baucus, Senator Grassley, and distinguished members of the committee, thank you for your leadership in holding the hearing and for inviting me to testify.

We are engaged in a sustained campaign against terrorists and terrorist organizations that have global reach. A critical front in that war is the effort to disrupt financial networks that sustain those organizations and finance their operations.

Since our enemy has global reach and is supported by a global network, we need a global strategy and we need international partners who can help us carry it out. As part of the interagency effort, the State Department is developing strategies and activities to win international support and cooperation.

The international dimension of our strategy includes the following elements. First, establishing national norms and obligations, primarily through United Nations Security Council resolutions and international conventions. These resolutions and conventions require the establishment of better legal and regulatory systems to disrupt terrorist finance.

Second, we are raising the profile of the issue of financing of terrorism by placing at the top of our agendas with each of our bilateral partners and at the top of the agendas of our ambassadors in the field.

Third, working with other countries, we are trying to block assets of terrorists and terrorist organizations and to improve other forms of cooperation, including law enforcement.

Fourth, we are working with international organizations to make terrorist finance central to their work plans. Fifth, we are extending training and technical assistance to other countries that have the will, but not always the capacity, to act against terrorist finance.

Now, as my written testimony details, we have made progress over the last year in winning practical support from other countries and international organizations. It is harder today for terrorists abroad to raise money and to move money.

The United Nations has been a partner in this fight against terrorist finance, and United Nations Security Council Resolution 1390 created an independent monitoring group to review implementation of financial sanctions against terrorists and their organizations.

The monitoring group recently issued its second report. It is a report that highlights progress, but also spotlights where the international community needs to do more work.

I must say that before the monitoring group report was published, the administration already was aware of, and was working to address, many of the issues that are highlighted in that U.N. report.

For example, we know we need to continue efforts to get all countries to enact and enforce tough laws against money laundering and terrorist finance. We also know that, as the formal financial systems are purged of terrorist finance, terrorists are going to resort to other, more costly, but nevertheless serviceable methods for moving resources. So, we are working with other countries to develop mechanisms to ensure that hawala systems and other informal financial systems are not misused.

We also are addressing the issues raised by charities. I think the starting point has to be that Americans have tremendous respect for organizations that raise funds and provide services for charitable purposes.

But we cannot allow contributions that are given in order to improve the lives of vulnerable people to be diverted into activities that take the lives of innocent people. With our strong support,

governments are taking steps to exercise greater surveillance over charities.

Technical assistance and training programs are going to be critical to the success of our efforts at this next stage. As we move forward, we are going to need to develop improved training programs, establish clear benchmarks, exchange information on best practices, provide good legal and technical advice to other countries, and ensure generally that countries that are committed to the fight against terrorism get the help they need to carry out their responsibilities.

Mr. Chairman, President Bush has repeatedly reminded us that the war against terrorism is going to be long and difficult, and will require patience and persistence. The financial dimension of this war is no different. We have made progress, but we have by no means destroyed the ability of terrorist groups to raise and move financial resources, so we are going to need to stick with it.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Secretary.

[The prepared statement of Mr. Larson appears in the appendix.]

The CHAIRMAN. The first question is, how big is the problem? What is the magnitude of the problem we are facing in dollar terms? How many millions of dollars do you think are being held, exchanged generally, to date, sponsoring terrorism in the world? What is our best guess? In order to know what we are doing, we have to have a sense of what the problem is. How big is the problem?

Mr. Gurule?

Mr. GURULE. Well, certainly, it is difficult at this point to define the magnitude of the problem with any degree of—

The CHAIRMAN. Your best guess.

Mr. GURULE. It would just simply be a guess. I mean, certainly there are millions of dollars that we have uncovered that are being moved through charities domestically, millions of dollars that are being moved through other business entities in the United States.

So, it is a problem of enormous magnitude. Even though I think we have made some significant progress, again, I think we have made a dent. But, again, as Under Secretary Larson stated, we have a long ways to go.

The CHAIRMAN. Does anybody else want to take a try at that, what is the magnitude of the problem? Do you know?

Mr. LARSON. I think the best way to look at it, is that the magnitude of the problem is such that I do not think lack of access to resources is a major impediment to the operations of terrorist organizations at this stage. I cannot give you a number of whether it is \$30 billion, or \$60 billion, and I think it would be misleading to do so.

But I do think it is, unfortunately, accurate to say that organizations still have access to sufficient funds to carry out operations that will be very damaging to American citizens and to our National security.

The CHAIRMAN. Do you disagree with the United Nations report this month which concluded that al-Qaida remained a threat partly because it retained access to between \$30 and 300 million, controlled by ostensibly legitimate businesses associated with the ter-

ror network? Is that a reasonable figure? That is pretty broad, 30 to 300. Do you want to embellish, any of you, on that? Is that high? Is that low? What do you think?

Mr. GURULE. I have some question about the credibility of that number and the source for that information. As you stated, the low end and the high end are quite extreme. We are talking about a times 10 difference in number there.

Again, I think the fact remains, first, that the threat is real. There are sufficient finances out there and people that are willing to support and fund terror, that we need to remain vigilant and alert, and using all of the U.S. Government resources against terrorist financing.

The CHAIRMAN. Now, it is my understanding that a recent U.S. Government report has the magnitude of the problem that is a little bit different than the U.N. report. Is that correct? That is, their assessment is that it is not as dire and great as is the assessment of the U.N. report.

Let me state it differently. Do the three of you agree that it is in the ballpark, that is on the mark, that U.N. report?

Mr. GURULE. Again, I question the underlying basis for that estimate.

The CHAIRMAN. Well, why do you question it?

Mr. GURULE. Because we have not been able, through our investigative efforts, come up with those kinds of numbers. I have no idea where they are being generated from, what the source is. Is it hearsay information? Are there documents that support this? I have no idea where they are coming up with this particular number, with this range.

The CHAIRMAN. So it could be higher.

Mr. GURULE. It could be higher, could be lower. I question the credibility of that number.

Mr. LARSON. I think, sir, that the conclusion that is drawn in the report, that these organizations still have access to sufficient resources to do us real harm, is the part of the report that I believe is unquestionably true. That is true, notwithstanding the fact that I share Under Secretary Gurule's questioning about whether those precise numbers are sound.

But I think that, whether they are on the money or not, I think the underlying conclusion of the U.N. monitoring group is right. That is where we have put our focus.

The CHAIRMAN. The report goes on to say that "much of the terror network's wealth has been shifted beyond the reach of banks." That is according to European intelligence authorities and bank regulators.

Do you agree or disagree that much of it is shifted beyond the reach of banks?

Mr. LARSON. Well, I think that that is broadly right. Both you, Mr. Chairman, and Senator Grassley have highlighted the importance of looking to the future, about the next steps.

I think that it is natural that, as our efforts to freeze assets that are in formal financial systems are successful, that the response will be to move money into informal systems. That is what we believe is happening. It is because of that that all of us have empha-

sized the necessity of really making an effort to get into these informal systems, like hawala.

The CHAIRMAN. If I might, Senator Grassley.

How much of this has moved into informal systems? Half? Three-quarters? A quarter? What is your best guess? Then, second, while you are thinking about that, is what are the informal systems in addition to the hawalas and the charitable organizations, et cetera? What are they?

The cigarette scam was another one. But it sounds like they are virtually infinite. The cigarette scam was pretty isolated. They are taking an opportunity of the cigarette tax differential between two States, essentially. My gosh, if they are doing that, there is probably a near infinite number of smaller, minor, but cumulatively add up to something in operations.

Mr. CHERTOFF. Without trying to quantify where things are, because they do not obviously publish financial statements—

The CHAIRMAN. No, they do not publish. But you are in the business. You are in charge of clamping down, so you have got to begin with having a sense of what you are dealing with, and what is the magnitude of the problem. I am getting the feeling that we really do not know the magnitude of the problem.

Mr. CHERTOFF. I do think we know the different avenues that are available that are being used by terrorists to support their activities. When one moves out of the issue of formal banks, and Hawala, you have smuggling of gems or precious metals, or other things of value, you have bulk cash smuggling, which is an issue that was addressed, in part, by the USA PATRIOT Act. That is the kind of techniques.

Then we have the use of illegal activities as a way of funding terrorism, which I have to say, I think is going to increase in attractiveness. We have seen that, for example, in Colombia, where you have terrorist groups that participate in narcotics activity. Either they tax people who grow, produce and ship narcotics, or they get involved themselves. You actually have the prospect of a trade of drugs for arms, or things of that sort.

So I think what we are going to be needing to do, in addition to focusing on hawala or other methods of actually removing cash or things of that sort, we have to focus on a whole range of illegal activities that can be used to finance terrorism, and in which in some ways, I think, pose a kind of a double threat, because there is the illegal activity itself, and then of course the funding of terrorism.

The CHAIRMAN. All right. But my original question was, how much of this has gone, as we say, offshore? That is, out of the reach of banks and into other business transactions?

Mr. CHERTOFF. I think a lot of it is out of the reach of banks.

Mr. GURULE. Yes, I would agree. Again, it is difficult. I do not mean to be evasive on this. I wish I could give you an exact number, or even a fairly narrow range of what I believe to be the accurate number on the scope of the magnitude of the problem. But it is very difficult to define the universe.

Having said that, based upon information that I have had access to, I think it is clear that our efforts with respect to designations, blocking, and freezing accounts has had a dramatic deterrent effect, both with respect to donors that are now thinking twice with

respect to donating money to charities to support or to corrupt charities to support terrorist activity for fear that these funds are going to be seized and blocked, as we have not only domestically but internationally and they, themselves, will be designated a terrorist financier.

So, I think there is a stark deterrent effect that our efforts have had to date, and that is good. I think that is a success story.

Having said that, if they are reluctant to move money through formal banking systems, what alternative means are they turning to? We know that they are certainly looking to move money through bulk cash smuggling, Operation Green Quest. The Customs Service is focused on that.

Since the establishment of Operation Green Quest, they have now seized over \$19 million in bulk cash and money that was being smuggled outside of the United States that was not being reported on the CTR forms. So that, by the way, is a figure in addition to the \$112 million. That is an additional \$19 million.

But, again, there are Hawalas and other systems that we are focusing on. We have to be flexible, we have to be fluid. As the bad guys continue to adjust their strategy, we need to be sufficiently agile to adjust our strategy to respond.

The CHAIRMAN. Thank you.

Senator Grassley?

Senator GRASSLEY. Thank you.

Before I ask questions of the panel, I want to take advantage of the opportunity of Mr. Chertoff being here to ask you to go back to the department. I have written some letters to the department.

I am not going to bring up all the letters, but I do want to highlight one that I have not received an answer to that was sent on September 18. I wanted a response by September 30. I would hope I could get a response, maybe by next Monday.

But it is in regard to the person of interest definition that has been applied to Steven Hatfield in the anthrax case. All I really want, is a statement of policy, or if there is not any policy, how you arrive at that. Just that simple statement. I think it would be real easy to answer.

Mr. CHERTOFF. Senator, I have been made aware of the letter. I will certainly carry the message back, and we should get an answer to you as promptly as possible, I would certainly hope next week.

Senator GRASSLEY. I will look forward to your letter next week. Thank you.

I am going to start with a question about Hawalas, what steps are we taking to further understand this system, and how it is used to support terrorist activities. But, more importantly than that, what agency has the lead in conducting the analysis?

This morning I was told that the Office of Enforcement has a group working on this. I have also been told that the Financial Crimes Enforcement Network, which reports to Mr. Gurule, has a separate group examining the issue.

According to the National Money Laundering Strategy Objective, Priority 2, FinCEN has the lead. So why this duplication of effort, if the strategy is a meaningful document?

Mr. GURULE. I do not know that I would characterize it as a duplication of effort. Certainly there are joint responsibilities on this issue. FinCEN certainly plays a very important role within the Treasury Department with respect to the licensing, the regulation of these Hawalas, or MSBs, or money service businesses.

One of the valuable tools that we gained from the USA PATRIOT Act, is the requirement that these money service businesses have to be registered. Now they have to file suspicious activity reports to FinCEN, and they are doing that. That is very significant.

That information is being shared, not only to the agents of Operation Green Quest, but also to the agents, the participants in the FBI's Terrorist Financing Operations Section.

So, this is a joint endeavor. This is a joint enterprise. I think we are working together in a very coordinated way that is unprecedented. So, I am very pleased with the coordination that we have realized today.

Senator GRASSLEY. Do you all agree then that there is no duplication? I mean, it sounds to me like a tremendous amount of duplication. But if it is different, then it is different.

Mr. Chertoff?

Mr. CHERTOFF. Obviously, Treasury has components that focus on the issue of terrorist financing, as does the Department of Justice and the FBI.

I think I would like to make, I guess, three points. One is we do make an enormous effort to cooperate, coordinate, and avoid unnecessary duplication. Inevitably, there is some duplication, but there is also a difference in emphasis to some extent, which I think adds value to the fact that we have different components looking at this.

One thing we do try to do is make sure that if we are going to be making cases, that they all funnel through the same point. I am confident that, because of the fact that actually making a case—it is going to be a criminal case, for example—is going to have to come to the Department of Justice, either in the U.S. Attorneys' offices or in our Terrorism Financing Task Force, that we do have an ability to coordinate using that as a vehicle.

I have no doubt that there are things that can always be improved as it relates to coordination, but this is certainly something we are mindful of.

Senator GRASSLEY. How many FBI staff are currently assigned to Operation Green Quest investigations, and how many Treasury staff are assigned to the Joint Task Force, or the TFOS, terrorist financing investigation?

Mr. GURULE. With respect to FBI assigned to Operation Green Quest, I think you have to look at it from a couple of perspectives. Operation Green Quest is housed within the U.S. Customs Service here in Washington, DC. It consists of agents not only from the FBI, but from other law enforcement agencies, including the U.S. Secret Service, the Postal Service, and others.

With respect to the number, it is only a relatively small number, perhaps two FBI agents that are assigned. But at the same time, the information that is being developed there, the leads, the targets, that information is being funneled out and being developed out in the field through the Customs' field offices, as well as the

JTTS. Certainly, we are leveraging FBI support and assistance out in the field in that regard.

So I do not want to suggest that the support of the FBI is only two agents, because, again, we have access to the agents within the JTTSs.

Senator GRASSLEY. Then would you have about the same number of Treasury staff then that are assigned to TFOS, as an example?

Mr. GURULE. Yes. It would be two or three. But at the same time, we also have FinCEN analysts that are assigned. OFAC. I believe we have one OFAC analyst that is assigned to TFOS as well.

Senator GRASSLEY. Well, maybe as a follow-up, but more basic, is what is the difference between the objectives of Operation Green Quest and that of TFOS?

Mr. GURULE. Well, I can certainly speak to the objective of Operation Green Quest, and I would leave it to Mr. Chertoff to characterize and define the objective of TFOS.

But with respect to Operation Green Quest, it is, first of all, to leverage the extensive expertise with respect to financial criminal investigations that resides within the Treasury Department. We have some unique resources and assets, FinCEN, the BSA database is one example. There is no other government agency that has a department like FinCEN housed within that department.

So we are taking that expertise. We are bringing it together in a way that is leveraging, in a very effective way, this expertise, data sharing. The ultimate objective is the dismantling of the financial networks. I mean, certainly we are looking to return indictments, arrests, prosecute, convict terrorist financiers.

But the ultimate objective is to dismantle the financial network, the channel that is being used to move funds. We are following the money trail to wherever it leads to that ultimate end and objective. So it is the principal focus. The principal focus of what we do, is focusing on the financial networks and the dismantling.

Senator GRASSLEY. Mr. Chertoff, is that how you would describe the objectives of TFOS?

Mr. CHERTOFF. I would say, in the broadest possible sense, TFOS also is focused on dismantling terrorist financing networks.

There are some differences in emphasis, I think. Obviously, for example, Treasury deals a lot with banks, overseas institutions, in terms of blocking and freezing. That is a Treasury function.

At Justice, we tend to focus on incapacitating people and making cases. So, for example, a lot of the emphasis in TFOS involves tracking financial relationships so we can locate or identify people that are potential threats, and then take legal action to block the threat—to intercept them, arrest them, ultimately bring a case, for example, against a charity or financial network.

What there needs to be, and what there is now in most cases, is an exchange of information. That is to say, when we have a name, we want to make sure we can run the name through all the databases and connect up all the dots, so to speak, as it relates to other people and other entities.

The mechanism we use to intercept or dismantle is a little different than Treasury's. Treasury is going to be doing a lot of blocking and freezing. We are going to be doing more incapacitating and

making cases. But the ultimate objective, of course, is the same, to dismantle these organizations.

Senator GRASSLEY. Let me end this line of questioning for now with this question, maybe that sums this up.

To what extent are cases involving the same suspects being investigated by both Operation Green Quest and TFOS?

Mr. GURULE. We have a deconfliction process that has been developed between TFOS and Operation Green Quest so that we do not have these task forces stumbling over one another with respect to the same targets.

The director of TFOS and the director of Operation Green Quest are meeting on a regular basis. When I say regular, I mean it is literally weekly, and in many cases even more often than that, because they do participate or are represented in other working groups involving terrorist financing.

So, that is very important. That is very critical, that we do not have a situation where, again, the right hand does not know what the left hand is doing, that we are focusing on the same target.

And if we get to a situation—and it has not come up to my level very often—where they cannot resolve at that level, the director level of these two task forces who is going to investigate which particular individual, then it is moved up for resolution and Mr. Chertoff and I would get involved and resolve it.

I think, very early on, shortly after 9/11, the road was a little bumpy there. But I think we have worked out, kind of smoothed out the wrinkles and it is functioning quite well.

The CHAIRMAN. I do not want to pick a fight here that need not be picked, but I understand that Treasury does not have access to the FBI database, but the FBI does have access to Treasury's database here on this general question.

Is that accurate? If so, why the difference?

Mr. GURULE. That is not my understanding. I certainly meet with, and get regular updates from, the director of Operation Green Quest. It is my understanding that the FBI is making their database, their RAID database, available to agents of Operation Green Quest.

Certainly, we are making all of our databases available to the FBI, not only the BSA databases, but other Customs databases that might have some relevance to the FBI's efforts.

The CHAIRMAN. Mr. Chertoff, is the FBI making all the databases that are relevant available to Treasury?

Mr. CHERTOFF. My understanding is that they do. My understanding is that Treasury has a seat at the table, so to speak, at TFOS and is invited to come and participate, and has a desk at the center where this takes place. And, certainly, I would be disturbed to learn that the facts were otherwise.

The CHAIRMAN. Can Treasury agents access FBI databases directly?

Mr. CHERTOFF. I do not know, mechanically, whether they can do it out of their offices or whether they have to come to where the Bureau is in order to do that access. In other words, the actual physical mechanism, I cannot tell you about.

The CHAIRMAN. Well, you have both used the words "your understanding," so it sounds like you might not know precisely. So could you both check and get back to us on that?

Senator GRASSLEY. And following up on that, it seems to me one of the lessons learned from September 11 with a lot of agencies other than your two—of course, FBI is one that I ought to emphasize—but the lack of communication is one of the major problems that we have in government in keeping on top of terrorism.

If this sort of cooperation is not going on, we have either got to know why, or it has got to go on. We cannot have two agencies fighting terrorism not talking to each other.

Mr. GURULE. I think that is the value of Green Quest. Not only is it an interagency task force, and therefore there are representatives from multiple Federal law enforcement agencies working together in the same room at the Customs headquarters, but they are bringing with them access to their relevant databases. So, it is not only the agents, the analysts, but it ensures access to important information and sharing of information.

I know one thing that I can certainly represent with a high degree of accuracy and certainty to this committee. If the director of Operation Green Quest is not getting information from the FBI, she certainly has not been shy about bringing that to my attention so that I can pick up the phone and call Mr. Chertoff or someone at the FBI to correct that.

Senator GRASSLEY. At that point, have you had problems getting the cooperation you feel you need?

Mr. GURULE. I have not. I certainly have an excellent working relationship with Mr. Chertoff. He and I are of like mind. First and foremost, terrorism is the number-one priority for this administration. I understand that, certainly, and I know that Mr. Chertoff understands it.

Therefore, we are obligated to do everything that we can to make sure that the full panoply of resources, assets, databases are being directed against that priority and that objective. If not, we are going to correct it.

Mr. CHERTOFF. I have to agree with that. I do not want there to be any misimpression. I have, from time to time, specifically asked and made it very clear that it is the expectation of the Department of Justice that information will be shared, and that there will be access to the databases by Treasury and by others who are involved in the war against terrorism.

So if people feel in individual instances that that has been denied to them or they have not had that access, I would want to hear about it, and I would want to have a fairly tough conversation with whomever was responsible for that.

I have not heard anybody suggest, speaking on our side, that there is a preclusion of access or denial of access to Treasury, and there is no basis to deny that kind of access.

The CHAIRMAN. All right. So we can take from your statements that information sharing is not a problem. There may be a few little wrinkles here and there, but essentially it is not a problem.

Mr. CHERTOFF. As I am informed, that is true.

The CHAIRMAN. Whoa. I do not like this "as I am informed." I want you to represent——

Mr. CHERTOFF. The reason I am putting it this way is because, if someone wants to come forward and say they have had a problem other than a wrinkle, I invite them to pick up the phone and call me, because I have not heard of any.

The CHAIRMAN. I am taking from this that there is not a problem.

Mr. CHERTOFF. Not that I am aware of. Correct.

The CHAIRMAN. No. You are the top guys here. So, I am taking from this conversation—the buck stops somewhere, and it is stopping right here with you—that it is not a problem. I encourage you to go back to make sure that it is not a problem. And if that, itself, is a problem, I would like you to tell this committee very quickly if it is a problem so we can help straighten it out.

Mr. GURULE. I will do that, certainly.

Mr. CHERTOFF. We will.

The CHAIRMAN. All right.

Mr. Larson, I would like to shift a little bit to the international problems here, because this is essentially an international problem.

The basic question is the degree to which other countries are cooperating. It is a big question. What is the answer?

Mr. LARSON. The way I would give the first cut at that answer, Mr. Chairman, is that I think we have rarely seen a period when there has been so much action internationally on a new issue as there has been on this one.

In the United Nations, we have had tremendous support from other countries where the system that has been put in place, the resolutions, the obligations that countries have accepted, and the effort to monitoring those obligations.

As I said in my longer statement, we have a number of instances there that are highlighted of joint designations where we and other countries have gone together to designate terrorist organizations or terrorist individuals that should be subject to the freezing of their financial assets.

I think, as well—and this gets a little bit into the looking forward part that both you and Senator Grassley have raised—we have had support in organizations like the Financial Action Task Force for working together to come to grips with these new problems.

The hawala. There is an effort in the FATF to set up a list of principles about how to deal with these informal financial systems, to learn from countries that have had more experience. Bahrain, for example, has been active in trying to provide a degree of regulation over them.

We have found, when we have raised issues with countries, that they have been quite responsive. Just in the last couple of weeks, we had a number of Finance Ministers in town for the World Bank and IMF meetings, and had an opportunity to push for further action on issues like money laundering laws, where countries like Russia have moved and they say they are on the verge of passing a money laundering law.

We have also had an opportunity to encourage countries to strengthen formal systems, because in some cases these hawala exist because the formal financial system does not fully serve the needs of the people on issues like remittances.

For example, the government of Pakistan is working very hard to set up a very flexible system that will allow people to send money in remittances through post offices and get it into the formal system where it can be watched and observed better than if it is in the informal system.

Having said that, we would be the first to say that there is a tremendous amount of further effort that we are going to need, and there is no place in the world where I would say that we have got this problem licked.

We are going to need increased cooperation from the Europeans, we are going to need increased cooperation from countries where these charitable organizations and these hawala are important parts of the problem. That is the agenda that we have set for the next year.

The CHAIRMAN. I am just curious how much offshore tax havens are part of the problem here, too. I mention that because there was a Wall Street Journal article in April basically saying that the United States' drive to separate terrorists from their money is hitting roadblocks, and according to the article, U.S. officials are complaining that our allies have contributed few names to a list of alleged terrorist financiers whose assets the U.S. wants frozen, and they really have not moved against anybody on that list.

The Europeans counter that the United States has not provided enough evidence to back up requests, and is not doing enough to crack down on offshore tax havens that provide cover to terrorists.

Your comment, please.

Mr. LARSON. First of all, for all of the issues that we have had with the Europeans, at the end of the day they have designated virtually all of the organizations and individuals that we have suggested they should.

The exceptions in terms of organizations have basically been ones that have Middle East affiliations, and where there is a political issue about how it plays into the dispute between the Israelis and the Palestinians. In other words, at the end of the day, we have gotten to where we thought we needed to get with the Europeans.

The issue of evidentiary standards is a tough one, though. Countries have different standards within their domestic legal systems with the amount of evidence that is necessary for a government to move in and freeze assets.

Sometimes the information that we have that leads us to believe an organization or individual should have their assets frozen comes from sources and methods that are not easy to disclose to all countries.

One of the many areas where there has been tremendous progress in the last year has been in getting the cooperation of our intelligence community and finding a way to make the best possible evidentiary packages without compromising sources or methods, so that we can go to our allies and make the case why an individual or organization should have their assets frozen.

The CHAIRMAN. Is this part of the PATRIOT Act, this information? I mean, is the Act helping to get this information?

Mr. LARSON. Well, the PATRIOT Act, from the standpoint of the State Department, has helped in a number of ways. Many parts of

the PATRIOT Act are mainly directed towards Treasury and Justice.

But among the things that the PATRIOT Act has helped us do, is to be able to get access to data from the National Crime Information Center that is now part of the database that our consular officers use when they are approached by people who want to get visas to come to the United States.

So the PATRIOT Act has helped us in a number of ways, but the specific issue that you were talking about in getting cooperation from the Europeans and others has been more a matter of being able to present them the type of evidence that is necessary and satisfactory under their legal regimes.

Mr. GURULE. If I could add to that. Just last month, one good example of the kind of international cooperation that we have been able to develop occurred last month here in Washington, DC when the Attorney General of Switzerland, our Attorney General, and the Deputy Secretary of the Treasury signed an agreement.

Under this agreement, Swiss and U.S. Federal agents have been assigned to work on each country's terrorism and terrorist financing task forces. That means that agents of Operation Green Quest are working with the Swiss with respect to their terrorist financing task force, focusing on the attacks of 9/11. The FBI is sending agents as well.

We have Swiss investigators that are working side by side with Operation Green Quest agents here in Washington, DC, and they're sharing information on a real-time basis with respect to what they have learned in Switzerland pursuant to their investigation. We are sharing with them, with respect to common targets, what we have learned through Operation Green Quest. So, I think that is unprecedented.

The CHAIRMAN. Senator Grassley?

Senator GRASSLEY. Following up a little bit on what their Chairman just asked, and I think I would direct it towards you, Mr. Gurule, and also Mr. Larson.

But in your testimony, Mr. Gurule, and it was also similar in Secretary Dam's testimony before the Banking Committee, it was mentioned "over 160 countries and jurisdiction have blocking orders in force, but not every country has joined us in blocking every identified terrorist or terrorist support."

I would like to have both of you name some countries that are not cooperating, maybe a half dozen or less, and why you feel that they are not cooperating. I do not mean six from you and six from him, but maybe some accounting.

Mr. GURULE. Let me give you an example of the problem. Under Secretary Larson alluded to this as well.

With respect to al-Qaida targets or terrorist financiers and those related to the Taliban, again, I believe that we have received virtually full support with respect to blocking.

Where it becomes more difficult, is when we are taking action to designate an individual who is supporting Hamas, for example.

Senator GRASSLEY. All right.

Mr. GURULE. There, there are some countries that make a distinction between the political wing of Hamas and the military wing of Hamas. Unless the U.S. Government can provide information

that traces money directly to the military wing that is supporting suicide bombings in the Middle East, there is some reluctance, or in some cases unwillingness, to go ahead and designate those individuals or entities. It is a very difficult diplomatic and political problem with respect to those countries.

Of course, the United States does not draw that distinction. If it is an organization that is funneling money to Hamas, we are less concerned about whether the money is going to support the political versus the military wing of Hamas, we are designating that entity, we are designating that individual. Those entities and individuals were cut off from doing business with U.S. banks. That is it. Under Secretary Larson may have a further comment.

Senator GRASSLEY. I would like to have you name six countries.

Mr. LARSON. I will give you a few names. Maybe, let me start off with the states that are the most problematic. We, of course, have named some states as state sponsors of terrorism. So when you are talking about countries like Cuba, Iraq, Iran, Libya, Syria, or North Korea, I mean, these are countries that are wilfully not cooperating. In fact, we consider them a big part of the problem. So, that is one starting point.

Senator GRASSLEY. We would not expect them to cooperate.

Mr. LARSON. We would not expect them to cooperate.

Senator GRASSLEY. Some that we would expect to cooperate that are not cooperating.

Mr. LARSON. The second class of countries that I wanted to highlight—I am not going to give you names, not because I am unwilling to, but I just do not have the list in front of me.

There are some countries where the capacity of the country to carry out these orders or the problems that they see in their legal ability to do so have been a problem. So, these are the sort of countries that we need to go to with legal assistance and just help them have the laws and implement the laws to carry these things out.

There is a third class of countries, I suppose, where they have been generally quite cooperative, but where they have not agreed with us on every proposed designation. Under Secretary Gurule gave an example of that.

I mentioned a moment ago that the European Union countries have been extremely supportive of what we have been doing, and they have named virtually every organization and individual that we have suggested, including organizations like the al-Aqsa Martyrs Brigade.

But they have taken a different view, as he pointed out, about Hamas. So, that gives you sort of three categories, I guess, of countries where we have had different degrees of support. We have not gotten everything we wanted from any of them.

Senator GRASSLEY. I presume that you deal mostly with the governments as you try to do this. But in free market economies where the private sector banking system is very much involved in this, do you sense any resistance on the part of the cozy fraternity of bankers to not do everything that we want done in this regard?

Mr. LARSON. I have not, from my vantage point, seen that to be a problem. Mr. Gurule may see it closer up than I do.

The one area where we have had issues, and we have alluded to it in our comments so far, is that there have been cases where,

after these designations have taken place, that there have been very strong concerns expressed that perhaps an individual was wrongly designated. So that has been the sort of pressure or push-back that we have seen.

There have been a handful of instances where further investigation has suggested that the person has a very good case that he or she was an unwitting participant in those.

In other words, they had made some money available to an organization that they did not know was involved in terrorist activities, and they have been prepared to pledge that they will sever themselves from these organizations.

So, we have had a few cases of de-listing. But that has been the type of push-back that we at the State Department have perceived the most, not from the banking community, as such.

Senator GRASSLEY. Mr. Gurule, have you had any push-backs from the banking community?

Mr. GURULE. I think the banking community, by and large, has been very supportive of our efforts. I know that firsthand, because I have an opportunity to meet with several of the domestic financial organizations and associations to discuss specifically concerns that they might have with respect to the regulations, the implementation of the regulations for the USA PATRIOT Act.

There are certainly instances where there has been disagreement, and perhaps they think that the way we have drafted the regulations was overly broad. But, by and large, the support has been quite strong. In some instances they have provided us comments, and we have agreed with the comments and we have made changes to the regulations accordingly.

One other point that I would like to make. Just recently, Deputy Secretary Dam established a USA PATRIOT Act task force. I serve on this task force, along with some other senior-level officials over at the Treasury Department.

This task force is going to continue to work with the financial community, even after all of the regulations of the PATRIOT Act are implemented, to make sure that we are balancing concerns.

First of all, to make sure that the regulations are being effective, that they are accomplishing what Congress intended them to accomplish. It will also provide us an opportunity to have a continuing open dialogue with the financial community on ways in which we can refine and improve those regulations. So, I think we have a good relationship with them.

The CHAIRMAN. Some financial crime experts say that large sums of money are collected in Saudi Arabia and elsewhere in the Gulf through charitable organizations. That is, charitable contributions support them. These financial crime experts go on to say this money comes in the form of cash, most of it U.S. dollars. Some of the money is transferred to Pakistan and to Afghanistan using the banking system of the Gulf, especially in Dubai, which according to this report is largely unregulated. I am wondering if you could comment on the banking system in the Gulf and the Gulf nations.

Specifically, is this report accurate? It sounds like it is, perhaps, accurate. Can you comment more directly on the banking system in Dubai and what actions the U.S. Government has taken with re-

spect to any deficiencies of the banking systems? Right now, I am talking about the Gulf nations.

Mr. LARSON. Let me comment on both the charitable organization aspect, as well as the banking aspect here. As I mentioned in my remarks, we believe that private charities play a very important role in the world.

Obviously, Americans are the most generous givers to charities. The issue here is making sure that these charities do what they are supposed to be doing, which is, improving the lives of people and that there is not diversion.

The way that we have been approaching this issue has been to, first of all, heighten sensitivity about the importance of having oversight over what charities actually do.

In the Gulf, for example, Saudi Arabia and Kuwait have indicated plans to take some serious action through their central banks to make sure that any charitable money that is raised within those countries that is destined outside of those countries, that there is reporting on where it is going to, what uses it is being put to. We intend to continue and deepen those discussions.

I am going to the Gulf shortly, and Dubai is one of the places I am going to go. One of the conversations we intend to have there, is what further steps can be taken to strengthen surveillance and oversight in the banking system about the money that moves in and out.

We have been impressed that there are countries in the Gulf like Bahrain, which are financial centers, that have taken this problem very seriously and have developed some practices that seem to be quite important ones.

I think, within the countries of that reason, there is a Gulf Co-operation Council, and we would like to see that council be an institution where some of the best practices, including those developed in Bahrain, and frankly outside of the region, could be brought in to address both the charitable donation side of the problem, as well as the banking issue that you mentioned, with particular reference to Dubai.

The CHAIRMAN. What would you like to see these Gulf nation banks do? I would like Mr. Gurule to comment on that, but the others, more specifically.

Mr. GURULE. We have been working very closely with the Gulf States through FATF. We have been working through this multi-lateral organization, FATF. As you know, shortly after 9/11, in fact, in October of last year, the U.S. pushed very hard to organize and sponsor an extra-plenary session of FATF. It took place here in Washington, DC.

We were able to move FATF into this 29-member state organization to, first of all, recognize eight international standards with respect to anti-terrorist findings, and to agree that these are the international standards.

Just to tick off a couple of these, it would require nation states to have legislation to freeze and block assets that are related to terrorist financiers, to criminalize the financing of terror, to pass all of the relevant terrorist financing treaties, to develop best practices for regulating charities and hawalas. These are some of the standards that were agreed to.

Now we are working very closely with FATF to ensure that all countries, not simply the Gulf State members, comply with these standards and have rules and regulations to strengthen their regulatory regimes so they are not vulnerable to terrorist financing. I think we are making some good progress on that front.

I would further add that back in, I believe it was, March or April of this year, Secretary O'Neill traveled to the Middle East and visited the Gulf States, met with the foreign finance ministers of these states, to ensure that they are cooperating with us as closely and as rigorously as they should be. We continue to follow up and work with them through other bilateral avenues such as the World Bank IMF conference that took place.

The CHAIRMAN. How difficult will it be, and what amount of time will it take for this council to have implemented satisfactorily the changes?

Mr. GURULE. We are pushing hard, obviously, to get these implemented as quickly as possible. I would be reluctant to give you an exact date, other than to say that we are looking at doing this in months, not years, to bring these countries into full compliance with these eight international standards.

The CHAIRMAN. I would hope so.

Mr. GURULE. As quickly as possible. As quickly as possible, and sooner than later.

The CHAIRMAN. In the trade arena—I cannot recall whether the law is still in effect or not—Congress passed something called Super 301. It was designed to have the administration list or prioritize countries which are the most egregious offenders of the trade laws, generally, or intellectual property. I cannot remember which it was.

But I know it worked pretty well. That is, once countries were listed—I think it was intellectual property—and put on a priorities list or watch list, those countries knew they were on the list.

I can remember, at least in the intellectual property arena, China and some of the other Asian countries got the message. They did not want certain actions taken. In fact, under this law, as I recall, basically, if action was not taken, then it would trigger in a version of 301 and so forth.

My question is, would an approach like this help here? That is, designating certain countries, for whatever reason they might be on the list, it may be internal?

Mr. LARSON. My view of it, in respect to this situation, is that countries are very much aware that a lack of cooperation is going to run the risk, if it is sustained—and particularly if it is wilful, but even if it is sustained but not being wilful—of them being named and shamed in a way that is going to be very damaging to them. I think that is something that is one of the products in getting action moving.

I actually think that it would be a huge diversion of effort at this stage to go into something as elaborate as the Super 301 process, because I think the basic psychology on the part of other countries that we deal with, is that they want help. Sometimes they have specific problems they have to deal with. Sometimes it is capacity, sometimes it is political, but it is not a problem of will.

In the trade arena, frankly, it is often a problem of political will that we are dealing with. They do not have the will to clean up their act on intellectual property, or they do not have the will to get rid of a trade barrier that protects their agricultural producers but is unfair to ours.

The CHAIRMAN. I would think some of that would exist in some of these countries, too, the lack of will of some countries.

Mr. LARSON. Well, it may be. But I think what I am suggesting, is that even in those countries where there may be factors that push in the other direction, they appreciate the fact that this is a global effort of such priority to the United Nations and to the United States that they cannot be on the wrong side of it. I think that gives us the leverage that we need without all of the sort of cumbersome process that goes with setting up our own system of grading.

I mean, one of the very good things about the monitoring program of the United Nations, is that it places the United Nations in the position of drawing attention to the countries that have been slow in taking action to implement laws, or in filing reports about what they are doing. That is good for us, because this war against terrorism is not America's war alone, it is a war that everyone needs to be involved in.

So, it is from that standpoint, I think, that the monitoring effort of the United Nations gives us the pressure that we need.

The CHAIRMAN. Does the United States continue to provide grants and aid to countries that fail to cooperate, that is, in implementing the banking reforms that we would like, or accounting efforts that we would like, or do we even ask that question when we give grants and aid to countries? Should we condition?

Mr. LARSON. Well, first of all, as I said in response to Senator Grassley's question, of course, for the countries that are state sponsors of terrorism, we have a whole range of economic sanctions—aid is out of the question—that go well beyond the denial of aid.

The CHAIRMAN. I might just ask, on that point, why are subsidiaries of U.S. companies exempt?

Mr. LARSON. Basically, because you have a huge problem of conflict of laws which spills over into very, very acute political problems with other countries. The Europeans, in particular, believe that corporations, subsidiaries that are organized under their laws are subject to their jurisdiction.

Some of the most difficult political conflicts of the last decade have been about situations when their view was that we were trying to regulate from the United States the activities of their companies. That, is companies organized under their laws.

The CHAIRMAN. Is that a loophole, U.S. subsidiaries? Because they are not under the sanctions prohibition, they are free to operate freely.

Mr. LARSON. I have spent many, many hours over the last decade dealing with the implications of the Iran-Libya Sanctions Act, for example, a law that I support and support the objectives of.

But where we say that we believe that no company should go into Iran and invest large amounts of money to develop their oil and gas industry because we fear that it will generate resources that could be used to finance terrorism, but this is an issue where

the Europeans, at highest political levels, have a completely different idea. They have a different policy approach towards Iran and they believe that it is inappropriate for us to be trying to regulate their activities of companies that are organized under European laws. So, this has been an extraordinarily difficult political issue.

Mr. GURULE. If I could just add just one point with respect to your earlier question about the name and shame list. FATF, the Financial Action Task Force, has such a list. There are 15 countries that are currently on that list.

They are placed on that list by FATF, by the 29 members, and they are placed on that list because they have not complied with the recommendations that FATF has developed with respect to money laundering. In other words, they are vulnerable to money laundering because these countries do not have strong anti-money laundering regimes.

Our experience has been quite positive with that list serving as a lever, if you will, to leverage or to pressure these countries to come into compliance, to take action, to implement money laundering statutes, asset forfeiture statutes, where otherwise I think either they would not have, or they certainly would not have moved as quickly as they have. So, we have seen some positives.

The CHAIRMAN. I appreciate that. However, there are reports that FATF will agree, this week, to a one-year suspension of the review of national measures to combat terror financing, and also will not add new nations to the list of non-cooperating countries. Is that report accurate?

Mr. GURULE. I do not know that I would characterize it as "suspend." I think that the point here, is there is a feeling within FATF that, first of all, this is a very labor-intensive effort to review and evaluate the anti-money laundering regimes of countries.

I think the view is, at least at this point, that they do not have the commitment of resources to engage in what would be a third round of reviews of countries.

But, with respect to the countries that are currently on the list, the 15 countries, they are going to continue to monitor them. They are going to continue to push them into compliance and issue counter-measures if, in fact, these countries do not make some progress towards coming into compliance.

The CHAIRMAN. So it is inaccurate that there will be suspension for 1 year of the review of national measures.

Mr. GURULE. It is. As I stated, they are certainly going to continue to look at these countries, monitor these countries, push these countries on the list.

The CHAIRMAN. As aggressively, if not more aggressively.

Mr. GURULE. Yes. But they will not be looking at adding any new countries to the list.

The CHAIRMAN. All right.

Well, it is a huge, big subject. I have many more questions, but I am going to have to leave.

I do want to follow up, and I have not quite figured out the kinds of questions that I am going to propose to you to follow up with, but I will give you a flavor of what I have in mind.

One, is just for you to, again, try and define the magnitude of the problem, how big is it, and so forth, so we know what we are dealing with.

Second, what is working best? What kinds of techniques, what kinds of approaches seem to work best? Beyond that, what is not working? Where are we running into road blocks? Where are the problems as we are trying to accomplish our objective here?

I would also like, in some sense, to set some benchmarks, by what date do you want to have accomplished what, so we know what we are dealing with here, and to quantify it. I believe in data, dates, and names. You have got to quantify.

So, whatever you reasonably think is reasonable here, but taking a little bit of an aggressive nature because we want to focus very aggressively on this problem.

If you could do that, that is, give us your benchmarks and by what date you hope to accomplish them and could send that to the committee, probably by letter, then Senator Grassley and I will send a letter back to you confirming what our sort of action plan is, then at a reasonable later date we will have a subsequent hearing to see how we are doing.

Again, the goal here is to stamp out the financing of terrorist networks, and that is our goal here. Clearly, you will take it seriously, because we have an obligation to our people and to our country to do the very best job we can.

Thank you very much.

[Whereupon, at 11:40 a.m. the hearing was concluded.]

A P P E N D I X

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF HON. MICHAEL CHERTOFF

Chairman Baucus, Ranking Minority Member Grassley, members of the Committee, thank you for inviting me to appear before this Committee to discuss one of the most important priorities of the Criminal Division—terrorist financing enforcement. I'd like to begin my remarks this morning by describing two episodes:

In 1996, Detective Sergeant Robert Fromme of the Iredell County, North Carolina, Sheriff's Department noticed something strange while working off-duty as a security guard for JR Tobacco. For several weeks, he observed young men loading their vans with cases of cigarettes and heading north on Interstate 77. These men had grocery bags full of cash and obviously were not commercial truck drivers. Detective Sergeant Fromme contacted federal authorities. Over time, with the help of the Charlotte FBI Joint Terrorism Task Force, the federal investigation uncovered a local Hizballah cell, engaged in a cigarette tax evasion scheme involving the secret delivery and sale of mass quantities of cigarettes to Michigan. The investigation also uncovered links between the Charlotte cell and individuals in Canada. In July 2000, authorities arrested eighteen individuals connected to the Charlotte Hizballah cell. With the assistance of foreign and U.S. intelligence, the Charlotte prosecutors were able to charge six individuals with conspiring to provide material support to Hizballah.

In May 2002, Muhammed Hammoud went to trial in the Western District of North Carolina on charges of conspiring to provide and providing material support to Hizballah. The evidence at trial included: testimony of one of Hammoud's former colleagues, who had helped procure military-style items for Hizballah operatives in Lebanon; declassified wiretap recordings in which Hammoud and other defendants received instructions directly from Hizballah operatives in Lebanon; and photographs of Hammoud proudly brandishing high-caliber rifles and rocket launchers during his visits to Lebanon. Having seen and heard the evidence demonstrating Hammoud's willingness to promote violence, the jury was shown chilling photographs of Hammoud smiling in front of the Washington Monument and the White House. On June 21, 2002, after a six-week trial, the Charlotte jury convicted Hammoud.

My second story involves an international non-profit organization called the Benevolence International Foundation ("BIF") and its Chief Executive Officer, Enaam Arnaout. BIF is incorporated and headquartered in Illinois. As described in a recent complaint filed in federal court, witnesses and documents have revealed that Arnaout had a trusted relationship with Usama Bin Laden and associates dating back more than a decade. Law enforcement uncovered numerous documents indicating that BIF had provided monetary support and equipment to the war efforts of the Chechen *mujahideen*, and financial records obtained from Citibank indicated that in a four-month period in 2000, BIF sent nineteen wire transfers in the amount of \$685,560 to accounts in Georgia, Azerbaijan, Russia, and Latvia, suspected of affiliation with the Chechyan rebels in Georgia.

On March 19, 2002, law enforcement authorities in Bosnia-Herzegovina searched eight locations affiliated with BIF, including BIF's offices in that country. Authorities recovered three firearms, a ski mask, numerous military manuals on topics including small arms and explosives, and a fraudulent passport. In addition, authorities recovered classified documents from several different governments concerning Islamic extremism, photographs of Usama Bin Laden in Afghanistan (likely from the 1980's), and photographs of Arnaout handling rifles, a shoulder-fired rocket, and an anti-aircraft gun.

Both of these stories demonstrate the power of cooperation and coordination among local, state, federal, and international law enforcement. As important, they reveal two of the strands that comprise the network of terrorist financing. The Hezbollah case demonstrates how illegal activity can fuel terrorist groups. This link was also illustrated by the Department's recent indictments charging individual leaders of the Colombian terrorist groups FARC and AUC with drug trafficking. At the same time, the Arnaout case demonstrates that terrorists also obtain money from ostensibly legitimate businesses and charities like BIF.

How have we tackled the tentacles of terrorist financing? The Department of Justice's terrorist financing enforcement efforts are centered around two structural components that the Attorney General established in the aftermath of September 11. Within the Criminal Division, we created the DOJ Terrorist Financing Task Force, a specialized unit consisting of experienced white-collar prosecutors drawn from the Criminal Division's Fraud, Asset Forfeiture and Money Laundering, and Appellate Sections, the Tax Division's Criminal Enforcement Sections, and several U.S. Attorney's Offices. The Terrorist Financing Task Force works with prosecutors around the country and with the FBI's Terrorist Financing Operations Section and the Foreign Terrorist Tracking Task Force, in using financial investigative tools aggressively to disrupt groups and individuals who represent terrorist threats, with an emphasis on non-governmental organizations and charities that may be providing cover for terrorist activity.

Second, the Attorney General created 93 Anti-Terrorism Task Forces (ATTFs) to integrate and coordinate anti-terrorism activities in each of the judicial districts. The ATTFS are comprised of federal prosecutors from the U.S. Attorney's Office, members of the federal law enforcement agencies, as well as the primary state and local law enforcement officials in each district. They coordinate closely with many of the existing Joint Terrorism Task Forces (JTTFs), the successful FBI program which serves as the ATTFS' operational arm. The ATTFS form a national network coordinated in Main Justice, which is the foundation of our effort to coordinate the collection, analysis, and dissemination of information and to develop the investigative and prosecutorial anti-terrorism strategy for the country.

Congress has been a great help in our terrorist financing enforcement efforts. In addition to the technical investigative tools that were bolstered by the USA PATRIOT Act, you have enhanced the substantive criminal laws we have at our disposal in combating terrorist financing. For instance, Section 376 of the USA PATRIOT Act designates new predicate money-laundering offenses: providing material support to terrorists and providing material support or resources to designated foreign terrorist organizations. In addition, under prior law, the list of predicate federal offenses for RICO did not include the offenses which are most likely to be committed by terrorists. Section 813 of the USA PATRIOT Act added the federal crimes of terrorism to the list of RICO predicates, which will make it possible to use RICO more readily in the prosecution of terrorist organizations.

Finally, let me stress that the techniques and laws we deploy in prosecuting terrorist finance cases yield dividends in terms of prevention of acts of terror. In pursuing terrorist finance investigations, we detect and identify financial relationships that link individuals and entities with known terrorist groups. These leads provide a basis for investigation of potential threats. They can also be analyzed through "data mining" techniques to isolate financial behavior that may be characteristic of those involved in terrorist activity.

Mr. Chairman and members of the Committee, thank you for this opportunity to appear before you today. I look forward to working with you as we continue our terrorist financing enforcement program and the other non-criminal enforcement efforts being pursued by other agencies in the war against terrorist financing. I would welcome any questions you may have at this time.

PREPARED STATEMENT OF HON. JAMES GURULE

Chairman Baucus, Ranking Member Grassley and distinguished members of the Committee, permit me to begin by thanking you for inviting me to testify today about the measures the Treasury Department, and the U.S. government more generally, have taken and are taking to identify, attack and disrupt terrorist financing and the lessons we have learned to date about patterns of financing and fund-raising. In addition to my testimony, I am submitting a document for the record entitled "Contributions by the Department of the Treasury to the Financial War on Terrorism" that provides more detailed information in summary form of our efforts since the brutal attacks of September 11th. That paper also is available on our website at <http://www.treas.gov/press/releases/reports/2002910184556291211.pdf>.

Preliminarily, I would like to re-state the Treasury Department's gratitude to this Committee and the Congress for the additional resources, authorities, and support given to the Executive Branch this past year to assist Treasury in identifying, disrupting, and dismantling terrorist financial networks. Immediately after the horrific attacks of September 11th, Congress worked closely with the Department of the Treasury, along with the Department of Justice and other agencies and departments, to make significant improvements in the law that enhance our ability to tackle the issue of terrorist financing in a more unified, cohesive and aggressive manner. Of particular importance to our counter-terrorist efforts, the USA PATRIOT Act, enacted into law on October 26, 2001, expands the law enforcement and intelligence community's ability to access and share critical financial information regarding terrorist investigations.

On September 24, 2001, President Bush stated, "We will direct every resource at our command to win the war against terrorists, every means of diplomacy, every tool of intelligence, every instrument of law enforcement, every financial influence. We will starve the terrorists of funding." The President directed the federal government to wage the nation's war against the financing of global terrorism, and we have continued to devote our extensive resources and expertise to fulfill this mandate. In our actions and in our words, the Treasury Department has shown quite clearly that in this war, financial intermediaries and facilitators who infuse terrorist organizations with money, materiel, and support must be held accountable along with those who perpetrate terrorist acts.

Before I turn to specific developments in our fight against terrorist financing, I would like to emphasize the importance of vigorous interagency consultation and cooperation in attacking terrorist financing, and thank the other agencies and departments in our federal government for their work with us over the past year. We have seen 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 and intelligence gathering tools required to combat this problem.

I would now like to briefly review our efforts in countering terrorist financing since the events of September 11th. This review will provide a helpful context for some recent developments that I would then like to describe in greater detail for you.

I. A Brief Review of Our Efforts to Combat Terrorist Financing

Identifying, attacking and disrupting the financial underpinnings of terrorism are matters of national security. This war on terrorist financing is an immense undertaking. The openness of our modern financial system, which allows savers and investors to fuel economic growth, also creates opportunities for terrorists to hide. Our challenge in this front of the war against terrorism is to protect the efficiency and flexibility of the world's financial systems while preserving the integrity of such systems by ensuring that they are not abused by terrorists and their financiers. We have enjoyed success, but much more remains to be done.

In the months immediately following the heinous crimes of September 11th, the Department of the Treasury took six principal steps to identify and pursue financial underwriters of terrorism:

1. Working with other USG agencies, we implemented Executive Order 13224, giving us greater power to freeze terrorist related assets;
2. We established Operation Green Quest, an inter-agency task force which has augmented existing counter-terrorist efforts by targeting financial networks and mechanisms, and by bringing the full scope of the government's financial expertise to bear against systems, individuals, and organizations that serve as sources of terrorist funding;
3. The United States won the adoption of UN Security Council Resolutions 1373 and 1390, which require member nations to join us in the effort to disrupt terrorist financing;
4. We engaged other multilateral institutions such as the Financial Action Task Force (FATF) and the international financial institutions to focus on terrorist financing;
5. We began implementation of the USA PATRIOT Act provisions to broaden and deepen our access to critical financial information in the war against terrorist financing and to expand the anti-money laundering regulatory net for our financial system; and
6. We began sharing information across the federal government, with the private sector, and among our allies to crack down on terrorist financiers.

As we executed these initial steps, we began to formulate a strategy for combating terrorist financing on a global scale. For the first time, the 2002 National Money Laundering Strategy (NMLS) contains such a strategy, with a discrete set of objectives and priorities targeting terrorist financing. The NMLS identifies financial mechanisms or systems by which terrorist funding is effectuated, and seeks to attack these mechanisms on an interagency and coordinated basis. Released this past summer by the Secretary of the Treasury and the Attorney General, the NMLS states that terrorist groups tap into a wide range of sources for their financial support, including sources that are otherwise legitimate commercial enterprises such as construction companies, honey shops, tanneries, banks, agricultural commodities growers and brokers, trade businesses, bakeries, restaurants, bookstores, and through nongovernmental organizations (NGOs). The Strategy also states that, although terrorists receive material assistance and/or financial support from rogue nations and other governments that are sympathetic to the terrorists' cause, they also secure funding from charity or relief organizations, money remitters, informal value transfer systems, as well as trade-based schemes. The NMLS addresses each of these mechanisms, and establishes priorities and objectives to identify and attack their corruption by criminals.

Our strategy, in its broadest outlines, focuses in particular on the following seven areas: (1) targeted intelligence gathering; (2) freezing of suspect assets; (3) law enforcement actions; (4) diplomatic efforts and outreach; (5) smarter regulatory scrutiny; (6) outreach to the financial sector; and (7) capacity building for other governments and the financial sector. This is an integrated interagency strategy because these efforts draw on the expertise and resources of the Treasury Department and other departments and agencies of the federal government, as well as our foreign partners and the private sector. Allow me to highlight briefly the efforts the Treasury Department has taken to tackle terrorist financing in these seven areas of focus identified in our terrorist financing strategy.

First, with respect to targeted intelligence gathering, we are applying technology, intelligence, investigatory resources and regulations to locate and freeze the assets of terrorists, wherever they may hide. New powers granted to Treasury by the President and Congress have enabled us to scour the global financial system for suspicious activities with greater precision than ever before.

Second, we are freezing terrorist-related assets on a global scale. To date, we have frozen over U.S. \$34 million in terrorist related assets pursuant to designation under Executive Order 13224, and the international community has frozen an additional U.S. \$78 million in terrorist-related assets pursuant to designation under United Nations Security Council Resolution 1390, 1373 and related preceding resolutions.

Third, we have coordinated effective law enforcement actions both domestically and internationally against terrorist cells and networks. On October 25, 2001, Treasury created Operation Green Quest ("OGQ"), a new multi-agency financial enforcement initiative intended to augment existing counter-terrorist efforts by bringing the full scope of the Treasury Department's financial expertise to bear against systems, individuals, and organizations that serve as sources of terrorist funding. Internationally, Treasury has deployed Customs attaches and representatives from Treasury's Office of Foreign Assets Control (OFAC) in strategic embassies around the world to facilitate cooperation with host countries and regions in combating terrorist financing. International law enforcement cooperation has led to over 2400 arrests of suspected terrorists and their financiers in 95 countries.

Fourth, together with other agencies, we are using our diplomatic resources and regional and multilateral engagements to ensure international cooperation, collaboration and capability in dismantling terrorist financing networks. As stated above, the United States has worked through the United Nations to globalize the war on terrorist financing, and we have complemented these efforts with a range of bilateral and multilateral initiatives.

Fifth, we are engendering smarter regulatory scrutiny by training the financial sectors to concentrate enhanced due diligence and suspicious activity monitoring on terrorist financing and money laundering typologies. Through the USA PATRIOT Act authorities, we are expanding and enhancing regulatory scrutiny to all businesses within the financial sector that may be susceptible to terrorist or criminal abuse.

Sixth, we have undertaken our regulatory expansion under the authorities of the USA PATRIOT Act in full consultation with the private financial sectors that we are regulating. This outreach has assisted and informed our regulatory strategy with respect to each financial sector so that costs of new regulation are borne only where warranted by the offsetting enforcement benefit. For example, after prolonged discussion with the insurance industry, we decided to regulate life and annuity in-

surance products because of their investment-like characteristics, but we decided against regulating other forms of insurance, such as health care or property insurance, because of the low risk that such policies have for terrorist financing or other financial criminal abuse. Most importantly, on October 1, 2002, FinCEN's secure link with financial institutions, the USA PATRIOT Act Communications System (PACS), became operational. Bank Secrecy Act reports are now being filed via PACS.

Finally, we have engaged in several capacity-building initiatives with other governments and the private sector with respect to terrorist financing. For example, internationally, 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 coordinating the delivery of technical assistance to those governments. Bilaterally, Treasury's Office of International Enforcement Affairs has actively participated in conducting several inter-agency assessments of technical assistance needs with respect to combating terrorist financing in various countries of strategic interest to the United States.

In pursuing these areas of focus, we have adopted a systemic approach against terrorist financing. As the initial results of the September 11th investigation have made clear, the financial trail left by terrorists and their facilitators represents a vulnerability that must be pursued and exploited. Our strategy takes full advantage of the new authorities granted to us under the USA PATRIOT Act and the international support that we have cultivated against terrorism to find to these financial trails and uncover terrorist financing networks and operational cells. We have utilized these authorities and resources to attack the terrorist financial infrastructure; that is, their formal, informal and underground methods for transferring funds across borders and between cells, whether through banks, businesses, hawalas, subverted charities, or innumerable other means. Through designation, regulation and investigation, we have systematically been shutting down terrorist access to these financing channels and mechanisms, and we have used the money trails evident in terrorist financing cases to locate and apprehend terrorists.

Our objective 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. To pursue this objective, we have been working in close partnership with the Department of Justice and its investigative components, the State Department, the Department of Defense, the intelligence community, and many other agencies of the federal government to address terrorist financing on multiple levels. We have concentrated much of our enforcement efforts and resources on identifying, tracing, and blocking terrorist-related assets. In this endeavor, we have gathered the financial expertise, information and authorities that are unique to the Treasury Department to attack terrorist financing on all fronts. We have also engaged the world, in bilateral and multilateral fora, to ensure international cooperation in our anti-terrorist campaign.

I would now like to describe these operational, regulatory and international aspects of our counter-terrorist financing efforts in greater detail.

II. Actions Taken Against Terrorist Financing

Shutting Down Terrorist Access to Formal Financial Channels

The most visible and immediately-effective tactic of our comprehensive terrorist financing strategy has been designating and blocking the accounts of terrorists and those associated with financing terrorist activity. Public designation of terrorists, terrorist supporters and facilitators, and blocking their abilities to receive and move funds through the world's financial system, has been and is a crucial component in the fight against terrorism. On September 24, 2001, President Bush issued Executive Order 13244, "Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism." Section 1 of the Order states: "All property and interests in property of the following persons . . . that are in the United States or that hereafter come within the United States, or that hereafter come within the possession or control of United States persons are blocked."

The Department of the Treasury's Office of Enforcement, in conjunction with the Office of International Affairs and the Office of Foreign Assets Control, has helped lead U.S. efforts to identify and block the assets of terrorist-related individuals and entities within the United States and worldwide. Currently, 240 individuals and entities are publicly designated as terrorists or terrorist supporters by the United States, and since September 11th over \$112 million in the assets of terrorists has been frozen around the world. Beyond simply freezing assets, these U.S. and inter-

national actions to publicly-designate terrorists and their supporters advance global interests in suppressing terrorist financing and combating terrorism by:

- (i) shutting down the pipeline by which designated parties moved money and operated financially in the mainstream financial sectors;
- (ii) informing third parties who may be unwittingly financing terrorist activity of their association with supporters of terrorism;
- (iii) deterring undesignated parties that might otherwise be willing to finance terrorist activity;
- (iv) exposing terrorist financing “money trails” that may generate leads to previously unknown terrorist cells and financiers;
- (v) forcing terrorists to use more costly informal means of financing their activities; and
- (vi) supporting our diplomatic effort to strengthen other countries’ capacities to combat terrorist financing.

Only the first interest identified above can be quantified by hard numbers; that is, the value of assets frozen pursuant to blocking actions. However, we must remember that the value of the designation process is much greater than any amount of terrorist money frozen. The designation process is invaluable because it accomplishes all of the other interests identified above, and in doing so, shuts off terrorist access to the world’s formal financial systems.

Currently, over 160 countries and jurisdictions have blocking orders in force; but, not every country has joined us in blocking every identified terrorist or terrorist supporter. We must continue to work to ensure that countries do more than just add names to a list; we must also work towards ensuring that they have the necessary legislation, training and political will to join with us in shutting down terrorist access to international financial systems.

As we succeed in our domestic and international efforts to deny the world’s financial systems to terrorists and their financiers, terrorists will be forced to utilize alternative methods such as bulk currency transfers, alternative remittance systems, charities, and trade-based transactions to raise and move money. In a recent speech to the Council on Foreign Relations echoing these concerns, Deputy Secretary Ken Dam stated, “public designations are, by their very nature, public and therefore terrorists can adapt their behavior by keeping their money out of the United States or other financial centers with regulations in place to stop them. Instead, they will utilize other methods to move their money, such as trade in commodities like gold or diamonds, and avoid storing large sums of money in any one location.” We are targeting these mechanisms as well. I’d now like to turn to these alternative financial mechanisms and briefly describe our efforts to combat terrorist financing conducted through these mechanisms.

Protecting Charities from Terrorist Abuse

Charities across the world perform an important function, enhancing the lives of millions of people. In 2000, for example, Americans donated U.S. \$133 billion to charity with humanitarian intent. Unfortunately, however, terrorists have preyed upon such noble intentions by diverting charitable funds for terrorist purposes.

Our task then is twofold: (1) to identify those charities which are nothing more than fronts for terrorist organizations; and (2) to prevent legitimate charities from being abused by terrorist financiers without chilling legitimate charitable donations and charitable works. Our strategic approach, as set forth in the recently published 2002 National Money Laundering Strategy, involves domestic and international efforts to ensure that there is proper oversight of charitable activities, as well as transparency in the administration and functioning of charitable organizations. We also are striving to effect greater coordination with the private sector to develop partnerships that include mechanisms for self-policing by the charitable and non-governmental organization sectors.

Under the authority of E.O. 13224, the United States has designated ten foreign charitable organizations as having ties to al-Qaida or other terrorist groups and has shut down two prominent U.S.-based charities with ties to Usama bin Laden and the Taliban. In addition, the United States has designated and blocked the assets of the largest U.S.-based Islamic charity, which acted as a funding vehicle for the HAMAS terrorist organization. To date, we have frozen \$6.3 million in U.S. charitable funds, and an additional \$5.2 million in charitable funds have been frozen or seized in other countries.

U.S. Treasury officials have also met with charitable sector watchdog and accreditation organizations, including the *Better Business Bureau Wise Giving Alliance* and the *International Committee on Fundraising Organizations*, to raise their awareness of the threat posed by terrorist financing. We will continue these efforts to promote effective self-regulation and oversight within the charitable industry.

We are also increasing the transparency and oversight of charities through multi-lateral efforts. FATF Special Recommendation VIII on Terrorist Financing commits all member nations to ensure that non-profit organizations cannot be misused by financiers of terrorism. The United States is co-chairing the FATF Terrorist Financing Working Group that is developing international best practices on how to protect charities from abuse or infiltration by terrorists and their supporters.

We are working bilaterally with many countries to ensure transparency in charitable operations. According to recent press accounts, Saudi Arabia and Kuwait have announced the establishment of oversight authorities for Saudi and Kuwaiti charities in their respective countries. We are confident that our work bilaterally and through FATF on this issue will prompt other countries to adopt competent authorities to protect charities from terrorist abuse.

Regulating Hawalas/Informal Value Transfer Systems

Terrorists have also used hawalas and other informal value transfer systems as a means of terrorist financing. The word "hawala" (meaning "trust") refers to a fast and cost-effective method for the worldwide remittance of money or value, particularly for persons who may be outside the reach of the traditional financial sector. In some nations hawalas are illegal; in others they are active but unregulated. It is therefore difficult to measure accurately the total volume of financial activity associated with the system; however, it is estimated that, at a minimum, tens of billions of dollars flow through hawalas and other informal value transfer systems on an annual basis. Officials in Pakistan, for example, estimate that more than \$7 billion flow into the nation through hawala channels each year.

Some of the features which make hawalas attractive to legitimate customers—efficiency, reliable access to remote or underdeveloped regions, and low cost—also make the system attractive for the transfer of illicit or terrorist-destined funds. Traditionally, informal value transfer systems such as hawalas have largely escaped financial regulation. As noted in a recent money laundering report of the Asia Pacific Group, a FATF-style regional body, the terrorist events of September 11th have brought into focus the ease with which informal value transfer systems may be utilized to conceal and transfer illicit funds. Not surprisingly, concerns in this area have led many nations to reexamine their regulatory policies and practices in regard to hawalas and other informal value transfer systems.

The United States has already taken steps to regulate hawalas and informal value transfer systems. The USA PATRIOT Act requires money remitters (underground or otherwise) to register as "money services business" or "MSBs", thereby subjecting them to existing money laundering and terrorist financing regulations, including the requirement to file Suspicious Activity Reports (SARs). As a result, well over 10,000 money service businesses have registered with the federal government and are now required to report suspicious activities. The Act also makes it a crime for the money transfer business owner to move funds that he knows are the proceeds of a crime or are intended to be used in unlawful activity. Failure to register with FinCEN and/or failure to obtain a state license also are federal crimes.¹

We have succeeded in disrupting the operations of several illegal money remitters implicated in terrorist financing. U.S. experts have worked with officials in other nations on proposed licensing and/or registration regimes for money remitters, including hawala operators, to ensure greater transparency and record-keeping in their transactions. We will work closely with the Department of Justice to ensure a balanced, but aggressive, use of criminal authorities to charge individuals who are operating illegal money remitting businesses.

We are also working to ensure the integrity and transparency of informal value transfer systems internationally. FATF Special Recommendation VI addresses this issue by demanding that countries register or license informal value transfer businesses and subject them to all of the FATF Recommendations that apply to banks and non-bank financial institutions. In addition, at a conference on hawala in the UAE in May 2002, a number of governments agreed to adopt FATF Special Recommendation VI and shortly thereafter the UAE government announced it would impose a licensing requirement on hawala operators operating within its borders. Participants at the UAE meeting drafted and agreed upon the Abu Dhabi Declaration on Hawala, which set forth a number of principles calling for the regulation of hawalas.

On the international training front, FinCEN is hosting a conference on informal value transfer systems in Oaxaca, Mexico, today. The full-day schedule will include presentations and discussions covering the money laundering risks posed by infor-

¹ 18 U.S.C. § 1960.

mal value transfer systems, such as hawala, and the law enforcement and regulatory challenges posed by such systems. The key findings from FinCEN's outreach efforts to the law enforcement community will be shared with international law enforcement officials at the seminar. Speakers will include representatives from The New York State Attorney General's Office, Italy, the United Kingdom, Bahrain, and the World Bank—

Combating Bulk Cash Smuggling

Bulk cash smuggling has proven to be yet another means of financing adopted by terrorists and their financiers. Disruption of this tactic requires a global approach. To identify and attack bulk cash movements, we must work with the international community to ensure mandated inbound/outbound currency reporting at reasonable levels (e.g., U.S. reporting threshold is \$10,000). Further, intelligence-gathering and law enforcement/customs agencies must cooperate with immigration officials to share information about potential terrorist financing smugglers/couriers. We are currently exploring the idea of creating multi-lateral Customs-to-Customs "Hot-lines", where appropriate, to exchange "real time" bulk currency information, as well as the sharing of large value crossborder cash reports.

Investigating Trade-Based Terrorist Financing

With respect to trade-based financial systems, we will continue to investigate the use of licit and illicit international trade commodities, for example, diamonds, gold, honey, cigarettes, as well as narcotics, to fund terrorism. Countering these trade-based terrorist financing systems demands consultation with domestic as well as international trade communities and will require further bilateral and multilateral efforts. International capacity-building in this arena could include sharing and comparing trade-based data bi-laterally and on a regional level to identify and attack unexplained anomalies.

To combat illicit international trade commodities such as narcotics, we must build from existing domestic and international law enforcement and investigative authorities and initiatives. As we have seen with both the Taliban and the FARC, narcotics trafficking presents these groups with the greatest potential for raising the funds they need to support their terrorist regimes. Additionally, the associations that these groups establish with narcotics traffickers give them access to the arms traffickers and other facilitators (i.e., smuggling, communication and transportation groups) that service the narcotics organizations.

Treasury (Office of Enforcement) and the United States Customs Service, in consultation with the Departments of Justice and State, have developed an international training program and are sponsoring an interagency training session in the United Arab Emirates later this month to examine trade-based financing.

Investigating Terrorist Cyber-Fundraising Activities

Finally, we recognize that terrorist groups may exploit the internet to recruit supporters and raise terrorist funds. Developing a strategy to counter such cyber-fundraising activities is a responsibility that the Treasury Department has assumed in its 2002 Anti-Money Laundering Strategy. We are currently working to devise such a strategy, and we welcome input from other government agencies and departments in this effort.

As you can see, we have developed a sophisticated understanding of the various means of terrorist financing, and we have responded with a range of domestic and international initiatives to counter each of these means. Most of these initiatives that I have been referring to are designed to give us greater access to critical financial information in the war against terrorist financing. In order to take advantage of this information, we have created an operational, interagency investigative group whose purpose is to target terrorist financing.

Operation Green Quest

As I indicated earlier, on October 25, 2001, Treasury created Operation Green Quest ("OGQ") to focus the Treasury Department's financial expertise in the war against terrorist financing. OGQ identifies and attacks terrorist financing through a systemic financial approach. OGQ specializes in identifying financial mechanisms, such as illegal money remitters, and searching those systems to identify potential terrorist financing. This systems-based approach, and the understanding that the financing of terrorism is not merely an ancillary component of a terrorist-specific investigation, differentiates OGQ from other governmental efforts and brings the unique financial capabilities of Treasury components to bear against terrorist financing.

OGQ is led by the United States Customs Service, and includes the Internal Revenue Service, the Secret Service, the Bureau of Alcohol Tobacco and Firearms (ATF),

Treasury's Office of Foreign Assets Control (OFAC), FinCEN, the Postal Inspection Service, the Federal Bureau of Investigation (FBI), and the Department of Justice. The financial expertise of the Treasury Bureaus, along with the exceptional experience of our partner agencies and departments, is also utilized in this operational attack on terrorist financing.

OGQ has complemented the work of OFAC and Foreign Terrorist Asset Tracking Group (FTAT-G) in identifying terrorist networks at home and abroad, and it has served as an investigative arm in aid of blocking actions. Since its inception, OGQ's investigations have resulted in 47 arrests, 28 indictments, 107 search warrants issued and/or consent searches and the seizure of over \$19 million in bulk cash (over \$11 million with a Middle East connection). For the year ending September 11, 2001, seizures outbound to Middle and Far East countries totaled \$5.216 million.

OGQ, along with the FBI and other government agencies, also has traveled abroad to follow leads, exploit documents recovered and provide assistance to foreign governments. In this effort, OGQ is utilizing its 22 Customs attaches in 31 foreign offices overseas to gather information. These offices and attaches have proven invaluable to our operational efforts against terrorist financing.

Operational Training: Building Upon Existing Treasury Expertise

Treasury's primary assignment in the war on terrorism is to identify and attack financial mechanisms, licit and illicit, supporting terrorism. In pursuing this assignment, Treasury can build upon its efforts to identify and attack money laundering. In many cases, due to the similarity of financial systems used by targets, investigating terrorist fundraising is similar to conducting a money laundering case. There are, however, significant differences between money laundering and terrorist fundraising investigations. A key distinction is manifested in the end game sought by investigators. Money laundering investigations are initiated to achieve prosecution and forfeiture. Terrorist fundraising investigations, although sharing these objectives as well, are more nuanced. The ultimate objective is to identify, disrupt and cut off the flow of funds to terrorists. Significant accomplishments can be had without any significant domestic prosecutions.

There are other differences as well. For example, as opposed to a typical money laundering case, methods used for raising funds to support terrorist activities may be legal. Moreover, in a terrorist financing investigation, the targeted financial transactions tend to be smaller, and much less observable, for example, than the typical narcotics money laundering transaction. Identification of the transaction as suspicious, therefore, may require a much greater melding of private, law enforcement and intelligence information obtained domestically, as well as internationally. To address these issues, it is essential to develop "in-house" expertise aware of financial methods utilized by financiers of terrorism, and strategies to attack, disrupt and dismantle them. To accomplish this, interagency training is essential.

Recently, on September 24 and 25, 2002, at the Department of the Treasury, Treasury's Office of Enforcement sponsored a "Combating Terrorist Fundraising Seminar." The purpose of the seminar was to serve as a "train the trainer" mechanism, and to familiarize participants with ongoing terrorist financing methodologies and anti-terrorist financing strategies. Attending the seminar were more than 80 federal investigators, prosecutors and regulators who already possessed a familiarity with terrorist financing issues and problems. Speakers included experts in the field from the various components of Treasury, Justice and State. The participants were drawn from Treasury and its Bureaus, Justice and its components, U.S. Attorney Offices, State, the National Security Council, and Office of the Comptroller of the Currency, the Federal Reserve Board of Governors and FDIC. The seminar was well-received, and Treasury (Enforcement) is planning additional regional seminars in key locations in the United States during the next year.

III. International Efforts

I would now like to take a few moments to explain what we have been doing internationally to combat terrorist financing. Terrorist financing networks are global, and consequently, our efforts to identify and deny terrorists access to funds must also be global. Our efforts in this aspect of the war on terrorism cannot be wholly successful if pursued alone. Internationally, the United States has worked not only through the United Nations on blocking efforts, but also through multi-lateral organizations and on a bi-lateral basis to promote international standards and protocols for combating terrorist financing generally. I would like to briefly review some of the more significant initiatives that we have pursued in the international arena.

United Nations

Because of its global nature and its ability to require states to take action under Chapter VII of the UN Charter, the UN offered the quickest route for globalizing

the war against terrorism in general and terrorist financing in particular. The United States has worked diligently with the UN Security Council to adopt international resolutions, which reflect the goals of our domestic executive orders by requiring 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.

The UN 1267 Committee² is responsible for UN designations of individuals and entities associated with al-Qaida, bin Laden and the Taliban. States wishing to propose a name for UN designation often will pre-notify affected states and close allies to facilitate cooperation. The United States typically pre-notifies its allies and affected states five working days in advance of formally presenting a name to the 1267 Committee for designation. After any pre-notification, a state submits a proposed name for designation to the 1267 Committee. The submission typically includes a statement of the basis for designation, along with identifying information for the use of financial institutions, customs and immigration officials, and others who must implement sanctions. If no state objects (or requests a "hold" for more time to consider, or to obtain more information on, the proposed designation) 48 hours after a name is circulated by the 1267 Committee Chairman for proposed designation, the designation becomes effective. The 1267 Committee then puts out an announcement on its web site and all UN member states are required to freeze any assets held by the designated party(ies).

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.³ 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 terror.

G7 Joint Designation—On April 19, 2002, the United States, along with the other G7 members, jointly designated nine individuals and one organization. All 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 NadaNasreddin financial network, 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.

Beyond designating terrorist-related parties for blocking action on a global basis, the UN has also asked for countries to identify needs for technical assistance in order to comply with UN resolutions and conventions against terrorist financing. The UN has required all member states to submit reports on the steps they have taken to implement the various actions against terrorist financing called for in UNSCR 1373.⁴ To date, 175 members have completed their reports. The UN is reviewing those reports with the intent of identifying gaps that member nations need to fill in order to comply with UNSCR 1373.

Financial Action Task Force (FATF)

Since 1989, the 31-member FATF has served 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. Capitalizing on this financial crime expertise, on October 31, 2001, at the United States' initiative, the FATF issued

²This committee was established pursuant to UN Security Council Resolution 1267 to oversee the designation of terrorist-related individuals and entities.

³UN Resolutions 12/671333/1390 mandate blocking on Usama bin Laden and associated, including al-Qaida, as well as the Taliban.

⁴UN Resolution 1373 mandates member States to: (1) prevent and suppress the financing of terrorist acts; (2) criminalize providing or collecting funds for terrorist use; and (3) block without delay funds and other financial assets and economic resources of terrorists and their supporters, and entities owned or controlled by them or their agents.

Eight Special Recommendations on terrorist financing, requiring all member nations to:

- (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.

Many non-FATF countries have committed to complying with the Eight Recommendations and over 80 non-FATF members have already submitted self-assessment questionnaires to FATF describing their compliance with these recommendations. Together with the Departments of State and Justice, Treasury will continue to work with the FATE 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.

As part of this effort, FATE has established a Terrorist Financing Working Group, which the United States is cochairing with Spain, devoted specifically to developing and strengthening FATF's efforts in this field. Among other initiatives on its agenda, the Working Group has begun a process to identify nations that will need assistance to come into compliance with the Eight Special Recommendations on Terrorist Financing.

Egmont Group

Through FinCEN, we have directed the attention of the Egmont Group towards terrorist financing. The Egmont Group is an international organization of 69 Financial Intelligence Units (FIUs) from various countries around the world. FinCEN serves as the U.S. FIU. The FIUs in each nation receive 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: work to eliminate impediments to information exchange; make terrorist financing a form of suspicious activity to be reported by all financial sectors to their respective FIUs; undertake joint studies of particular money laundering vulnerabilities, especially when they may have some bearing on counter-terrorism, such as hawala; and create sanitized cases for training purposes.

In June 2002, 11 new FIUs were admitted to the Egmont Group, increasing its size to 69 members. Approximately ten additional FIUs are being considered for admission to the Egmont Group, and Egmont is planning training sessions to improve on a continuing basis the analytical capabilities of FIU staff around the world. Training is being conducted this week in Oaxaca, Mexico. FinCEN is heavily involved and has sent four speakers.

Bilateral/Multilateral Law Enforcement Cooperation

An unintended consequence for al-Qaeda of its heinous actions on September 11th has been unprecedented international law enforcement cooperation and information sharing on a scale inconceivable prior to the 9/11 attack. As these efforts continue to improve, terrorist cells and networks become more vulnerable. Let me briefly recount some of our successes with respect to international law enforcement cooperation:

U.S.-Swiss Operative Working Arrangement: On September 4, 2002, a working arrangement signed by the Attorney Generals of Switzerland and the United States and the Deputy Secretary of the Treasury was agreed to in Washington. Under this agreement, Swiss and U.S. federal agents have been assigned to each country's terrorism and terrorist financing task forces in order to accelerate and amplify work

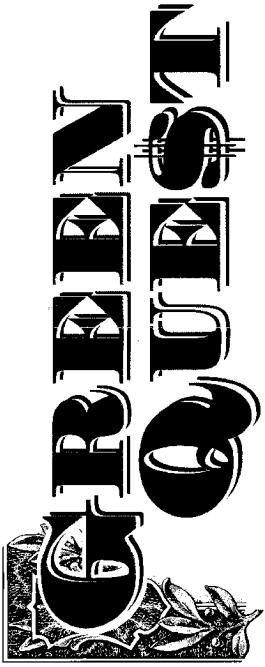
together on cases of common concern. Bilateral cooperation and assistance is occurring on a more informal basis in many other countries.

Successful Results: International law enforcement cooperation has resulted in over 2400 arrests of suspected terrorists and their financiers in 95 countries. Some of these arrests have led to the prevention of terrorist attacks in Singapore, Morocco and Germany, and have uncovered al-Qaida cells and support networks in Italy, Germany, and Spain, the Philippines and Malaysia, among other places. In addition, soon after September 11th, a Caribbean ally provided critical financial information through its FIU to FinCEN that allowed the revelation of a financial network that supported terrorist groups and stretched around the world.

IV. Conclusion

The range of initiatives that I briefly have shared with you today highlights the complexity of the tasks at hand. We have made substantial progress since September 11th, and since my last testimony before Congress. This progress is owing to the outstanding cooperation and hard work of all U.S. government agencies and departments and the international community to close the seams that terrorists had exploited before last fall. We are proud of our efforts, but realize that much work remains to be done.

I will be happy to answer any questions you may have.



Overview

OPERATION GREEN QUEST is a multi-agency terrorist financing task force that brings the full scope of the Treasury's financial expertise to bear upon "...Identifying, disrupting, and dismantling the financial infrastructures and sources of terrorist funding."

The Treasury Department established Operation Green Quest in October 2001 as an essential part of America's response to the events of September 11. Green Quest includes representatives from the Customs Service; Internal Revenue Service; Secret Service; Bureau of Alcohol, Tobacco and Firearms; Office of Foreign Assets Control; Financial Crimes Enforcement Network; Federal Bureau of Investigation; Postal Inspection Service; Naval Criminal Investigative Service; and Department of Justice.

By coordinating investigations of terrorist financing, Green Quest assures its proceeding according to national priorities and presidential directives. Further, as the epicenter for such investigations, Green Quest is in constant contact with law enforcement, intelligence, and financial establishments worldwide, as it coordinates with its member agencies while redirecting resources to meet national security objectives.

suspicion — to generate revenue for their networks and activities. These businesses run the gamut from convenience stores to international investment-management services. Terrorist organizations are also exploiting international trade by converting susceptible assets like cash into precious commodities like gold and gemstones. Gems and precious metals are then universally convertible to "international" assets (i.e., cash).

Illicit Enterprises

Profits from a variety of criminal enterprises benefit terrorist organizations. Some of the more common are:

- Drug manufacturing, smuggling, and distribution
- Identity theft for profit
- Credit card, insurance, welfare and food stamp fraud
- Theft, adulteration, and resale of infant formula
- Counterfeit merchandise schemes involving a host of consumer items such as designer clothing, jewelry, fashion accessories, and household products
- Internet cigarette smuggling
- Alternative remittance systems and unlicensed currency remitters

Sources of Terrorist Funding

For a terrorist organization to prosper, it must:

- Build and maintain an effective financial infrastructure
- Develop sources of funding
- Establish a way to transit funds
- Assure that funds can be used to acquire the items needed to commit terrorist acts

Financial activities typically associated with, and often indicative of, terrorist funding activities have emerged as a result of Green Quest's investigative efforts. Some indicators include:

Charity or Relief Organizations

A variety of methods may be used to collect funds for philanthropic or humanitarian causes. Substitution methods range from off-lay agency religious donations to direct-mail and Internet appeals. Many of these units, which are primarily dedicated to third-world charitable causes, have been and are susceptible to being diverted to terrorist networks, often without the donor's knowledge.

Legitimate Enterprises

Terrorist groups are increasingly using so-called "front companies" legitimate businesses that command legally and illegally obtained funds in order to avoid

Indicators of Suspicious Activity

Certain types of business and financial transactions serve as "indicators," or "red flags" that call for further scrutiny by the banking and trade communities.

On their own, some of the indicators listed below may not reach the threshold that would prompt an institution to file a Suspicious Activity Report (SAR). Nonetheless, these indicators are characteristic of the kinds of activity that Operation Green Quest is analyzing as it follows the money.

Recognizing that these red flags are dynamic and evolving, Operation Green Quest will update affected industry by updating this pamphlet with newly identified indicators.

"Finding the Missing Piece of the Terrorist Puzzle"



How You Can Help

(Although the United States is confronted with a cunning, devious enemy, the financial and trade communities have shown extraordinary vigilance and communication in reporting suspicious activity believed to be terrorist related, adhering to the reporting requirements under the Bank Secrecy Act.

Operation Green Quest is partnering with the financial and retail communities and is encouraging more businesses to seize the initiative in reducing suspicious financial and banking activity.

No government expertise can match the knowledge of those in the most affected industries — banking, accounting, stock and commodities brokering, to name a few — in understanding the structural, procedural, administrative, managerial, functional or other business transactions believed to be terrorist related.

This program is voluntary; it does not replace the legal obligation to report suspicious or unusual transactions. If you believe you have witnessed, or have information about, a financial transaction that could be related to terrorism — or if you have any questions at all about our Anti-Terrorism Green Quest — we urge you to call (202) 927-8400. You may also contact the U.S. Customs Service using the telephone number below.

- Some of the “red flag” indicators are:**

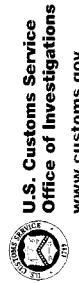
 - Account transactors that are inconsistent with past deposits or withdrawals (cash, checks, wires, etc.).
 - Transactions involving a high volume of incoming or outgoing wire transfers, with no logical or apparent purpose, that come from, or to, a transit location or concern (i.e., sanctioned countries, non-cooperative clearing or payment systems, sympathetic nations).
 - Unacceptable clearing or participation of third party checkers and their deposits in foreign bank accounts.
 - Structure at multiple branches or the same branch with multiple individuals.
 - Corporate longevity, that is, transfers between bank accounts of related entities or charities for no apparent reasons.
 - Wire transfers by charitable organizations to companies located in countries known to be bank or tax havens.
 - Lack of apparent fund-raising activity (i.e., lack of small cash or typical donations) associated with charitable bank deposits.
 - Using multiple accounts to reflect funds that are then transferred to the same foreign purposes (i.e., no link between all agents of the organization and other parties involved in the transaction).
 - Duplicating corporate officers, bank signatures, or other identical similarities associated with addresses, references, and financial activities.
 - Cash debiting schemes in which deposits in the United States correlate with ATM cash withdrawals in countries far concern. Reverse transactions of this nature are also suspicious.
 - Scaling checks, money orders, or other financial instruments, often numbered sequentially, to the same price or less than, or to a person or business whose name is spelled similarly.

PREPARED STATEMENT OF HON. ALAN LARSON

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 ear. 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 comprehen-



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sive strategy to disrupt, dismantle and shut down the financial networks that support terrorism.

There is a 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 overseas 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 dimen-

sion 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. UNSCR 1390 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 1267, 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 ensured 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 en-

dorsement 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 mem-

ber 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 such as hawalas; f) FATF is requiring financial institutions in its member states to report 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 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.

RESPONSES TO QUESTIONS FROM SENATOR BAUCUS

Question 1: The United Nations recently reported that terrorists continue to have access to \$30-\$300 million in additional funds. However, there is consensus the source of funding coming through domestic and foreign charitable contributions is potentially unlimited and that blocking these terror funding sources presents the biggest government challenge. The Council on Foreign Relations reports that the European union continues to recognize the legitimacy of charitable contributions to organizations such as Hamas and Hezbollah, recognized terrorist organizations.

What action have you taken to reverse the EU policy of recognizing the legitimacy of charitable contributions to organizations such as Hamas and Hezbollah?

Answer: The U.S. has strenuously and repeatedly raised the need to freeze the assets of Hamas and Hezbollah fundraisers with the EU Commission and member states. We will continue to do so.

The EU has ordered the freezing of assets going to the military wing of Hamas (Izz al Din al Qassem), as well as the assets of three Hezbollah officials, but not of either organization as a whole. The U.S. strongly disagrees with this distinction between different parts of these organizations. The EU has acted against the Holy

Land Foundation for Relief and Development, a Hamas fundraising front based in the U.S.

U.S.-EU cooperation in the area of terrorist financing has been excellent. However, the issue of freezing the funds of charitable organizations supporting Hamas and Hezbollah remains a principal area of disagreement between the U.S. and the EU.

U.S. Ambassadors and officials in EU member states have raised with EU governments on a number of occasions the importance of freezing all funds going to these two terrorist organizations. Assistant Secretary E. Anthony Wayne raised this matter with the EU during his recent trip to Brussels. At the U.S.-EU Senior Leadership Group meetings in early December, I again emphasized the importance the U.S. places on this issue and made clear that allowing funds to be collected in Europe for the benefit of Hamas and Hezbollah runs counter to the EU's own commitment to aggressively fight terrorism.

We will continue to urge the EU and its member states to change their approach on this issue.

Question 2: The United Nations recently reported that terrorists continue to have access to \$30-\$300 million in additional funds. However, there is consensus the source of funding coming through domestic and foreign charitable contributions is potentially unlimited and that blocking these terror funding sources presents the biggest government challenge. The Council on Foreign Relations reports that the European union continues to recognize the legitimacy of charitable contributions to organizations such as Hamas and Hezbollah, recognized terrorist organizations.

What penalty will the nations of the EU and their respective banking and financial service industry suffer for continuing to fail to cooperate and change the legitimacy of contributions to these organizations and others like them?

Answer: The International Emergency Economic Powers Act (IEEPA) provides for the possibility of civil and criminal penalties against U.S. persons that violate the provisions of E.O. 13224 that block the assets of designated individuals and entities in the U.S. or in the possession or control of U.S. persons, wherever located. However, those penalties do not apply to the EU or its member states. The U.S. will continue to work closely with the EU to persuade it to adopt a different approach toward Hamas and Hezbollah. Despite our differences on this issue, overall cooperation with the EU on terrorist financing has been outstanding.

Question 3: At our hearing you reported that the following week you would be meeting with Gulf Corporation Council and that terror financing would be a high priority agenda item. Secretary Gurule indicated what the Financial Action Task Force (FATF) on Money Laundering was seeking from the Gulf states was public laws to block assets, criminalizing of financing of terrorism, national passage and ratification of all relevant financing treaties and creation of best practices standards for oversight of hawalas and charitable organizations.

Can you provide a summary of the outcome of those meetings in this regard, how the results of the meetings were communicated to the Department of Treasury and Justice, and what our combined actions will be as a result of the GCC meeting by the U.S. and our Gulf allies?

Answer: I met with Crown Prince Abdullah and Foreign Minister Saud in the Eastern Province of Saudi Arabia. In our discussions of the flow of funds to terrorists, the Saudi leaders recognized the threat al-Qaeda and other extremists pose to their country and the steps they need to take to combat terrorist financing.

We discussed charities and the role Saudi-based, international organizations can play, either with or without explicit knowledge and consent, in the funding of terrorism. The Crown Prince acknowledged the need for more comprehensive oversight of charities' financial transactions.

Foreign Minister Saud asked for a single U.S. government liaison on the issue of terrorist financing, a recommendation I have discussed with my colleagues at the Departments of Treasury and Justice.

I discussed my visit to Saudi Arabia with my interagency counterparts and the details of the meetings were relayed through Embassy Riyadh reporting cables and regular interagency meetings in Washington.

The Saudi government has cooperated with U.S. efforts to designate terrorist financiers through the UN process, freeze funds associated with terrorism, and shut down the use of international charities as a means to funnel money to terrorists in other countries. The joint Saudi-US request to the UN to designate Saudi national Wa'el Julaydan was an excellent example of cooperation between our two governments. The Saudi initiative on regulating charities stems directly from requests we made that the Saudi government address this potential source of funding for terrorism. We have seen considerable progress in the Saudi government's commitment to making structural changes in the way they deal with terrorist financing. While

much work remains, the Saudi government's attitude and efforts are much improved in the last nine months.

Question 4: At our hearing you reported that the following week you would be meeting with Gulf Cooperation Council and that terror financing would be a high priority agenda item. Secretary Gurule indicated what the Financial Action Task Force (FATF) on Money Laundering was seeking from the Gulf states was public laws to block assets, criminalizing of financing of terrorism, national passage and ratification of all relevant financing treaties and creation of best practices standards for oversight of hawalas and charitable organizations.

Please provide a scorecard of how each of the member nations of the GCC are graded now (and six months from now) on the four goals Secretary Gurule outlined for the Gulf states to achieve.

Answer: The war on terrorist finance requires an extraordinary level of international cooperation. The nature of this cooperation is very complex, and would not be effectively captured by a grade on a scorecard. However, we can share some important indicators of how the countries of the Gulf Cooperation Council (GCC) are performing in this effort, and assure you that we are continually working with them, monitoring their progress, and pressing them to do more.

Each of the GCC members has taken steps to comply with the FATF Eight Special Recommendations on Terrorist Financing, including the four items mentioned by Treasury U/S Gurule. Specifically, each GCC member has issued orders to their financial institutions to freeze the assets of terrorists, including those designated by the United Nations and many of those designated by the United States. Each GCC member has criminalized the financing of terrorism, committed to implement the FATF recommendations on alternative remittance systems, and endorsed the FATF best practices on "Combating the Abuse of Non-Profit Organizations."

Moreover, as noted in previous testimonies to the Committee, Saudi Arabia and Kuwait have set up oversight bodies to protect charities from the abuse of terrorist financiers. The United Arab Emirates has been a world leader in supporting efforts to regulate informal transfer systems, such as hawala, including hosting an international conference on the issue last May, planning to host a second "hawala" conference this coming spring and developing a set of regulations to register "hawala" operators and make this sector more accountable and transparent. Saudi Arabia and Bahrain are the only two GCC members to have signed the International Convention for the Suppression of the Financing of Terrorism, none have ratified it.

Question 5: At our hearing you reported that the following week you would be meeting with Gulf Cooperation Council and that terror financing would be a high priority agenda item. Secretary Gurule indicated what the Financial Action Task Force (FATF) on Money Laundering was seeking from the Gulf states was public laws to block assets, criminalizing of financing of terrorism, national passage and ratification of all relevant financing treaties and creation of best practices standards for oversight of hawalas and charitable organizations.

Please provide a detailed assessment of the level of cooperation with the Dubai, U.A.E. banking and financial community which has been identified as a major cross-road of terror funding from Middle East sources.

Answer: The U.A.E.'s cooperation in the fight against terrorist financing has set an example for the region and beyond. The authorities have taken the initiative on a range of issues, including those inherently problematic in the Middle East (e.g. charity regulation); they have adopted suggestions from and participated in training provided by the U.S.; and they have met every U.N. request to freeze assets and accounts.

As a regional financial hub, the UAE took great strides to tighten controls in the wake of 9/11. The UAE implemented legislation that criminalizes money laundering, and has required greater accountability regarding the financial transactions of local charities.

The United Arab Emirates also has been a world leader in supporting efforts to regulate informal monetary transfer systems, such as hawala, including hosting an international conference on the issue last May, planning to host a second "hawala" conference this coming spring and developing a set of regulations to register "hawala" operators and make this sector more accountable and transparent.

The U.A.E. has taken advantage of U.S. training and assistance, at every opportunity, dramatically improving the U.A.E.'s ability to combat terrorist financing and money-laundering activities.

The U.A.E. has also cooperated fully with U.S. and U.N. efforts to stem the flow of funds to terrorists. The U.A.E. Central Bank has frozen assets and taken strong measures to ensure banks operating in the U.A.E. meet international standards for accountability and financial controls.

Although cooperation has been outstanding, the problems have not all been solved, particularly in the area of enforcement. The U.A.E. authorities remain overly reliant on Suspicious Activity Reports filed with the Central Bank to initiate investigations. U.A.E. law enforcement officers are not fully trained to initiate money-laundering investigations at the street level. Trade based money laundering, and the use of trade to provide counter-valuation for hawala transactions, is a major vulnerability and one that has not yet been adequately addressed. The U.A.E. has demonstrated a dramatic willingness to change and we expect they will continue to cooperate against terrorist financing.

Question 6: Last month the head of the U.S.-based Benevolence International Foundation, Enaam Arnaout, was arrested for providing material support to terrorism and has been accused of accepting large contributions from Saudi nationals. What role has Saudi Arabia played in financing al-Qaeda terrorism?

Answer: The Government of Saudi Arabia sees al-Qaeda as a threat and, as outlined in my testimony and in answers to other questions, has been cooperating with efforts to cut-off financial flows to al-Qaeda. Nevertheless, some Saudi citizens and organizations fund extremists groups. In some cases this may occur through direct contributions. In some cases this may occur as a result of the misdirection of funds intended for charitable causes.

In cases where the evidence has been compelling, the Saudi government has taken action to combat the financing of terrorism.

At least three high-profit Saudi citizens have been designated by the United Nations as terrorist financiers associated with al-Qaeda. The U.N. also designated two branch offices of a charity with headquarters in Riyadh as organizations tied to terrorism. The Saudi Arabian government has taken appropriate steps to freeze assets of these individuals and organizations. In a few of these cases, the Saudi government joined the U.S. in petitioning the U.N. for these designations.

The Saudi Arabian government has also recently increased its counterterrorism efforts with initiatives aimed at greater oversight of charities, new regulations on money-laundering and cross-border financial flows, and closer cooperation with the U.S.

The Saudi government has taken steps to make it more difficult for terrorist financiers to raise money in the Kingdom.

Question 7: At our hearing you reported that the following week you would be meeting with Gulf Cooperation Council and that terror financing would be a high priority agenda item. Secretary Gurule indicated what the Financial Action Task Force (FATF) on Money Laundering was seeking from the Gulf states was public laws to block assets, criminalizing of financing of terrorism, national passage and ratification of all relevant financing treaties and creation of best practices standards for oversight of hawalas and charitable organizations.

Three U.S. charities have had their assets frozen for their role in financing terrorism, The Holy Land Foundation, Benevolence International Foundation and the Global Relief Foundation. These three charities have a history of working closely with other U.S. charities and non-profit groups. Are there any other non-profits in the U.S. that may be funneling money to al-Qaida?

Answer: The Administration is aggressively pursuing every lead to uncover possible links, if any, between al Qaida and any individuals or charities in the United States that may be providing support to this organization.

For questions regarding whether any additional U.S.-based charities may be providing support to al Qaida, I would refer you to the Departments of the Treasury and Justice.

Question 8: At our hearing you reported that the following week you would be meeting with Gulf Cooperation Council and that terror financing would be a high priority agenda item. Secretary Gurule indicated what the Financial Action Task Force (FATF) on Money Laundering was seeking from the Gulf states was public laws to block assets, criminalizing of financing of terrorism, national passage and ratification of all relevant financing treaties and creation of best practices standards for oversight of hawalas and charitable organizations.

Have State Department funded NGOs provided funds to any of the three charities (BIF, GRF and HLF) which had their assets frozen?

Answer: The State Department is not aware of any State Department-funded NGOs having provided funds to the Holy Land Foundation for Relief and Development, Benevolence International Foundation or the Global Relief Foundation. This has been confirmed by the USAID mission in West Bank/Gaza.

All USAID missions have detailed proceedings for screening grantees and contractors.

Question 9: At our hearing you reported that the following week you would be meeting with Gulf Cooperation Council and that terror financing would be a high

priority agenda item. Secretary Gurule indicated what the Financial Action task Force (FATF) on Money Laundering was seeking from the Gulf states was public laws to block assets, criminalizing of financing of terrorism, national passage and ratification of all relevant financing treaties and creation of best practices standards for oversight of hawalas and charitable organizations.

What actions are you prepared to take to withdraw aid and grants to the countries listed by FATF as non-cooperating countries regarding terror financing (Cook Islands, Egypt, Grenada, Guatemala, Indonesia, Myanmar, Nauru, Nigeria, Philippines, Ukraine, St. Vincent and the Grenadines)?

Answer: The countries you are asking about have been listed by the multilateral Financial Action Task Force (FATF) as non-cooperating countries and territories (NCCTs) because of their failure to correct serious deficiencies in their anti-money laundering regimes, not because of specific terrorist financing issues. While a number of the anti-money laundering criteria used to determine whether a country was designated as an NCCT are also relevant to anti-terrorist financing, FATF did not consider a country's anti-terrorist financing regime/capacity when it started the process to identify, evaluate, and monitor NCCTs in 2000.

At this point, we are not prepared, nor is it FATF's position, to withdraw aid and grants to any of the countries based on their anti-terrorist financing related regime. FATF, however, has recommended that its 29 member states apply countermeasures against Nauru, Ukraine, and Nigeria because of their continued failure to improve their anti-money laundering regimes. The Treasury Department is leading an inter-agency effort to decide which countermeasures the U.S. will apply in accordance with Sections 311 of the USA Patriot Act. FATF has meanwhile developed eight Special Recommendations on Terrorist Financing that it is urging all countries to comply with. FTAF is slated to issue a revised set of recommendations in June 2003 which will include the eight Special Recommendations on Terrorist Financing.

Question 10: What is the total aid and grants provided to Egypt, the Cook Islands, Grenada, Guatemala, Indonesia, Myanmar, Nauru, Nigeria, Philippines, Ukraine, and St. Vincent and the Grenadines (countries listed by FATF as non-cooperating countries regarding terrorist financing)?

Answer: Total U.S. bilateral aid and grants for FY2002, including P.L. 480 Title II food assistance, for the above-mentioned countries are as follows:

Egypt	\$1.96 billion
Cook Islands	\$0.0
Grenada	\$.9 million
Guatemala	\$61.4 million
Indonesia	\$129.5 million
Burma	\$6.5 million
Nauru	\$0.0
Nigeria	\$62.3 million
Philippines	\$94.5 million
Ukraine	\$163.5 million
St. Vincent and the Grenadines	\$.5 million

A detailed breakdown of the total assistance for each country is included below.

Africa

NIGERIA (\$ in thousands)	
Child Survival and Disease/Health Programs Fund	37,066
Development Assistance	18,548
Foreign Military Training	6,000
International Military Education and Training	750

East Asia and the Pacific

INDONESIA (\$ in thousands)	
Child Survival and Disease/Health Programs Fund	35,568
Development Assistance	38,704
Economic Support Funds	50,000
International Military Education and Training	400
PL-480	4,831

BURMA (\$ in thousands)	
Economic Support Funds	6,500

PHILIPPINES (\$ in thousands)	
Child Survival and Disease/Health Programs Fund	25,599
Development Assistance	24,459
Economic Support Funds	21,000
Foreign Military Training	19,000
International Military Education and Training	2,000
Peace Corps	2,436

Europe and Eurasia

UKRAINE (\$ in thousands)	
Foreign Military Training	4,000
Assistance for the Independent States for the Former Soviet Union	154,196
International Military Education and Training	1,700
Nonproliferation, Anti-terrorism, Demining, and Related Programs	470
Peace Corps	3,161

Near East

EGYPT (\$ in thousands)	
Economic Support Funds	655,000
Foreign Military Training	1,300,000
International Military Education and Training	1,200
Nonproliferation, Anti-terrorism, Demining, and Related Programs	50

Western Hemisphere

GRENADA (\$ in thousands)	
Economic Support Funds	225
Foreign Military Training	210
International Military Education and Training	95
Peace Corps	350

ST. VINCENT AND THE GRENADINES (\$ in thousands)	
Foreign Military Training	170
International Military Education and Training	89
Peace Corps	27
International Narcotics Control and Law Enforcement	272

GUATEMALA (\$ in thousands)	
Child Survival and Disease/Health Programs Fund	15,350
Development Assistance	12,320
Economic Support Funds	10,000
International Military Education and Training	350
International Narcotics Control and Law Enforcement	3,500
Peace Corps	4,060
P.L. 480 Title II	15,808

Question 11: In the international arena, you have identified the need to provide additional technical assistance to some countries regarding oversight of banking, charities and hawalas in order to block their use by terrorists.

What role does the State Department play in deciding what countries are provided this assistance, to what additional countries will you provide this assistance during the next six month? How is the assistance provided and funded? What countries have expressed documented interest in receiving this training?

Answer: The State Department leads an interagency working group that recommends to the NSC which countries we should provide anti-terrorist financing technical assistance to, including assistance regarding oversight of banking, charities, and hawalas in order to block their use by terrorists. Relying on analysis provided by the intelligence and law enforcement communities, we have developed a list of 19 priority countries that are deemed to be most vulnerable to terrorist financing and where we are concentrating our technical assistance resources and expertise on developing comprehensive anti-terrorist financing regimes.

So far, State Department-led interagency teams have assessed all dimensions of the anti-terrorist financing capabilities and needs of 12 of these 19 countries, and have put together training and technical assistance implementation plans for—and have begun delivering technical assistance to—several of them. Within the next few months, we intend to have assessments completed on the remaining countries and to have worked out implementation plans with as many of the 19 host nation governments as possible. Most of this effort is being funded by a \$10 million FY 2002 emergency supplemental to the NADR account specifically for anti-terrorist financing technical assistance in 18 of these countries. The State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL), which has traditionally administered U.S. Government anti-money laundering technical assistance programs around the world, will administer these programs, mostly through interagency agreements with Department of Justice and Treasury implementing agencies. Some of the effort is also being funded by budgets appropriated to INL for anti-money laundering purposes through the International Narcotics Control and Law

Enforcement (INCLE) account, through anti-terrorism supplemental funds appropriated to Treasury's Office of Technical Assistance, and through funds allocated to the Antiterrorism Assistance program (ATA) in the Nonproliferation, Antiterrorism, Demining, and Related (NADR) account.

The number of countries that have expressed a need for this assistance outstrips our personnel and other resources to provide it, hence the need to prioritize. In order to provide some help to more countries quickly, we are also working to put on regional conferences that can offer at least some assistance to a broad array of lower priority countries, and coordinating with allies to share the burden of providing relevant training.

Question 12: In the international arena, you have identified the need to provide additional technical assistance to some countries regarding oversight of banking, charities and hawalas in order to block their use by terrorists.

What U.S. government agencies participate in this assistance with State? Are NGOs or private sector organizations assisting, please provide a comprehensive list? How can we deliver this assistance sooner?

Answer: The Department of State is seeking to provide the best possible anti-terrorist financing training and technical assistance to our priority countries of concern. We are working with several U.S. Government agencies to do this. They include the following:

- Department of Justice: OPDAT (Overseas Prosecutorial Development and Training), and FBI.
- Department of Treasury: Office of Technical Assistance (OTA), Office of International Enforcement Affairs (OIEA), U.S. Customs Service, Internal Revenue Service, Federal Law Enforcement Training Center, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, and the Financial Crimes Enforcement Network (FINCEN).
- International organizations such as: UN Global Program Against Money Laundering; World Bank; International Monetary Fund; Organization of American States.
- Private Sector/NGOs: The private sector and NGO's can play an effective role in some areas of anti-terrorist financing, but most of these entities lack cutting-edge expertise and are more difficult to focus on immediate priorities.

We are developing comprehensive programs and delivering assistance for them as quickly as possible. An important step in expediting this effort was the finalization of a comprehensive inter-agency coordination mechanism under the overall direction of the NSC. Major barriers to faster program implementation have also included the availability of U.S. experts to conduct assessments and to provide training and technical assistance. Sometimes officials that provide training from operational organizations, such as the FBI, are also needed to work high-priority case investigations. In areas such as the regulatory realm, there was an initial dearth of experts available for training foreign officials. Working with us, these agencies have upgraded their training capabilities. Finally, security factors beyond our control have also impeded our ability to deliver assistance. For instance, we have had recently to delay, cancel, reschedule, or modify assessment and/or assistance visits to such priority countries as the Philippines, Indonesia, Cote d'Ivoire, Nigeria, Kenya, and Venezuela because of security and stability concerns.

Question 13: A great deal was said in the hearing about the high level of cooperation between U.S. government agencies to counter the terror threat. However, it appears that only two FBI personnel are working at GreenQuest and the same number of Treasury personnel at the FBI Terror Financing Operations Section (TFOS). Furthermore, it was reported at our hearing that the level of cooperation regarding access to witnesses' "understanding" or "as I am informed". My concern is that a true team environment is not developing. We are informed that Customs employees must ask an FBI person to access the FBI databases and provide the data and that the reverse was true for some Treasury databases.

Have you been able to confirm the level and method of database access between the agencies?

Answer: The Department of State respectfully defers this question to the Department of the Treasury and/or the Department of Justice.

Question 14: A great deal was said in the hearing about the high level of cooperation between U.S. government agencies to counter the terror threat. However, it appears that only two FBI personnel are working at GreenQuest and the same number of Treasury personnel at the FBI Terror Financing Operations Section (TFOS). Furthermore, it was reported at our hearing that the level of cooperation regarding access to the others [sic] agency databases was based only on the witnesses' "understanding" or "as I am informed". My concern is that a true team environment is not developing. We were informed that Customs employees must ask an FBI person to

access the FBI databases and provide the data and that the reverse was true for some Treasury databases.

What databases is Treasury denied access by Justice and vice versa? What databases do you have access?

Answer: This is outside the scope of the Department of State. We defer this question to the Departments of Treasury and Justice.

Question 15: A great deal was said in the hearing about the high level of cooperation between U.S. government agencies to counter the terror threat. However, it appears that only two FBI personnel are working at GreenQuest and the same number of Treasury personnel at the FBI Terror Financing Operations Section (TFOS). Furthermore, it was reported at our hearing that the level of cooperation regarding access to the others [sic] agency databases was based only on the witnesses' "understanding" or "as I am informed". My concern is that a true team environment is not developing. We were informed that Customs employees must ask an FBI person to access the FBI databases and provide the data and that the reverse was true for some Treasury databases.

Does the State Department have direct access to the National Crime Information Center database or is an intermediary required?

Answer: The State Department does not have direct access to the National Crime Information Center (NCIC) database itself, but does have direct access to the index to the database. The index is basic biographical data (name, date and place of birth) about persons for whom NCIC records exist. Since May, the Department's Visa Office has received monthly tapes of this index data on aliens from the NCIC. We import that data into our Consular Lookout and Support System (CLASS) database.

If a check of the CLASS lookout system gets a "hit" against the NCIC data, we then submit fingerprints of the visa applicant to the FBI to obtain the actual information about the individual to whom the index record pertains. Review of that information allows us to determine whether the "hit" pertains to the visa applicant and, if so, whether it is relevant to visa adjudication. We are working to speed the receipt of index data from NCIC so the information available to our Consular Officers in the field is as close to current as possible.

The above information relates to the use of the NCIC for visa purposes. We explored using it for passport applications but found that the Warrant Information Network (WIN) of the U.S. Marshals' Service provides more relevant information to our needs for passport lookouts on U.S. citizens wanted for terrorist-related offenses than does the NCIC. Our authority to deny issuance of a passport is limited to federal—not state—fugitives. The WIN system has provided us with the names of 27,000 federal fugitives; when expanded to include aliases, this has added half a million names to our passport lookout system. We have found that U.S. citizens arrested on terrorism-related charges were in this database.

RESPONSES TO QUESTIONS FROM SENATOR GRASSLEY

Question 1: How did delisted individuals and businesses unknowingly aid al Qaida's financial network?

Answer: The individuals and entities that were delisted from the UN 1267 Sanctions Committee's list had been associated with large networks with ties to al Qaida. Upon review of the cases, no evidence of witting support for association with terrorism came to light. Moreover each of these individuals and entities committed in sworn statements to sever any relationship with the networks.

Question 2: What reviews are in place to minimize the number of individuals who are wrongly designated, and do you have any recommendations to establish an appeals process or greater review process to further minimize mistaken designations?

Answer: Every effort is made to ensure that names are not designated without sufficient evidence to support such designations under the relevant criteria specified by the U.S. laws or Executive Orders authorizing such designations. Designations are made only after careful review by various USG agencies, including the Departments of State, the Treasury and Justice.

Regulations promulgated by the Treasury's Office of Foreign Assets Control provide for specific procedures through which a person may seek administrative reconsideration of his, her or its designation.

The Chairman of the UN 1267 Sanctions Committee has issued a Statement on De-Listing procedures that provides a process for persons to seek review of designations on the UN 1267 Sanctions Committee's consolidated list maintained pursuant to UNSCR 1267 and 1390. This statement has been incorporated into the Committee's guidelines.

Question 3: Can you please provide a list of countries you would place in the second category (countries that cannot cooperate because they lack the technological

means) a brief explanation of any assistance we are providing these countries, and any estimate of how great the threat is that the financial systems in these countries are being used for terrorist financing?

Answer: Most countries around the world stand to benefit from technical assistance and training. Only a few have the capability to act against terrorist financing to the fullest degree. The needs of each country, however, vary tremendously.

The State Department leads an interagency working group that recommends to the NSC which countries we should provide anti-terrorist financing technical assistance to, including assistance regarding oversight of banking services, charities, and hawalas in order to block their use by terrorists. Relying on analysis provided by the intelligence and law enforcement communities, we have developed a list of 19 priority countries that are deemed to be most vulnerable to terrorist financing and where we are concentrating our technical assistance resources and expertise on developing comprehensive anti-terrorist financing regimes. This list of these countries is classified.

The number of countries that would benefit from assistance outstrips our personnel and other resources to provide it, hence the need to prioritize. To provide some help to more countries quickly, we are also working to put on regional conferences that can offer at least some assistance to a broad array of less vulnerable, lower priority countries, and coordinating with allies and multi-lateral bodies to share the burden of providing relevant training.

Question 4: Can you please provide some examples of countries and situations you would place in the third category (those who do not agree to cooperate because they define terrorism differently), as well as a brief summary of what steps the U.S. is or could be taking to encourage these countries to be more compliant?

Answer: In my testimony, I mentioned a third category of countries that have generally been quite cooperative, but where they have not agreed with us on every designation. I mentioned that European Union countries have been extremely supportive of our efforts and that they have designated virtually every organization and individuals we have suggested.

Under Secretary Gurule expanded on my answer and noted that with respect to al-Qaida or Taliban targets or terrorist financiers, we have received virtually full support from EU countries with respect to blocking. He pointed out, however, that where we have run into some difficulty is in attempting to take action to designate an individual who is supporting Hamas, for example. He noted there were some countries that make a distinction between the political wing of Hamas and its military wing. Finally, he pointed out the United States draws no such distinction and that if an organization is funneling money to Hamas, we are less concerned about whether the money is going to support its political versus its military wing and that we will designate that person or entity.

Although we believe the overall cooperation from EU countries has been and continues to be exemplary, we have continued to press them on this issue. We have raised financing for Hamas and Hezbollah continuously over the past year, in demarches to governments of EU Clearinghouse members, bilateral meetings of high-ranking U.S. officials in Europe or in meeting between U.S. and EU officials here, or through our more formal consultations with the EU under the New transatlantic Agenda (NTA). Within the last several weeks alone, we have discussed this issue in seven different venues, including:

- A demarche delivered to host governments by our Embassies in all the EU member states, which covered a number of outstanding terrorist finance issues but highlighted the designation of Hamas and Hezbollah;
- A demarche to three EU member state governments asking them to take action against a specific Hamas-related charity;
- A follow up demarche and informational paper specifically on Hamas and Hezbollah delivered to all EU governments;
- A meeting between Assistant Secretary for Economic and Business Affairs E. Anthony Wayne and EU officials in Brussels where this issue was prominent topic;
- An U.S.-EU Task Force meeting chaired by EUR Principal Deputy Assistant Secretary Charles Ries where terrorist finance played an important part;
- An U.S.-EU Counter-terrorist Troika meeting in Brussels chaired by S/CT Deputy Coordinator Ann Korky where terrorist finance was on the agenda;
- And finally, most recently at an U.S.-EU Senior Level Group meeting where I addressed financing for Hamas and Hezbollah with senior EU officials and noted the growing sensitivities in the U.S. Congress on this issue.

Question 5: Are you aware of any shift in funding patterns by terrorist organizations to move through countries or financial systems who are not co-operating with the United States?

Answer: We are not able to document at this time any pattern by terrorist organizations to move funding through countries or financial systems who are not co-operating with the United States.

As we clamp down on formal financial systems worldwide, we believe we are forcing terrorist organizations out of the formal banking system and into riskier, less efficient informal mechanisms that may offer new opportunities for the U.S. and our allies in the Global War on Terrorism, through investigation, intelligence and law enforcement, to disrupt their operations.

Question 6: Historically, much of the international coordination on money laundering has been fostered through the FATF process. Recently there have been some efforts to have a greater engagement by the United Nations, IMF, and World Bank and lessen the role of FATF. Is this an accurate assessment?

Answer: FATF—the Financial Action Task Force—continues to be the leading international organization for combating money laundering. It is, if anything, strengthening its role in this regard. In October 2001, FATF held a special plenary session in Washington to expand its focus to include anti-terrorist financing. At that meeting it adopted eight Special Recommendations on combating terrorist financing, instructed its 29 member states to assess their compliance with these recommendations, and called upon all other countries to similarly assess their compliance with these recommendations by responding to a FATF questionnaire. The FATF secretariat is evaluating these responses. Meanwhile, FATF is currently revising and updating its 40 recommendations on money laundering to, among other objectives, incorporate the eight special recommendations.

Since the September 11 attacks, the UN, IMF, and World Bank have become more involved in aspects of anti-money laundering, but not at the expense of FATF. In Security Council Resolution 1373, the UN required countries to crack down on terrorist financing and asked all member states to report on their efforts, and technical assistance needs, in this regard. The UN's Counter-terrorism Committee is trying to help encourage and direct the provision of anti-terrorist financing technical assistance by international donors. The World Bank and the IMF recently entered into an agreement with FATF whereby they would add the FATF money laundering and terrorist financing recommendations to the standards and codes they use in their financial assessments. FATF retains its role as the “standard-setter” in this regard, but by using World Bank and IMF assets when they do their Financial Sector Review of Standards and Codes (ROSC), the anti-money laundering regimes of more countries can be evaluated.

Question 7: What are the benefits of greater engagement on money laundering by these larger organizations? What are the costs?

Answer: The involvement of the UN, IMF, and World Bank in anti-money laundering efforts helps to increase the international attention and focus on this problem, and makes more resources available to assess and attack it. Efforts among these organizations, however, need to be coordinated closely otherwise they could become counterproductive in several ways. For instance,

- Countries could be overwhelmed in attempting to respond to largely duplicative information requests from these organizations. FATF and the UN Counter-terrorism Committee, for example, have both recently issued anti-terrorist financing questionnaires that all countries have been asked to answer.
- These organizations run the risk of providing inconsistent guidance. This is an issue that FATF on the one hand and the World Bank and the IMF on the other are carefully trying to manage as the Bank and the Fund adopt FATF recommendations as part of their Financial Sector Reviews of Standards and Codes.

Finally, if too many entities are involved, they can complicate and potentially undermine efforts to coordinate international assistance. The international donor community has a finite amount of anti-money laundering/anti-terrorist financing resources available for technical assistance. It must choose priorities carefully. The uncoordinated involvement of too many agencies in this endeavor could easily have the unintended consequence of raising expectations among potential recipients that the donor community cannot fulfill. Conversely, it could result in such disorganized programs that donors provide duplicative aid in some areas, and completely overlook requirements in others. In either case, scarce resources are squandered.

