

Written Testimony of Mallory Factor

**Before The
Committee on Banking, Housing and Urban Affairs**

United States Senate

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Chairman Shelby, Senator Sarbanes, and Distinguished Members of this Committee, thank you for inviting me to testify today about my views on the critical issue of curbing terror financing.

Chairman Shelby, I would like to commend you in particular for your unwavering commitment to addressing the financing of terror. The work that this Committee is undertaking is extremely important to the United States and the world. Thank you for your leadership.

My testimony will focus on terror financing emanating from within the Kingdom of Saudi Arabia. Clearly, there are numerous other states that allow terror financing to continue and that should be examined also. I have chosen to focus on Saudi Arabia because of the enormous resources that are funneled from within Saudi Arabia to terrorist groups around the world.

My recommendations are contained in a report of an Independent Task Force on Terrorist Financing, sponsored by the Council on Foreign Relations, on which I served as Vice-Chair. Since the report, along with its various appendices, is almost 300 pages in length, I will only be able to highlight core points and ask that the full report and its appendices be placed into the record.

I would like to thank the Task Force Chairman, Maurice R. Greenberg, who has been a leader in bringing this issue to the nation's attention. I would also like to thank Council President Richard Haass for his commitment to this topic and to the Task Force's mission. I am testifying in my personal capacity, as is customary, and not on behalf of the Task Force or the Council on Foreign Relations.

Among the core findings of the first Terrorist Financing Task Force report, released in October 2002, was that "For years, individuals and charities based in Saudi Arabia have been the most important source of funds for al-Qaeda; and for years, Saudi officials have turned a blind eye to this problem."

It should be noted that the Task Force found no evidence that the Saudi government--as an institution--participated in the financing of terror directly. However, the Saudi

government has clearly allowed individual and institutional *financiers of terror* to operate and prosper within Saudi borders.

The Bush administration has accomplished a great deal since 9/11. Some of the Administration's achievements in this area have been integrating terrorist financing into the U.S. government's overall counterterrorism effort, securing unprecedented international support for UN sanctions against al-Qaeda, strengthening international standards for financial supervision through the Financial Action Task Force (FATF), issuing significant and meaningful regulations under the Patriot Act and implementing a wide-ranging strategy to engage Saudi Arabia on the subject of financial and ideological support of extremists. Still, there is much work to be done.

I would like to set forth the following framework of constructive, forward looking recommendations for improving U.S. efforts against terrorism financing.

First, U.S. policymakers must build a new framework for U.S.-Saudi relations. The terror financing issue is situated in the complex and important bilateral relationship between the United States and Saudi Arabia. For decades, U.S.-Saudi Arabia relations have been built upon a consistent framework understood by both sides: Saudi Arabia would be a constructive actor with regard to the world's oil markets and regional security issues, and the United States would help provide for the defense of Saudi Arabia, work to address the Israeli-Palestinian conflict, and not raise any significant questions about Saudi Arabian domestic issues, either publicly or privately.

More recently however, this framework has come under strain because al-Qaeda, a terrorist organization rooted in issues central to Saudi Arabian domestic affairs, has murdered thousands of Americans. Al-Qaeda and similar organizations continue to conspire to kill even more Americans and to threaten our way of life.

Changed circumstances require a new policy framework for U.S.-Saudi relations. When domestic Saudi issues threaten Americans at home and abroad, the U.S. must pay attention to those Saudi "domestic" issues that impact U.S. security such as terrorist financing and the global export of Islamic extremism. These issues can no longer be "off the table"; they must be front and center in our bilateral relationship.

This transition is already well underway, as evidenced by turbulence in the bilateral relationship since 9/11. Some Bush administration officials have privately characterized the current state of affairs in Saudi Arabia as a "civil war" and suggested that the appropriate objective for U.S. policy in this context is to help the current regime prevail. I agree, but believe the domestic Saudi problem will not be solved by dispersing al-Qaeda cells and members in Saudi Arabia alone. Rather, the "civil war" will be won only when the regime confronts directly and unequivocally addresses the ideological, religious, social, and cultural realities that fuel al-Qaeda, its imitators, and its financiers all over the world.

Second, Saudi Arabia must fully implement its new laws and regulations and take additional steps to further improve its efforts to combat terrorist financing. In addition to implementing its recently enacted laws and regulations in this area, Saudi Arabia should also deter the financing of terrorism by publicly punishing those Saudi individuals and organizations that have funded terrorist organizations. Although a recent report by FATF noted several prosecutions in Saudi Arabia under the terror financing laws, arrests and punitive steps against financiers of terror have only taken place in the “shadows”. I am not aware of any publicly announced arrests, trials or incarcerations in Saudi Arabia relating to the financing of terrorism. Saudi Arabia must also increase the financial transparency and programmatic verification of its global charities and publicly release audit reports of those charities. Saudi Arabia should ratify and implement treaties that create binding international legal obligations relating to combating money laundering and terrorist financing.

Third, multilateral initiatives need to be better coordinated, appropriately funded, and invested with clear punitive authorities. The need for a new international organization specializing in terrorist financing issues, as recommended by the Task Force’s initial report, has diminished as a result of significant efforts being undertaken by a variety of international actors. The need for proper coordination and clearer mandates has increased for the same reason. It is now time to minimize duplicative efforts and reallocate resources to the most effective and appropriate lead organization.

Fourth, the executive branch should formalize its efforts to centralize the coordination of U.S. measures to combat terrorist financing. My understanding is that, in practice, responsibilities for the coordination of terrorist financing issues have shifted from the Treasury Department to the White House. I commend the Bush Administration for this action. However, setting up a formal allocation of responsibilities is crucial to maintain continuity and focus as the specific individuals involved in these efforts turn over. Therefore, allocation of responsibility to the White House needs to be formalized through a National Security Presidential Directive (NSPD) or otherwise.

Fifth, Congress should enact a Treasury-led certification regime specifically on terrorist financing. Many governments are working on shutting down terror financing from within their borders, but many are not. Congress should adopt a certification regime under which the Treasury Department provides a written certification on an annual basis (classified if necessary) detailing the steps that foreign nations have taken to cooperate in U.S. and international efforts to combat terror financing. In the absence of a presidential national security waiver, jurisdictions that do not receive this certification would be subject to sanctions provided by section 311 of the Patriot Act—including denial of U.S. foreign assistance monies and limitations on access to the U.S. financial system.

The Administration has used the powers granted to it by section 311 of the Patriot Act—but only once in the terror financing context. Section 311 allows Treasury to require domestic financial institutions and agencies to take “special measures” against certain parties, including both institutions and jurisdictions, believed by the Treasury to be engaged in money laundering/terror financing. These special measures can include

placing prohibitions or conditions on “correspondent” or “payable through” accounts involving the parties engaged in the money laundering/terror financing.

Of course, foreign financial institutions and jurisdictions that do not have significant financial relations with the United States would not be meaningfully impacted by Section 311 sanctions imposed by the United States. However, a similar sanction imposed in the money laundering context resulted in the targeted jurisdiction promulgating desired legislative and regulatory changes.

A certification regime for terror financing would ensure that these special measures are used appropriately and thoughtfully against “rogue” jurisdictions. A separate certification regime for terror financing – distinct from any other reporting requirements on the promulgation of terror itself or money laundering – ensures that stringent requirements are maintained specifically with respect to each jurisdiction’s practices on terror financing without consideration of other issues.

I commend Congresswoman Sue Kelly and others who have introduced legislation in the House, as H.R. 5124, that would require a terror financing certification regime.

Sixth, the U.N. Security Council should broaden the scope of the U.N.’s al-Qaeda and Taliban Sanctions Committee. The UN Security Council should specifically impose international sanctions on other groups and individuals that have been designated as terrorists, as Hamas has been by the United States and E.U. I understand that these UN committees continue to discuss various actions but have not taken any affirmative action as yet. Furthermore, the UN should require, as a matter of international law, that member states take enforcement action against groups, persons and entities designated by the Sanctions Committee. The enabling resolution for these expanded authorities should explicitly reject the notion that acts of terror may be legitimized by the charitable activities or political motivations of the perpetrator. The UN should make it clear that no cause, however legitimate, justifies the use of terror.

Seventh, the U.S. government should increase sharing of information with the financial services sector as permitted by Section 314(a) of the PATRIOT ACT so that this sector can cooperate more effectively with the U.S. government in identifying financiers of terror. Helping private sector financial institutions become effective partners in identifying financiers of terror should be a top priority. The procedures set forth in Section 314(a) of the Patriot Act, which promote information sharing between the U.S. government and financial institutions to increase detection of terror financing, are not working as well as they should. The U.S. government is still not providing financial institutions with adequate information to enable the institutions to detect terror financing and identify unknown perpetrators. The government is still using financial institutions primarily to assist in investigating known or suspected terror financiers, not in identifying unknown ones. In addition, our government does not currently have the appropriate resources to process and make full use of information that is flowing to it from financial institutions.

I recognize that the information that would enable financial institutions to become effective partners with the U.S. government in identifying terror financing may be highly protected intelligence information. In other industries such as defense and transportation, however, persons can be designated by the U.S. government to receive access to certain high value information as necessary. A similar approach could be used to facilitate information sharing and cooperation between the U.S. government and private financial institutions.

Eighth, the National Security Council (NSC) and the White House Office of Management and Budget (OMB) should conduct a cross-cutting analysis of the budgets of all U.S. government agencies as they relate to terrorist financing. Monitoring the financial and human resources that are actually devoted to the various tasks involved in combating terrorist financing will facilitate fully informed, strategic decisions about whether resource allocations are optimal or functions are duplicative. For this reason, the NSC and OMB should conduct a cross-cutting analysis of all agencies' budgets in this area, to gain clarity about who is doing what, how well, and with what resources. With such a cross-cut in hand, the Administration and Congress can begin to assess the efficiency of existing efforts and the adequacy of appropriations relative to the threat.

Ninth, the U.S. government and private foundations, universities, and think tanks should increase efforts to understand the strategic threat posed to the United States by radical Islamic militancy, including specifically the methods and modalities of its financing and global propagation. At the dawn of the Cold War, the U.S. government and U.S. nongovernmental organizations committed substantial public and philanthropic resources to endow Soviet studies programs across the United States. The purpose of these efforts was to increase the level of understanding in this country of the profound strategic threat posed to the United States by Soviet Communism. A similar undertaking is now needed to understand adequately the threat posed to the United States by radical Islamic militancy, along with its causes, which we believe constitutes the greatest strategic threat to the United States at the dawn of this new century. To be commensurate with the threat, much more will need to be done by private U.S. foundations, universities, and think tanks in a sustained, deliberate, and well-financed manner.

I look forward to your questions.