



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

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CONTACT Jennifer Zuccarelli, (202) 622-8657

**Testimony of Adam J. Szubin,
Director
(Office of Foreign Assets Control)
U.S. Department of the Treasury**

Before the Senate Committee on Banking, Housing and Urban Affairs

Chairman Shelby, Ranking Member Sarbanes and Members of the Committee, thank you for this opportunity to discuss the role that the Office of Foreign Assets Control (OFAC) has been playing to combat terrorism in the five years since September 11.

It is, in a way, fitting that this hearing marks my first public appearance as the Director of OFAC. Combating terrorist financing has been a principal focus of mine almost since that fateful day five years ago. Then practicing law in the Justice Department's Federal Programs Branch, I looked to discover how I could contribute to our Government's efforts to combat terrorism and prevent future attacks. Interestingly, it was an OFAC action that provided my entry into the counter-terrorism arena. As this Committee knows, shortly after the September 11 attacks, OFAC froze the assets of three Islamic charities in the United States that had been funneling money to al Qaida and Hamas. In combination with law enforcement action by the FBI, OFAC's actions effectively shut down what had been among the more significant conduits of terrorist financing in the United States. When the charities filed lawsuits challenging the government's actions, I joined a team of lawyers representing OFAC and the Treasury Department, as we successfully argued in various court actions why OFAC's actions had been legal and appropriate.

In the years since, I have continued working on terrorist financing and related issues, first as Counsel to the Deputy Attorney General on terrorism financing issues, then as Senior

Advisor to Under Secretary Stuart Levey, who oversees the Office of Terrorism and Financial Intelligence (TFI), of which OFAC is a part.

Over the last five years, this Committee has demonstrated its absolute commitment to combating terrorist financing, and ensuring that the Government has all of the tools necessary to do this work aggressively and appropriately. I am therefore particularly pleased to be here today to introduce myself to the members of this committee and thank you for your leadership and support.

OFAC in 2006

My testimony will focus on OFAC's work to combat terrorist organizations and state sponsors of terrorism. I would, however, first like to outline briefly the wide range of national security issues that OFAC confronts today. OFAC is charged with administering and enforcing the U.S. Government's economic and trade sanctions. These sanctions span approximately 25 regimes and countries, and also target international narcotics traffickers, proliferators of weapons of mass destruction, and terrorist support networks.

Crafting these sanctions programs requires meticulous legal and policy analysis to ensure that our sanctions are effective, balanced, and clear. And, before they can be implemented, our targeted programs require persistent and creative investigative work to unravel the hidden financial trails of security threats, be they terrorist or WMD networks or drug kingpins. In recent years, TFI's Office of Intelligence and Analysis has assumed responsibility for researching and investigating on the terrorist networks that form the basis for OFAC's actions in this arena, and has done exceptionally fine work. Once our sanctions are in place, however, much of OFAC's work is only beginning. We do extensive outreach to the private financial sector, at home and abroad, to answer questions and ensure that it understands the implications of our sanctions across a range of complex industries. We review and process tens of thousands of license and interpretive guidance requests a year, filed by individuals, firms, and multinational corporations, each of which requires careful consideration, and some of which entail sophisticated transactional analysis. We also investigate possible violations of our sanctions and, in the appropriate case, assess civil penalties or refer the violator for criminal prosecution. All of these efforts are supported by a talented resource management team, which makes continual adjustments to meet shifting priorities. OFAC performs this front-to-end work across all of its 30 sanctions programs, from the Balkans to Zimbabwe. The fact that it has been able to fulfill this mission so ably with a staff of only 125 FTE gives a sense of how dedicated and professional this staff is.

To provide a snapshot of our operations, in just the past three months, OFAC has exposed and targeted the nerve centers of Mexico's notorious Arellano Felix Organization, one of Colombia's most elusive cartels, four Chinese companies facilitating WMD-related activities, two Syrian military leaders, a set of major Hizballah financial entities, and has also cut off from the U.S. financial system an Iranian bank that was supporting Middle East terrorist groups. OFAC has also worked closely with the Departments of State and Justice to help establish and identify targets for three new sanctions programs, including

Sudan's Darfur Region, Cote d'Ivoire and Belarus. In nearly every national security issue of the day, OFAC is making a contribution.

On a daily basis, OFAC works hand-in-hand with the other organizations testifying today, the Office of Terrorist Finance and Financial Crime, the Financial Crime Enforcement Network (FinCEN), and the Internal Revenue Service, as well as the Office of Intelligence and Analysis, which is not present. Under the leadership of Under Secretary Stuart Levey's Office of Terrorism and Financial Intelligence, these offices offer a range of powerful financial authorities and influence that can be harnessed to deter, disrupt, or disable threats to our national and economic security.

We also work closely with other federal departments and agencies to ensure that our programs are implemented and enforced effectively. In addition, we work closely with the private sector enterprises affected by our programs. We are expanding and improving our communication with our diverse constituencies ranging from the financial and services sectors to manufacturing and agricultural industries. The cooperation we receive from U.S. corporations in complying with sanctions is generally exceptional.

Against this background, I will focus on OFAC's role in combating terrorism in the five years since the deadly attacks of 9/11.

September 11th Leads to New Sanctions Authorities

Following the horrific events of September 11th, the President issued Executive Order 13224, authorizing the Secretaries of the Treasury and State to wield the President's broad financial authorities against terrorist organizations and their support networks. The Executive Order has proven to be a powerful and flexible tool – it allows us to designate and block the assets of individuals and entities controlled by or acting on behalf of named terrorist organizations, freezing any of the target's assets that are held by U.S. persons and preventing U.S. persons from having any future dealings with them. Violations of the Executive Order are subject to civil and criminal penalties. To date, the U.S. has designated approximately 460 individuals and entities pursuant to E.O. 13224 of which 375 were named by Treasury.

Congress strengthened and reinforced these authorities with the passage of the USA PATRIOT Act in October 2001. The Act clarified OFAC's authority to block the assets of suspect entities in "aid of an investigation," which is an important tool when there is concern about asset flight or when our intelligence leads us to suspect that a dangerous funds transfer is imminent. In addition, the PATRIOT Act made clear that OFAC could use classified information in its designations without risking having to turn this information over to a designated terrorist supporter at a later date. These provisions have enhanced our ability to take swift and meaningful action, while leaving intact a proper balance between effectiveness and fairness.

In cases in which our designation targets are associated with either al Qaida or the Taliban, as has been the case more than two-thirds of the time, we can also propose these

names to the United Nations 1267 Sanctions Committee for inclusion on its designation list. When a target is designated by the U.N. Committee, all U.N. member states worldwide are obligated to freeze the target's assets. Thanks to the able work of the State Department, we have made effective use of this international tool, both in using it ourselves to broaden the impact of our own designations and in encouraging other countries to submit their own targets.

The Impact of “Unilateral” Actions

One question frequently posed to OFAC is, how meaningful are OFAC's actions when the U.S. acts by itself to designate a foreign target – whether a terrorist supporter, a narcotics trafficker, or a supporter of WMD proliferation – and that target doesn't hold assets in the United States? Or, to put it more simply, are unilateral actions effective?

As it turns out, even when we initially act alone, we can have a dramatic impact. There are two main reasons for this. First, the United States is the world's leading banking and financial center; to paraphrase an old saying, “all financial roads lead to New York.” When a designated party in Afghanistan tries to send money to Southeast Asia, that transfer will often pass through a United States bank, if only for an instant. The result is typically that these funds are frozen and we are notified by a call to our hotline or the filing of a blocking report. In addition, it is important to remember that U.S. persons and U.S. branches situated abroad are subject to U.S. law, and must comply with OFAC's regulations as if they were in the United States. The jurisdiction also extends to foreign financial institutions that maintain a U.S. presence as well.

Our second “force multiplier” is that international financial institutions frequently implement our sanctions voluntarily, even when they are under no legal obligation from their host countries to do so. We have seen this time and again, in countries from Kuwait to Latvia. These financial institutions may do so because they don't want to be hosting the business of terrorist organizations, even if it is legally permissible. They may cooperate because of reputational risk. Or, perhaps they do so because of fears of litigation or U.S. action. Whatever the cause, the “OFAC list,” as it is known, is on the computer screens of bank compliance officers the world over. As a result, our “unilateral” actions are anything but and can have a decisive impact against terrorist supporters, narcotraffickers, and WMD proliferators.

Using Targeted Sanctions against Terrorist Financing Networks

The Treasury Department was applying its financial authorities against terrorist organizations long before 2001. OFAC first implemented sanctions against Middle East terrorist groups in January 1995, and then expanded its scope to target Usama bin Laden and al Qaida in 1998. In implementing these programs, OFAC drew on its experience in directing targeted sanctions against narcotraffickers and their financial networks, and its experience – dating back to the 1940s – in administering sanctions against various countries.

As a result, while September 11th prompted a surge in OFAC's counter-terrorism program, the legal framework, institutional knowledge, and connections to the financial community were already in place to allow for the swift and effective use of economic sanctions. The President issued a new Executive Order to address the threat on September 23, 2001, and OFAC moved to block the assets of several al Qaida support organizations before that year's end. OFAC's exceptional institutional capacity and experience in administering sanctions has allowed it to become a model and advisor for other governments in the post-9/11 world.

As I previously noted, in the five years since, OFAC has designated 375 individuals and entities as supporters of terrorism, blocking their assets and – more importantly – cutting them off from the U.S., and frequently the international, financial systems. In close coordination with colleagues in the Treasury Department, and at the Departments of State, Justice, and the National Security Council, we have exposed the financial networks of terror groups including al Qaida, Hizballah, Hamas, Jemmah Isalmiyya, and the GSPC, and designated financiers and companies in Southeast Asia, the Persian Gulf, the Horn of Africa, South America's Tri-Border Area, Europe, and the United States.

When we have acted against terrorist supporters in the United States, we have coordinated especially closely with the Federal Bureau of Investigation and other U.S. law enforcement agencies through the Joint Terrorist Task Forces. Indeed, some of our most effective actions have been joint operations, taken in concert with law enforcement. In February 2004, federal agents executed a search warrant on Al Haramain, pursuant to a joint investigation by IRS-CI, the FBI, and DHS/ICE. Simultaneously, Treasury's OFAC blocked the accounts of the organization pending investigation, freezing the organization's assets in place and ensuring that no money would flow through this group during further investigation. A similar coordinated Treasury/law enforcement action was taken in October 2004 against the Islamic African Relief Agency (IARA), and its U.S. alias, the Islamic American Relief Agency. Treasury designated this global network as well as five of its senior officials as Specially Designated Global Terrorists pursuant to E.O. 13224. On the same day, the FBI raided IARA's headquarters in Columbia, Missouri as part of a separate criminal investigation.

Time does not allow for a full review of OFAC's terrorist designations and successes in detail, but I would like to highlight some of our most recent actions.

Last month, we designated two overseas branches of the International Islamic Relief Organization (IIRO), which is headquartered in Saudi Arabia, as well as Abd al Hamid Sulaiman Al-Mujil, the head of IIRO's branch in the Eastern Province of Saudi Arabia. These branch offices, while holding themselves out as purely charitable organizations, were bankrolling the al Qaida network in Southeast Asia. In July, we designated Muhammad Ahmed 'Abd Al-Razziq, a Canadian and Sudanese national who provided administrative and logistical support for al Qaida.

We have also taken a string of recent actions to disrupt and undermine Hizballah's financial network. Of course, the U.S. has long recognized Hizballah as a deadly terrorist

organization but the recent fighting in Lebanon provided a stark reminder of how dangerous and well-supplied this terrorist organization is.

Two weeks ago, we designated the Islamic Resistance Support Organization (IRSO), a so-called “charity” operated by Hizballah. IRSO offered donors the option of earmarking their donations to equip Hizballah fighters or to purchase rockets. Just last week, OFAC designated Bayt al-Mal and the associated Yousser Company, which together functioned as Hizballah’s unofficial treasury, holding and investing its assets and serving as intermediaries between Hizballah and the mainstream banks. At the same time, we designated Husayn al-Shami, a senior Hizballah leader and financial facilitator. These actions, driven by the intelligence work of TFI’s Office of Intelligence and Analysis, and coordinated closely with our interagency partners, exposed and attacked some of Hizballah’s most prominent financial entities. The world financial community is now on notice as to their true character.

Iran as a State Sponsor of Terrorism

Of course, one cannot hope to apply effective financial pressure against a group like Hizballah so long as it maintains massive inflows of cash from a state sponsor of terrorism, in this case the Iranian Government. OFAC administers a range of sanctions against Iran, the world’s leading government sponsor of terrorism, aimed at limiting the regime’s financial reach and pressuring it to cease its hostile and destabilizing activities.

In a small exception to this general sanctions program, we have allowed Iranian banks to access the U.S. financial system indirectly, through third-country intermediaries. This past Friday, we took regulatory action to cut off Iran’s Bank Saderat from even indirect access to the U.S. financial system. We took this action because Bank Saderat has been a significant facilitator of Hizballah’s financial activities and has served as a conduit between the Government of Iran and a range of terrorist groups, including Hizballah, Hamas, the Popular Front for the Liberation of Palestine-General Command (PFLP-GC), and the Palestinian Islamic Jihad (PIJ). As Under Secretary Levey said in announcing this action on Friday, “we will no longer allow a bank like Saderat to do business in the American financial system, even indirectly.”

Weapons of Mass Destruction

Recent events involving the nuclear programs of both North Korea and Iran make clear the very serious and real challenges that we and the whole international community face. Recognizing that we must use all of our national authorities to prevent a weapon of mass destruction from falling into the wrong hands, the President issued Executive Order 13382 in June 2005, authorizing the Treasury and State Departments to designate and freeze the assets of proliferation entities and those that facilitate their activities. This authority is a powerful one, as the suppliers, financiers, transporters and other facilitators of WMD networks tend to have commercial presences and accounts around the world that make them vulnerable to exactly this kind of financial action.

In issuing the Executive Order, the President identified eight entities in North Korea, Iran, and Syria, making them immediately subject to the prohibitions set forth in the Order. OFAC's WMD investigation team provided the evidence for these designations, and has continued to track and expose proliferation networks around the world. In the past year, OFAC has designated 19 proliferation entities and one individual under this order. Notable targets have included:

- Sanam Industrial Group and Ya Mahdi Industries Group, both subordinates to Iran's Aerospace Industries Organization (AIO), which manages and coordinates Iran's missile program and oversees all of Iran's missile industries. The Sanam Industrial Group has purchased millions of dollars worth of equipment on behalf of AIO from entities associated with missile proliferation. Ya Mahdi Industries Group also has been involved in international purchases of missile-related technology and goods on behalf of AIO.
- Chinese companies Beijing Alite Technologies Company, Ltd. (ALCO), LIMMT Economic and Trade Company, Ltd., China Great Wall Industry Corporation (CGWIC), and China National Precision Machinery Import/Export Corporation (CPMIEC), as well as a U.S. office of CGWIC located in California. These companies supplied Iran's military and Iranian proliferators with missile-related and dual-use components.
- Swiss company Kohas AG, which acted as a technology broker in Europe for the North Korean military and procured goods with weapons-related applications, and its president, Swiss national Jakob Steiger. Both Kohas and Steiger have been involved in activities of proliferation concern on behalf of North Korea since the late 1980s.

Our actions have cut these entities off from the U.S. financial system and alerted international banks and companies to avoid these designated firms. We have also sent a loud message to any companies that might be considering engaging in proliferation activities that this line of business now comes with severe risks.

Conclusion

Together with my colleagues at this table and throughout the government, we will continue to employ all of our resources and authorities to keep our country safe. We greatly appreciate the continuing interest and oversight of this committee. Thank you for your support.