

TESTIMONY BY E. ANTHONY WAYNE
ASSISTANT SECRETARY FOR ECONOMIC AND BUSINESS AFFAIRS
DEPARTMENT OF STATE
TO THE
SENATE BANKING COMMITTEE

September 25, 2003

U.S. INTERAGENCY EFFORTS TO COMBAT TERRORIST FINANCING

Mr. Chairman and distinguished members of the Committee: thank you for the opportunity to testify on U.S. efforts to combat terrorist financing.

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

I would like to begin by recognizing how far we have come in terms of USG interagency coordination when it comes to dealing with terrorist financing. We have made enormous strides in improving the degree to which all U.S. agencies with equities related to the pursuit of terrorist financing cooperate and coordinate their efforts. This strong interagency teamwork involves the intelligence and law enforcement communities, as well as State, Treasury, Homeland Security and Justice collectively pursuing an understanding of the system of financial backers, facilitators and intermediaries that play a role in this shadowy financial world. It involves the Treasury Department, coordinating the policy process by which we examine actions to disrupt these financial networks. It involves the Department of Justice leading the investigation and prosecution in a seamless, coordinated campaign against terrorist sources of financing. And, it involves the State Department leading the interagency process through which we develop and sustain the bilateral and multilateral relationships, strategies and activities, including, in coordination with Justice, Treasury and Homeland Security, the provision of training and technical assistance, to win vital international support for and cooperation with our efforts.

A Policy Coordination Committee established under the framework of the National Security Council and chaired by the Department of the Treasury ensures that our activities are well-coordinated. The Department of State, the Department of the Treasury, the Department of Justice, the Department of Homeland Security, intelligence agencies, and law enforcement agencies all work very closely together in this effort. The Department of Homeland Security is a recent addition to the framework and we look forward to involving them in the disruption of networks bearing also on homeland security. Our task has been to identify, track and pursue terrorist financing targets and to work with the international community to take measures to thwart the ability of terrorists to raise and channel the funds they need to survive and carry out their heinous acts.

A key weapon in this effort has been the President's Executive Order 13224, which was signed on September 23, 2001, just 12 days after the terrorist attacks of September 11. That Order provided the basic structure and authorities for an effort, unprecedented in history, to identify and freeze the assets of individuals and entities associated with terrorism across the board. Under that Executive Order, the Administration has frozen the assets of 321 individuals and entities. The agencies cooperating in this effort are in daily contact, looking at and evaluating new names and targets for possible asset freeze. However, our scope is not just limited to freezing assets. We have very successfully used other actions as well, including developing diplomatic initiatives with other governments to conduct audits and investigations, exchanging information on records, cooperating in law enforcement and intelligence efforts, and in shaping new regulatory initiatives. We recognize, however, that designating names is -- along with arrests -- the action that is most publicly visible. But, designations are, in no way, the only action underway. Allow me to stress this point, particularly because some questions have been raised by commentators in this regard: Every approach the PCC has adopted regarding a specific target has involved extensive, careful work. We need to make sure we have credible information that provides a reasonable basis linking the individual or entity to terrorism; we need to weigh the options available to us for addressing the target; we need to identify the most effective approach, realizing that we may shift gears and adopt a different strategy later on. We want to be right, legal and effective. In some cases we support public action, such as designations, in other cases we choose other methods, including law enforcement, intelligence, or getting another country to undertake law enforcement or intelligence action. At the end of the day, all our actions combined, and the efforts of countries around the world, have succeeded in making it more difficult for terrorists to move and collect funds around the world, in particular through regular banking channels.

Internationally, the UN's role in responding to the challenge of terrorist financing has been crucial: The UN helped to give international impetus and legitimacy to asset freezes and to underscore the global commitment against terrorist financing. This is extremely important, because: 1) most of the assets making their way to terrorists are not under U.S. control; and 2) when it comes to al Qaida in particular, it means that when an individual or entity is included on the UN's sanctions list, all 191 UN Member States are obligated to implement the sanctions, including asset freezes against these individuals and entities. It has added a total of some 217 names to its consolidated list since September 11.

Another very important actor in international efforts to combat terrorist financing has been the Financial Action Task Force (FATF), a multilateral organization of 33 members individually and collectively devoted to combating money laundering that has adopted 40 recommendations on the elimination of money laundering and an additional, complementary eight special recommendations on combating terrorist finance. FATF is monitoring compliance with its recommendations in coordination with regional bodies, the UN Counter-Terrorism Committee, and the G-8-initiated Counter-terrorism Action Group. FATF is planning assessments of country-needs for technical assistance to improve local ability to combat terrorist financing. It is in large part due to FATF's focus and efforts on terrorist financing, for instance, that the Indonesian Parliament passed

important amendments to its anti-money laundering law on September 16, amendments that will improve the country's ability to take actions against terrorist financing. Similarly, it was FATF's efforts that led the Philippines to pass legislation in March that will significantly increase that country's ability to carry out meaningful anti-terrorist financing measures. A FATF team is working closely with the Saudi government to review recently drafted regulations as well as pending legislation. FATF will advise on whether such regulations and legislation meet international standards of effective instruments to combat money-laundering and terrorist financing.

Saudi Arabia has been a particular focus of our counterterrorist finance efforts. On October 12, 2001, we and the UN froze the assets of Saudi millionaire Yasin al Kadi because of his links to al Qaida. Subsequently, we and the Saudi government submitted on March 11, 2002, the names of the Somali and Bosnian branches of the charity al Haramain to the UN for worldwide asset-freezing. We and the Saudis also submitted the name of Wael Julaidan, a prominent Saudi al Qaida financier, to the UN for freezing on September 6, 2002. These are a few examples of actions that have been publicly visible.

Launched in January, our senior-level dialogue designed to improve communications beginning in January, the U.S. has told the Saudi government forthrightly that they would be judged by their actions. As a result of the May 12, 2003 bombings in Saudi Arabia that left 34 dead, including 8 Americans, the dialogue has intensified. Our strategy with the Saudis has three parts:

1. interaction between key USG officials with Saudi officials;
2. presenting packages of usable information to the Saudis to help them take action against individuals and organizations involved in the funding and support of terrorism; and
3. applying diplomatic pressure to ensure effective and timely Saudi action based on the information. This requires follow-up and the building of relationships of trust and confidence.

Saudi Arabia has made fundamental and necessary changes to its banking and charity systems to help strangle the funds that keep al-Qaida in business. It is important to note that many of the changes implemented by Saudi Arabia go beyond what we would have legal authority to do. As I mentioned earlier, the FATF is in the process of reviewing the effectiveness of these new laws and regulations. Saudi Arabia is working with us closely in the context of the new task force on terrorist financing, led on the U.S. side by the FBI. Experts from the FBI and IRS have just completed the first part of a training model designed to strengthen the financial investigative capabilities of the Saudi security forces. In the UN, as mentioned above, Saudi Arabia submitted, jointly with the U.S., the names of two branches of a major Saudi NGO, as well as that of a major Saudi financier, for worldwide asset-freezing because of their links to al-Qaida. Saudi Arabia's new banking regulations place strict controls on accounts held by charities. Charities cannot deposit or withdraw cash from their bank account, nor can they make wire transfers abroad via their bank account. And Saudi Arabia has banned the collection of donations at mosques and instructed retail establishments to remove charity collection boxes from their

premises, something that is undoubtedly extremely challenging for Saudi Arabia, but that the Saudi Government has undertaken because it understands that terrorists are more likely to use such funds than those channeled through regular banking channels. Having said all this, I want to stress that this is a work in progress. We have reason to believe that the new task force on terrorist financing will be effective but we will need to see results. We believe the Saudi Government is implementing its new charity regulations, but there too, we will need to see results.

Again, please allow me to stress a point, because sincere and concerned questions have been raised in this regard: The Saudis have been and still are limited by their own lack of expertise, a situation we are working to address. They are receptive to our assistance and efforts to help them boost capacity to combat terrorist finance. The Saudis are not where they need to be, and they have much work to do. However, we believe they are headed in the right direction, are committed to countering the threat of terrorist financing, and are giving us very strong cooperation in the war on terrorism.

Another key focus of terrorist finance effort has been HAMAS. I would like to highlight the recent U.S. designations related to HAMAS. On August 22, the President announced the designation for asset-freezing of the following five HAMAS fundraisers: CBSP (*Comite de Bienfaisance et de Secours aux Palestiniens*), ASP (*Association de Secours Palestinien*), *Interpal*, Palestinian Association in Austria (*PVOE*) and Sanabil Association for Relief and Development. He also announced the designation of six top HAMAS leaders (*Sheikh Yassin, Imad al Alami, Usama Hamdan, Khalid Mishaal, Musa Abu Marzouk and Abdel Aziz Rantisi*). Earlier this year, the U.S. also designated for asset-freezing another HAMAS charity operating in various parts of Europe, the al Aqsa Foundation.

HAMAS' recent suicide bombings demonstrate the organization's commitment to undermining any real efforts to move towards a permanent peace between Israel and the Palestinians. HAMAS and other Palestinian rejectionist groups must not be permitted to undermine the aspirations of the Palestinian people for a viable, secure state living side by side with Israel in peace and security. While the Palestinian Authority and Arab states have endorsed the road map devised by the Quartet, HAMAS continues to reject constructive efforts toward a peaceful solution to the Middle East conflict.

Shutting off the flow of funds to HAMAS is crucial to reducing HAMAS' ability to carry out its activities and to thwart progress towards peace. HAMAS is also clearly a threat to Palestinian reform, including Palestinians committed to a negotiated peace. HAMAS has used its charities to strengthen its own standing among Palestinians at the expense of the Palestinian Authority.

In light of this, the U.S. welcomed the EU's recent decision to designate HAMAS in its entirety as a terrorist organization. Previously, the EU had only designated Izzadin al Kasseem, HAMAS' "military wing" as a terrorist entity.

We have also urged governments throughout the region to take steps to shut down both HAMAS operations and offices, and to do everything possible to disrupt the flow of funding to HAMAS, and other Palestinian organizations that have engaged in terror to disrupt peace efforts. Some of these financial flows may be used to support charitable activities, but some of this money frees up funds used to support HAMAS' rejectionist and terrorist activities. We will continue to engage with regional governments to prevent all funding of HAMAS and other groups that have engaged in terror.

In all our discussions with EU Governments on this matter, EU states have raised serious concerns about addressing the basic humanitarian needs of the Palestinian population. Even as we try to shut off the flow of funds to HAMAS, it is important to remember that a significant portion of this money has gone to provide some basic services to the Palestinian population -- services the Palestinian Authority has not yet successfully provided. This is a concern that the U.S. shares and is working with our Quartet partners and others to address. However, as long as HAMAS continues to rely on terrorism to achieve its political ends, we should not draw a distinction between its military and humanitarian arms, since funds provided to one can be used to support the other.

Also worth noting are actions taken elsewhere in the Middle East. The United Arab Emirates, Bahrain, Egypt and Qatar have also passed anti-money laundering legislation and all Gulf Cooperation Council member states have increased oversight of their banking systems. Kuwait, Saudi Arabia, Bahrain, Qatar and Oman are devising ways to prevent the misuse and abuse of charities for terrorist purposes.

Hawalas, or informal money remittance systems, have posed special challenges in the Middle East and South Asia. Similar systems operate around the world, often beyond the purview of bank regulators. They have existed for thousands of years and are not necessarily illegal undertakings, but are susceptible to misuse. We have made a special effort to engage countries on Hawalas and other informal networks, encouraging innovative solutions, including via technical assistance and regulatory oversight. In April 2002 the United Arab Emirates hosted a major international conference to make countries aware of how Hawalas operate and steps that might be taken to ensure they are not used to support terrorism. Follow-up continues wherever Hawalas are common by U.S. and internationally sponsored technical assistance and training teams.

Asset-freezes and arrests get the headlines, but "diplomatic action" also makes a difference in the world of terrorist finance. Let me just briefly characterize for you the forceful types of actions that we refer to under the rubric "diplomatic action," a phrase that we well know isn't always assumed to be a synonym for "armed and dangerous." But we would consider ourselves second to no agency in the forcefulness and persuasive potential of the tools at our disposal, as validated by the fact that, often, there is interagency consensus on a recommendation to wield diplomacy as a weapon against terrorists. When we talk about diplomatic approaches for dealing with targets, we are talking about getting other governments to cooperate in the war against terrorist financing by taking concrete actions of their own, including law enforcement and intelligence actions, as well as getting them to speak out publicly against terrorist groups. It has

involved encouraging foreign governments to prosecute key terrorists and terrorist financiers; to extradite a terrorist financier; to pass strong anti-terrorist financing legislation; to prohibit funds from being sent to a charity; and to make sure companies funneling funds to terrorists are shut down. Diplomatic action also means improving conditions for our colleagues in other agencies to work more effectively with their foreign counterparts in the fight against terrorist financing. The results obtained through such diplomatic strategies are crucial to our long-term success.

As we move forward with refined strategies, we will continue to work actively with other governments in different regions of the world to make further progress in our fight against terrorist financing. In Saudi Arabia, we will continue our cooperation to achieve actions such as the joint submission to the UN for asset freezing of the Bosnian and Somali branches of the Saudi charity al Haramain, and the similar designation of Wael Julaydan, a prominent Saudi al Qaida financier. These actions as well as other important initiatives such as cooperation in building a joint task force on terrorist financing, we believe are, and will continue to be, productive and in the interest of protecting and saving American lives. In Asia, we will continue to work with governments to confront Jemaah Islamiyah (JI), including its sources of funding. In the last few weeks, the UN has listed twenty new names of individuals associated with JI whose assets UN member states are obligated to freeze. In this hemisphere, the OAS/CICAD Money Laundering Experts Group is drafting model laws and regulations that nations may adapt, enact, and implement to fulfill their FATF commitment to combat terrorist financing. We continue to identify vulnerabilities around the world and to work with other countries to address them effectively. Our capacity-building and technical assistance is vital in this effort. We have made it more difficult for terrorists to move and collect funds, but we still have a long way to go given the dimensions of this challenge.

Mr. Chairman, thank you for the opportunity to address this important issue.

