

BANKRUPTING TERRORISTS

Juan Carlos Zarate

The campaign to keep money out of the hands of terrorists has become a centerpiece of the overall war against terrorism. Using a targeted approach, the United States and its partners worldwide have pooled their law enforcement, intelligence, and economic powers to isolate and disrupt the financial infrastructure of terrorist networks. The benefits are multi-pronged. The sharing of financial information helps unearth terrorist cells and networks while the freezing of assets and other economic sanctions incapacitates terrorists' ability to carry out attacks, maintain their alliances, create infrastructures around the world, and develop deadly weapons. The results to date are encouraging and, over the long term, promise to strengthen the ability of countries to protect the international financial system against abuse by terrorist groups and their supporters.



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When al-Qaida operatives simultaneously attacked New York and Washington with unprecedented devastation on September 11, 2001, the U.S. and global perception of the threat posed by terrorism was forever altered. Today, just past the three-year anniversary of that day, the world continues to face an evolving Islamist extremist terrorist threat of potentially catastrophic proportions. To counter this long-term scourge effectively, we must build upon the successes we have achieved to help bankrupt terrorism.

This is especially true in our diplomatic engagements, which are crucial to building international cooperation in the war on terror. As we have seen in attacks since 9/11, the threat of terrorism is not just an American problem, but one that affects our partners worldwide. It is essential, therefore, that we maintain global attention and political will to attack the ever-evolving threats posed by the movements of tainted capital, as well as to deter and dissuade supporters of terrorist groups.

THE MONEY TRAIL

Focusing on and attacking terrorist money flows is important for several reasons. Financial records and audits provide blueprints to the architecture of terrorist organizations. By following the money trail through financial information sharing worldwide, we can save lives by unearthing terrorist cells and networks. The maintenance of terrorist networks and the acquisition and development of lethal weapons is expensive — even if a particular attack does not prove costly in isolation. Identifying and isolating the sources of funding for terrorist groups incapacitates not only their execution of attacks, but also their ability to maintain international alliances, create infrastructures around the world for recruitment and training, and purchase or develop deadly weapons.

What we know is that global networks of terrorist groups like al-Qaida and Hamas have used a variety of means to raise and move money. They have taken advantage of charities, front companies, deep-pocket donors, and crime of all types to raise money. They have relied on banks, informal remittance networks known as hawalas, wire remitters, currency exchangers, and couriers to move money or value across national borders.

A GLOBAL UNDERTAKING

The campaign against terrorist financing — born in part from the lessons of the war against international organized crime and money laundering — has become a centerpiece of our global effort to address the short- and long-term challenges posed by terrorism. In the simplest terms, our targeted approach focuses on attacking terrorist networks by using intelligence, law enforcement, and economic powers to identify and disrupt the financial substructure of terrorist groups. In the long term, our systemic approach broadens and deepens the legal, financial, and regulatory infrastructure and capacity of countries around the world to better secure the international financial system against abuse by terrorist groups and their supporters. These efforts have proven revolutionary in the preventive and proactive use of all elements of national power to stop terrorist financing.

There has been important success to date. We have made it harder and costlier for al-Qaida and other terrorist groups to move money around the world and have built more stringent barriers in the international financial system to prevent its abuse. The success has resulted in part from important international engagement and cooperation. International understanding, collaboration, and capability are clearly necessary in this effort given the global nature of both the financial system and terrorism.

Within weeks of 9/11, the world community committed to fight terrorist financing at several levels, including the timely freezing of terrorist-suspected assets, the arrest of those implicated in providing financial support to terrorist cells, and the international commitment to long-term legal and structural reforms to ensure the integrity of the international financial system. This was reflected in the important adoption of U.N. Security Council Resolution 1373 and the eight Special Recommendations on Terrorist Financing by the 33-member Financial Action Task Force (FATF) on money laundering. Other

international bodies and regional organizations, like the International Monetary Fund, the World Bank, the G7 (Group of Seven), G8 (Group of Eight) and G20 (Group of 20), and APEC (Asia Pacific Economic Cooperation forum), also played key roles in marshaling political will and addressing deficiencies in national systems to combat terrorism. The Egmont Group of Financial Intelligence Units, now numbering nearly 100 around the world, focused financial information sharing on terrorist financing.

THE DESIGNATION PROCESS AT WORK

A crucial and public component of our approach has been the application of targeted economic sanctions against terrorists and their financiers. When President Bush signed Executive Order 13224 on September 24, 2001, he called upon the secretary of the Treasury, as well as the secretary of state in certain instances, to “designate” terrorists, their financiers, and facilitators. These designations financially isolate entities by blocking or freezing their U.S. property interests and assets, as well as preventing their use of the formal dollar-clearing financial system. The designations also prohibit U.S. persons from doing business or engaging in transactions with such designees. To date 383 individuals and entities have been designated under this power, and well over \$140 million in terrorist-related assets have been frozen internationally.

In addition to financially isolating designees by “arresting” their access to the financial system, the designations often serve to deter like-minded supporters from continuing to facilitate terrorist financing as well as to prompt action — of varying kinds — by host jurisdictions. Designation under E.O. 13224 does not necessarily mean that criminal or civil laws have been violated; rather, it suggests, based upon a reasonable basis to believe, a suspected financial or otherwise supportive relationship between the designee and individual terrorists, terrorist organizations, or terrorist activity. When used aggressively, this is an inherently preventive tool implemented to ensure that assets of the supporters or associates of al-Qaida and other terrorist groups are not used to fuel terror. Though there have been challenges to such designations, all of them have been upheld by U.S. federal courts.

Since 9/11, we have harnessed the international community to drive this issue. The U.N. Security

Council has adopted a series of resolutions requiring member states to apply targeted financial sanctions against individuals and financial interests connected to terrorist groups or activity while the European Union adopted a directive on December 27, 2001, allowing it to develop its own list of terrorist-related entities whose assets are subject to blocking by member countries. In October 2003, the FATF issued specific interpretive guidance to terrorist-related asset-freezing obligations of jurisdictions. Many countries, such as Italy and Saudi Arabia, have notified the United Nations, jointly with the United States or unilaterally, in proposing terrorist financing designations to the Security Council. These international efforts to apply financial sanctions to a broad range of terrorist-related targets represent a fundamental component of the global campaign against terrorist financing.

THE INTERNATIONAL FINANCIAL SYSTEM

Over the longer term, our terrorist financing strategy calls for a systemic approach to enhance the transparency and accountability of the international financial system. At home, we are advancing these interests through implementation of the USA PATRIOT Act. Treasury has issued regulations that strengthen existing customer identification, recordkeeping, reporting, and information-sharing obligations in various financial sectors and expand these obligations to new financial sectors such as money service businesses, which are vulnerable to abuse. We are also promoting these systemic interests internationally through the work of the FATF, the FATF-style regional bodies, the International Monetary Fund (IMF) and World Bank, and other multilateral organizations.

We have enhanced those efforts with aggressive outreach to the financial community and the charitable sector. We have challenged these important front-line elements to take more proactive steps to build transparency and accountability, as well as better practices and due

diligence, to help ensure they are not being abused by terrorists or criminals.

Better practices across the international financial system have raised higher institutional hurdles for terrorists to circumvent. However, as we strengthen our systemic defenses, terrorists and other criminals will resort to other, less formal mechanisms to raise, store, and move their money. Driving terrorists to move their wealth in less formal or agile ways heightens their risk of detection, but such changes require that we be flexible to adapt to the changing face of terrorist financing.

MOVING FORWARD

To that end, President Bush and Treasury Secretary John Snow recently announced the creation of a new office in the Treasury to bolster our long-term efforts to cut the financial ties of terrorists and better safeguard the U.S. financial system against criminal activity.

The Office of Terrorism and Financial Intelligence (TFI) consolidates the policy, enforcement, regulatory, international, and analytical functions of the Treasury and adds to them critical intelligence components. This change will allow us to better develop and target our intelligence analysis and financial data — such as bank secrecy data — so that we can detect how terrorists are exploiting financial systems and design methods to stop them. It will also allow us to implement our sanctions and regulatory enforcement programs more effectively and to work closely with embassies and the private sector around the world to strengthen the international coalition against terrorist financing.

Indeed, sustained global cooperation and support is the surest path to success as we drain the money supply that terrorists need to stay in business. ■