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Combating Terrorist Financing in Europe: Gradual Progress

By [Michael Jacobson](#)

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In the wake of the July 2005 terrorist subway and bus attacks in London and the disrupted terrorist plot to blow up U.S.-bound planes flying from Heathrow airport in August 2006, the British government recently launched a new strategy to combat terrorism financing. Ed Balls, Britain's economic secretary to Her Majesty's Treasury (HMT), said the strategy was designed to address "an enduring and continually changing terrorist menace to the [United Kingdom]." In Balls's view, financing is the "lifeblood" supporting the growing terrorist threat. Britain's ambitious and timely initiative is an important step forward. But broader European efforts to tackle terrorist financing -- particularly the efforts of the European Union (EU) -- still lack consistency and effect. Bureaucratic obstacles limit European efforts to designate terrorist entities and freeze their assets.

British Policy Efforts

On February 28, 2007, Economic Secretary Balls and Home Office Minister Tony McNulty unveiled the British government's comprehensive strategy to combat terrorist financing and money laundering, titled "The Financial Challenge to Crime and Terrorism." The government clearly recognized that, to succeed in this arena, HMT had to play a far greater role in counterterrorism efforts. Chancellor of the Exchequer Gordon Brown -- Balls's immediate superior -- said in a speech several weeks earlier, "I have found that an increasingly important part of the role of a Finance Minister is to address issues of international terrorism. . . . In effect the Treasury itself had to become a department of security."

The strategy includes a number of measures designed to crack down effectively on terrorist financing in the UK. Of greatest significance: (1) the "Terrorist Asset Freezing Unit," a specialized team within HMT, will work closely with British law enforcement and intelligence agencies; (2) for the first time, permission will be granted to HMT to use classified information to freeze assets in certain cases; (3) steps will be taken to improve information sharing among the public and private sectors.

The government is also doubling its funding for the Charity Commission's work of ensuring British charities neither act as fronts for nor are exploited by terrorist organizations. But it is unclear what impact this funding increase will have on the overall counterterrorism effort. Countering terrorist financing is only a small part of the commission's overall work (involving one to two terrorist financing cases per year since the attacks of September 11, 2001). As the *New York Times* reported on August 24, 2006, the commission has been "reluctant to tout its role in the battle to stamp out the sources of terrorism."

Despite these concerns, the new strategy is likely to strengthen significantly the government's overall ability to target terrorist financing in the UK. This is an important development. The British Security Service (MI-5) currently assesses the terrorist threat to the nation as "severe" and, according to press reports, warns that terrorists will increase their "attack planning" in 2007 and that "al-Qaeda will continue to seek opportunities for mass casualty attacks against soft targets and key infrastructure." Eliza Manningham Buller, director general of MI-5, recently noted that the government had identified over 1,600 individuals in the UK who were plotting terrorist attacks.

The EU and Terrorist Financing

While Britain and a number of other EU member states are making progress in combating terrorist financing, the EU's efforts remain uneven overall. On the one hand, the EU has been able to effectively target and freeze the assets of entities associated with al-Qaeda or the Taliban -- at least those already designated by the United Nations' 1267 committee. This committee is responsible for all issues relating to UN Security Council Resolution 1267, passed in 1999 to increase pressure on the Taliban to evict al-Qaeda from Afghanistan. The resolution, which has been modified and strengthened by subsequent resolutions, continues to require all member nations to freeze the financial assets of designated entities, to restrict individuals from those entities from traveling through their territories, and to prevent anyone under their jurisdiction from trading arms with those entities.

In adherence to the obligations imposed on UN members by Security Council resolutions, any individual or entity designated under Resolution 1267 is automatically added to the EU's own list of terrorist subjects. Under EU law, all EU member states are then required to freeze the assets of those persons and groups within their jurisdiction.

The EU has been far less successful and effective in designating groups not associated with al-Qaeda or the Taliban. It first established a system for taking action against these other terrorist organizations after the September 11 attacks. This followed Security Council Resolution 1373, passed in late September 2001, which called on all countries to combat terrorism and the financing of terrorism by all means, including asset freezing. In response, the EU developed a separate process by which to designate suspected terrorists not on the Resolution 1267 list. But the EU has encountered significant difficulties in designating these additional terrorist entities -- a process that, unlike that of Resolution 1267, requires the unanimous consent of EU member states. In addition, Resolution 1373 allows considerable discretion regarding whom to target and by what means, giving EU member states far more autonomy in this matter.

There are a number of examples in which this process has prevented the EU from taking action against particularly dangerous terrorist organizations. For example, because of French-led opposition, the EU has thus far not designated Hizballah as a terrorist organization. And, until 2003, only Hamas's military wing was designated.

The EU's ability to take action against entities not associated with al-Qaeda or the Taliban suffered another blow in December 2006, when an EU court ruled that the European Council had illegally listed the Iranian opposition group Mujahedin-e Khalq (MEK). In reaching its finding, the court faulted the council for failing to provide MEK with adequate reason or sufficient information on the basis of the designation. The EU has taken steps to comply with the ruling, though the freeze of MEK assets is still in force. This ruling could affect future cases in which classified or sensitive information is involved. Governments may be reluctant to provide this type of information to the EU, knowing that the information may be released to the affected parties.

Conclusion

As shown by the trans-Atlantic aspect of the Heathrow plot, the terrorist threat in Europe -- and European counterterrorism capabilities -- has potentially grave implications for the security of the United States. U.S. Treasury under secretary Stuart Levey recently noted in congressional testimony that the EU's failure to designate Hizballah as a terrorist organization has affected broader U.S. efforts against Iran. To address these issues, Washington may want to encourage Britain to press other nations -- particularly those in Europe -- to follow Britain's recent strategy of combating terrorist financing. Britain will have an appropriate forum to do so in the near future as it assumes the presidency of the Financial Action Task Force in July 2007. In addition, the United States may want to continue to call on the EU to reform its designation process, which faces even more bureaucratic obstacles as the EU expands.

Michael Jacobson is a Senior Fellow in The Washington Institute's Stein Program on Terrorism, Intelligence,

and Policy. Previously, he served as a senior advisor in the Office of Terrorism and Financial Intelligence at the Department of the Treasury.

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