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**U.S. Senate Committee on Banking, Housing, and Urban Affairs**

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Mr. Chairman, Senator Sarbanes and Distinguished Members of the Committee:

Thank you for affording me the opportunity to testify before you today on an issue of paramount importance to our nation—curtailing the flow of funds to terrorist organizations—and for your continued dedication and leadership on this matter. The committee’s continued efforts are necessary to ensure the safety of our nation.

I am testifying before you today in my personal capacity, although I note that my testimony is heavily informed by the work of the Independent Task Force on Terrorist Financing sponsored by the Council on Foreign Relations, which I have directed along with William F. Wechsler. That task force has published two reports—the first in October 2002 and the second in June 2004. Today, however, I would note that I am not testifying on behalf of the Council on Foreign Relations, the Task Force, its Chairman, or any of its members.

I note at the outset that the issue of terrorist financing is, foremost, a foreign policy issue and not a domestic regulatory issue. That is because most of the money funding al-Qaeda and other Islamist groups originates and is disbursed outside the United States. Funds associated with the maintenance of cells and other operational activities pass through the United States, but these amounts are relatively small, making them very difficult to identify and distinguish. That said, I will offer at the conclusion of my remarks brief views regarding certain regulatory matters.

Theory of the Case

Especially in the post-9/11 environment, the financial network that supports al-Qaeda is multi-faceted and ever-changing, taking advantage of diverse opportunities to raise, hold, and move funds. Yet there exists a central “theory of the case” that characterizes the U.S. understanding of the al-Qaeda financial network and that guides U.S. actions to disrupt it and track it back to specific terrorist cells and leaders.

The 9/11 Commission concluded that before the 2001 attacks, al-Qaeda received about \$30 million per year. Contrary to once-popular myths, this sizable fund was not simply the wallet of just one man, Usama Bin Ladin. If that were the case, it would be a much easier problem to address.

Instead, al-Qaeda obtained money, continuously, from a variety of sources. Money was—and is—raised through Islamic charities and notable financial facilitators and also through legitimate businesses and criminal enterprises. Money is moved through formal banking channels, less formal alternative remittance systems, such as the centuries-old *hawala* network, and the very

oldest method, bulk cash couriers and other smugglers. And more recently, al-Qaeda and its affiliates appear to be relying more on other methods to support their operations. Funding for the cell responsible for the Madrid bombings earlier this year, for example, appears to have depended on common criminal activity and drug trafficking.

The best publicly-available descriptions of the al-Qaeda financial network can be found in two publications of the 9/11 Commission: its Report and its subsequent “Monograph on Terrorist Financing.” The 2002 and 2004 reports of the Council on Foreign Relations Independent Task Force on Terrorist Financing contain similar analyses.

For years, U.S. policymakers were poorly served by weaknesses in our intelligence on al-Qaeda’s finances. As the 9/11 Commission’s Monograph accurately described, “even after the September 11 attacks, the intelligence community could not estimate the total income or the relative importance of any source of Bin Ladin’s revenue stream.” Even to this day “the U.S. government still has not determined with any precision how much al-Qaeda raises or from whom, or how it spends its money.”

Prior to 9/11, the intelligence community had an “incomplete understanding of al-Qaeda’s methods to raise, move, and store money,” which “hampered the effectiveness of the overall counterterrorism strategy.” Moreover, “the CIA also arrived belatedly at an understanding of some basic operational facts that were readily available—such as the knowledge that al-Qaeda relied on fund raising, not Bin Ladin’s personal fortune.”

For its part, the FBI “did not systematically gather and analyze the information its agents developed” and “as an organization failed to understand the nature and extent of the problem [and] to develop a coherent strategy for confronting it.”

As a result, according to recently declassified intelligence reporting, Bin Ladin’s finances on the eve of the 9/11 attacks were “steady and secure.”

### The Particular Problem of Saudi Arabia

Still what we knew then—and know now—about this financial network showed that, notwithstanding its global reach, individuals and organizations based in the Gulf region have historically been the single most important source of funds for al-Qaeda, as well as other terrorist groups such as Hamas.

As the 9/11 Commission concluded in its final report: “Al-Qaeda appears to have relied on a core group of financial facilitators who raised money from a variety of donors and other fund-raisers, primarily in the Gulf countries and particularly in Saudi Arabia.” And back in 2002 the Council on Foreign Relations-sponsored task force concluded 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.”

Has the Saudi Arabian government itself funded terrorism? The 9/11 Commission concluded: “Saudi Arabia has long been considered the primary source of al-Qaeda funding, but we have

found no evidence that the Saudi government as an institution or senior Saudi officials individually funded the organization. (This conclusion does not exclude the likelihood that charities with significant Saudi government sponsorship diverted funds to al-Qaeda).”

Widespread interest in searching for evidence of official Saudi complicity in funding al-Qaeda tends to obscure the Saudis’ glaring “sins of omission.” Saudi-based charities controlling billions of dollars are a good example; for many years there has been little or nothing done to reign them in even though they have benefited in some cases from the sponsorship of the Saudi government.

As the 9/11 Commission Monograph wrote in 2004, “the Saudi government turned a blind eye to the financing of al-Qaeda by prominent religious and business leaders and organizations, at least before 9/11.” The Monograph further concluded that “a lack of awareness of the problem and a failure to conduct oversight over institutions created an environment in which such activity has flourished.”

Before the 9/11 attacks Saudi Arabia resisted any real cooperation with the U.S. on terrorist financing. And even later, as the 9/11 Commission Monograph aptly described, “from the 9/11 attacks through spring 2003, most U.S. officials viewed Saudi cooperation on terrorist financing as ambivalent and selective.” Only after al-Qaeda bombed targets within the Kingdom in May and November 2003 did the Saudis finally focus on the problem and improve their cooperation with the United States, an evolution that is described both in the Second Report of the Council on Foreign Relations-sponsored Task Force and in the Monograph. As the Monograph stated, however, “We cannot underplay...the reluctance of the Saudi government to make the necessary changes between 9/11 and late spring 2003.”

At its core, successful efforts to combat terrorist fundraising also require fighting a “war of ideas” to denounce and discredit—and financially diminish—the ideology that attracts foot soldiers, supporters and potential donors to extremism. Here too Saudi Arabia is a central front, as the government and Saudi-based organizations spend huge amounts of money around the world spreading an intolerant and anti-Western version of Islam.

The bottom line, as the 9/11 Commission Report noted, is that “Saudi Arabia has been a problematic ally in combating Islamic extremism.” And although much has been done—particularly since May 2003—much more remains unfinished or even unstarted.

### What Has Been Done

Immediately after 9/11 the U.S. took a number of actions to combat terrorist financing, including a prominent series of “blocking actions” against suspected terrorist assets. These tend to capture a small amount of actual funds, but are very useful in “encouraging” other countries to take their own actions against suspected terrorist financing elements. The issue became much more prominent in U.S. diplomacy, international law enforcement, and intelligence activities. The U.S. also worked through multilateral organizations like the Financial Action Task Force to build a global consensus on the oversight of charities, among other issues. And at home, despite

unsuccessful prior attempts, the Congress finally added vastly expanded anti-money laundering provisions to the U.S.A PATRIOT Act.

Momentum slowed notably only months later, however, as the Bush Administration appeared to put this issue on the proverbial “back burner.” The Treasury Department coordinated day-to-day interagency efforts, and a “second phase” in the effort was announced that would be characterized by *fewer* public designations of terrorist financiers. As preparations for the war on Iraq took center stage in the Administration, the heat was turned down on Saudi Arabia. The U.S. continued to impose “blocking actions” against Saudi persons and institutions, but only in the context of “joint” designations with Saudi Arabia.

As the 9/11 Commission Monograph put it, during this period the interagency process was “often driven by force of personality rather than by any structural mechanism.” The Policy Coordination Committee (PCC) on Terrorist Financing, although an improvement from what came before it, “often was not fully integrated into the United States’ broader counterterrorism policy and Saudi relations.” The Monograph concluded: “U.S. efforts to overcome Saudi recalcitrance suffered from our failure to develop a strategy to counter Saudi terrorist financing, present our requests through a single high-level interlocutor, and obtain and release to the Saudis actionable intelligence.”

However, in response to the May 2003 terrorist attacks, Saudi officials started to address the mindset that enables and condones acts of terrorism. These measures have included steps toward educational reform and limited measures intended to discipline (or “re-educate”) certain extremist Islamic clerics—at least those operating in Saudi Arabia. There has been less decisive or verifiable action taken to curb the billions of dollars funding extremism abroad.

Saudi Arabia has taken important actions to disable domestic al-Qaeda cells and has increased its tactical law enforcement and intelligence cooperation with the United States. Interior Ministry and other Saudi law enforcement and intelligence officials are now regularly killing al-Qaeda members and sympathizers in violent confrontations.

Saudi Arabia has also largely improved its legal and regulatory regime. Since 9/11—and particularly since the May 2003 Riyadh bombings—Saudi Arabia has announced the enactment or promulgation of a plethora of new laws and regulations and the creation of new institutional arrangements to combat money laundering and terrorist financing.

As the Council on Foreign Relations-sponsored Task Force and 9/11 Commission staff concluded, Saudi Arabia has not yet fully implemented its new laws, regulations, and institutional mechanisms. The first step toward the creation of an effective AML/CTF regime is the passage of laws and regulations, and the establishment of new institutions—but that is just the first step. Just as important—and more important over the longer term—is effective implementation and execution of these laws. Some aspects of such implementation, such as comprehensive compliance with record-keeping provisions, may take time. But other aspects of implementation, such as standing up and funding new organizations and oversight bodies, can be accomplished more readily.

According to the Monograph, “Saudi Arabia has worked hard to institute an improved legal and regulatory regime. It remains to be seen if the new laws and regulations will be fully implemented and enforced, and if further necessary legal and regulatory changes will be made. The Saudis still have not established the National Commission as they promised in February 2004 and have not demonstrated that they are willing and able to serve as the conduit for all external Saudi donations in lieu of Saudi charities.”

Additionally, Saudi enforcement actions directed against al-Qaeda have largely avoided prominent financiers. There is no evidence that, since 9/11, Saudi Arabia has taken public punitive actions against any individual for financing terror. Saudi Arabia says that it has taken non-public actions against financiers. But actions taken in the shadows may have little consistent or systemic impact on ingrained social or cultural practices that directly or indirectly threaten the security of the United States.

And the Bush Administration remains unusually and unconstructively reluctant to criticize Saudi Arabia on this subject. President Bush even remained silent earlier this year when the Saudi Crown Prince and other senior Saudi officials repeatedly suggested that Israel and Zionists were behind al-Qaeda and the bombings in their country.

### The Way Forward

#### *U.S. Government Organization*

The U.S. government is still not organized properly to combat terrorist financing at home or abroad.

For several years after 9/11, the General Counsel of the Treasury Department led the Bush administration’s efforts in this regard. In my view, even the most competent Treasury General Counsel—and the nation was fortunate to have an extraordinarily competent one at the time—is poorly equipped from an institutional standpoint for leading such work. This is a job for the White House. As the Monograph noted, “the NSC is better able than any individual agency to integrate terrorist financing into counterterrorism through its leadership of the Counterterrorism Security Group; the NSC is better able to see how the different terrorist-financing tools fit together; the NSC is better able to task agencies and force agencies to reallocate resources; NSC leadership is more efficient because it has the authority to resolve more issues rather than forcing them up to the DC level; the NSC has the best access to information, especially regarding covert action; and the NSC is not operational and is therefore more neutral.”

From good organization comes good policy. The president—or the next president—should immediately designate a senior National Security Council official with the specific mandate to lead U.S. efforts on terrorist financing issues. Such an official would direct, coordinate, and reaffirm the domestic and international policies of the United States on a day-to-day basis, with the personal authority of the President of the United States. He or she would report to the president through the National Security Advisor.

In practice, responsibilities for this coordination have recently shifted back from the Treasury Department to the White House. However, there has been no formal designation of the NSC's lead role. That should happen forthwith, so leadership on this important issue becomes a matter of institutional permanence rather than a function of individual personalities and relationships. Moreover, such a designation will go a long way toward putting issues regarding terrorist financing front and center in every bilateral diplomatic discussion with every "frontline" state in the fight against terrorism—at every level of the bilateral relationship, including, on a consistent basis, the highest. As the Monograph concluded, "it was not until the appointment of a senior White House official that the U.S. engagement of the Saudi government on terrorist financing yielded its most concrete results. A PCC participant said the Saudis did not take terrorist financing seriously until [Frances] Townsend was appointed. She has been able to apply consistent pressure, over a period of time, with the full backing of the White House."

Earlier this year, Ms. Townsend became the President's Homeland Security Advisor. Presumably, the effective role she previously played in this regard has shifted to other officials.

### *U.S.-Saudi Relations*

U.S. policymakers should seek to build a new framework for U.S.-Saudi relations. The 9/11 Commission, mirroring the core recommendation of the Council on Foreign Relations-sponsored Task Force, concluded: "The problems in the U.S.-Saudi relationship must be confronted, openly. The United States and Saudi Arabia must determine if they can build a relationship that political leaders on both sides are prepared to publicly defend—a relationship about more than oil... It should include a shared interest in greater tolerance and cultural respect, translating into a commitment to fight the violent extremists who foment hatred."

For decades, the U.S.-Saudi relationship was predicated 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—publicly or privately. This tacit framework, riddled with tensions, held for decades and served both the U.S. and Saudi governments well.

However, time has passed and in that time, al-Qaeda, a terrorist organization rooted in issues central to Saudi Arabian domestic affairs—about which the U.S. previously remained silent—has murdered thousands of Americans and aspires to kill more. As a result, the historical framework of U.S.-Saudi relations is obsolete and must change. When domestic Saudi problems—such as financial support for terrorism—threaten Americans at home and abroad, then focused and unabated U.S. attention on domestic Saudi issues that were previously "off-the-table" must become a governing principle of this bilateral relationship.

U.S.-Saudi relations can and should come to resemble more closely the U.S. bilateral relations with other large, important regional powers where the bilateral agenda is indeed complex, but difficult issues are discussed openly and with candor. China and Russia have been forced to confront domestic issues they would otherwise have chosen to ignore due to pressures derived from open and frank discussions in the context of their bilateral relations with the United States.

Just as the U.S. has placed demands on these states for increased human rights or enhanced political or economic freedom, the U.S. must also place demands on Saudi Arabia regarding “domestic” issues like terrorist financing and the propagation of extremism.

### *Saudi Propagation of Extremism*

The 9/11 Commission Report notes that “Saudi Arabia has been a problematic ally in combating Islamic extremism.” As a core tenet of its foreign policy, Saudi Arabia funds the global propagation of Wahabism, a brand of Islam that, in some instances, supports militancy by encouraging divisiveness and violent acts against Muslims and non-Muslims alike. In my view, this massive spending is helping to create the next generation of terrorists and therefore constitutes a paramount strategic threat to the United States. Through support for *madrassas*, mosques, cultural centers, hospitals, and other institutions, and the training and export of radical clerics to populate these outposts, Saudi Arabia has spent what could amount to hundreds of millions of dollars around the world financing extremism.

Although the United States is not and should not be at war with any religion or any religious sect, in my judgment U.S. policy should affirmatively seek to drain the ideological breeding grounds of Islamic extremism, financially and otherwise. To do so, we will need more demonstrable cooperation from Saudi Arabia, which so far has not been sufficiently forthcoming.

We must continue to demand such cooperation, notwithstanding broader imperatives of our counterterrorism cooperation with the Saudis. As the Monograph correctly points out: “the highest levels of the U.S. government must continue to send an unequivocal message to Saudi Arabia that the Saudis must do everything within their power to substantially eliminate al-Qaeda financing by Saudi sources.” The Monograph also correctly advises that “the U.S. strategy to combat terrorist financing must be to monitor, encourage, and nurture Saudi cooperation while simultaneously recognizing that terrorist financing is only one of a number of crucial issues that the U.S. and Saudi governments must address together. Managing this nuanced and complicated relationship will play a critical part in determining the success of U.S. counterterrorism policy for the foreseeable future.”

### *Role of Financial Institutions*

International financial institutions subject to U.S. jurisdiction are among our best sources of raw financial intelligence—if they know what to look for. As the Monograph noted, “[f]inancial institutions have the information and expertise to detect money laundering, but they lack the information and expertise to detect terrorist financing.” This is a function, in part, of the fact that the government is not telling them where to look.

Section 314(a) of the U.S.A. PATRIOT ACT was intended to address this problem. It requires the Treasury Department to encourage further cooperation among financial institutions and regulatory authorities and to share information about suspected terrorists and their financial activities. Though nice in theory, these procedures are not working as well as they might and very little information flows back from the government to financial institutions that spend considerable resources on compliance programs they wish to be effective.

As some have suggested, one way to address this problem might be to provide security clearances to a broad spectrum of bank compliance personnel. At a minimum, these issues are worthy of the further sustained attention of this Committee. I would repeat a suggestion made to you at similar hearings last October, that this committee may consider holding an oversight hearing on Section 314 of the Patriot Act.

Thank you very much for your time and consideration. I would now be honored to take any questions that you might have.