

Saudi-American Forum



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Of Virtue and Vice: The Saudi-American Fight Against Terror Financing

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Executive Summary

The global fight to disrupt funding flows to terrorists requires new strategies, cooperation and painful domestic countermeasures. In Saudi Arabia the elimination of untraceable cash contributions to charities, bans on international charity transactions and establishment of a joint Saudi-American work group has placed new controls over previously opaque and under-regulated potential funding sources. While this has shut down many legitimate charities and inconvenienced needy recipients, the higher goal of preventing terror remains the key Saudi objective.

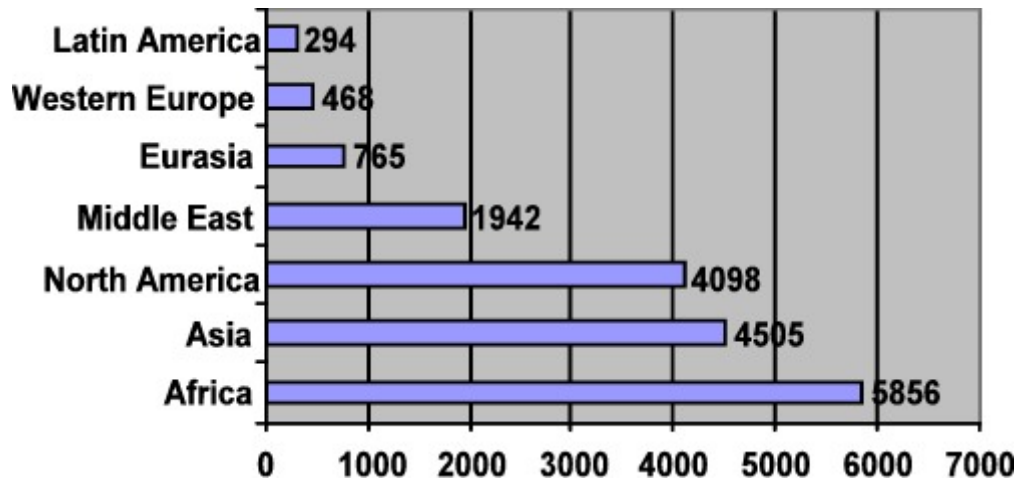
In the United States the primary source of international terror financing continues to be illegal narcotics and money laundering. Until US law enforcement effectively combats money laundering, international terror attacks using funds raised in the US will continue, especially in the Americas. One milestone in the fight against terror finance in the US will be how much citizens and corporations begin to perceive and get involved in domestic countermeasures. Our own credibility demands that America fight finances of terror groups targeting not only the US homeland but also innocents abroad.

Patterns of Global Terrorism

Between 1997 and 2002 17,928 people died in terrorist incidents around the globe. Of the 4,098 killed in North America, most perished on a single day in the 9/11 terrorist attacks. (See Exhibit #1) Post 9/11 efforts in the US to secure the homeland against future attacks include an intense focus on the sources of financing used by terrorist groups operating abroad. Attempts to examine and thwart overseas terrorist financing have led to complicated questions about how to best approach this global problem. The 2003 US Money Laundering Strategy points out one difficulty: terrorism financing tends to involve small amounts of money that are both hard to detect and do not necessarily depend on an underlying crime. A more daunting systemic factor is the natural tendency for all nations to devote more resources toward disrupting finances of overseas groups targeting their homeland, rather than applying equal muscle to domestic networks funding terror abroad.

Exhibit #1 Total International Terror Casualties* by Region, 1997-2002

(Source: US Office of the Coordinator for Counterterrorism 2003)



(*As classified by the US State Department, international counts differ)

Saudi Arabia

In the aftermath of the September 11, 2001 terrorist attacks on the United States, some raised questions and concerns about whether there is Saudi state or citizen sponsored support for terrorist groups. Government officials of Saudi Arabia appear not to have any obvious motive to fund terrorist attacks on a long time ally. The US justice system initially agrees. By dismissing claims of a US \$1 trillion lawsuit brought by the families of the victims of 9/11 against Prince Sultan bin Abdulaziz (Saudi Defense Minister and leader of Islamic Affairs) and Prince Turki al-Faisal (Director of the Saudi Department of General Intelligence) on November 15, 2003, US District Judge James Robertson ruled that there was no compelling evidence that either acted as an individual or “state sponsor” to cause the terrorist attacks on New York or the Pentagon.

However there is evidence that more controls should have been enacted prior to 9/11 to cut off potential terrorist funding in Saudi Arabia and the US. New strategies in Saudi Arabia focus on the virtue of charitable giving; in the US, it is the vice of illegal narcotics consumption and laundered money. While Saudi Arabia appears to be making measurable inroads to ensure that cash donations to charity are not diverted to terrorists, laundered cash from the US consumption of illegal narcotics continues to finance terrorism across the Americas.

Of Virtue, Charity and Cash Boxes

Prominent Saudis, particularly religious leaders, generally condemn terrorism. The Grand Mufti of Saudi Arabia and Chairman of the Senior Ulema, Sheikh ‘Abdul-‘Aziz Âlush on Sept. 15,

2001 stated emphatically, *“Hijacking planes, terrorizing innocent people and shedding blood, constitute a form of injustice that cannot be tolerated by Islam, which views them as gross crimes and sinful acts...Any Muslim who is aware of his teachings of his religion and who adheres to the directives of the Qur’an and the Sunn’ah will never involve himself in such acts because they will invoke the anger of God Almighty and lead to harm and corruption on earth.”*

Saudis have had to react to an escalating series of recent terrorist strikes within the Kingdom, though attacks against Saudi Arabia are nothing new. The Ikhwan Bedouins rejected a Saudi drive for modernity in 1928 but were driven back in 1930 by Abdul al Aziz. In 1979 armed terrorists captured the Grand Mosque of Mecca. Terrorists dealt a deadly blow to the American compound in Riyadh in May 2003 killing 30 people, including 9 Americans. On Nov. 8, 2003 a suicide attack on a Riyadh housing compound killed another 17. Crown Prince Abdullah clarified the state’s position, “Innocent citizens and residents were killed or injured, proving once again that terrorists are criminals and murderers with total disregard for any Islamic and human values or decency. They are no different from vicious animals whose only concern is to shed blood and bring terror.. we specifically warn anyone who tries to justify these crimes in the name of religion. And we say that anyone who tried to do so will be considered a full partner to the terrorists and will share their fate.” Saudi citizens demanded their rulers arrest and execute the militant Muslims involved. So although attacks are nothing new, the mortality, frequency and increasing devastation of the attacks are driving more effective Saudi countermeasures.

One new Saudi focus toward clamping down on terrorist funding is oversight of charitable giving and cash donations. One of the five pillars of Islam requires all able Muslims to make charitable donations. Almsgiving is called “zakat”, and many Saudis contribute at least 2% of their annual income to zakat. While many Saudis exhibit a high level of charitable benevolence, it is not clear any gave zakat with intent to fund terrorists. Most assumed that their frequent cash donations, often placed in metal drop boxes at the entrance of mosques, went toward orphanages, schools and hospitals. Nevertheless cash donations made to opaque and sometimes unaccountable charity operations were a dangerous mix. Compounding the problem is a Saudi cultural inhibition: inquiring about the motives and operations of a charity is considered rude, and Saudis normally don’t ask for details. Charities that changed names, espoused general charitable purposes, and relied heavily on cash donations found uninquisitive and generous donors. The regulation and oversight of charities was fraught with “negligence and incompetence” according to former Ambassador Chas Freeman.

The post 9/11 charitable environment changed dramatically as Saudi Arabia imposed sweeping new rules on donations, charitable operations and financial flows as well as reforming the banking system. A Financial Intelligence Unit was established to trace suspected terrorists, and charity monies are now subject to monitoring and audit by the newly created High Commission in coordination with the Ministry of Foreign Affairs. Strict rules of identification are in place, restrictions on foreign account openings are enforced and 33 accounts have been frozen in the past year. Since Saudi Arabia has no income tax, there are fewer financial records available to law enforcement. However, the controls over the Saudi financial environment appear to have dramatically changed. (See exhibit #2)

Exhibit #2 Pre and Post 9/11 Saudi Financial Controls

(Source: US and Saudi Officials)

Pre 9/11	Post 9/11
Ubiquitous Cash donation boxes for Zakat in mosques and malls	Total prohibition of cash boxes and anonymous cash charitable transactions
Informal person-to-person financial networks called hawalas	Licensing and regulation of hawalas.
Unregulated international financial flows to to private relief and charity groups	Total ban on overseas transactions until regulations and monitoring are in place for oversight
No specific coordination or task force with the US on terrorism	Joint US-Saudi working group on terrorism established in 2002
Relaxed financial transaction oversight	Formalized “suspicious activity” reports and reporting processes

This change has not come without a cost. Saudi charities that previously gave money to widows, orphans, and handicapped children have been devastated: some have seen donations drop by 50% whereas others have simply shut down. Donors have been stripped of a means for fulfilling their religious obligations. But the measures have received US accolades. In September 2003, US Treasurer John Snow went to the Middle East for the International Monetary Fund meeting. After his visit with the Crown Prince he said, “I’ve got an absolute sense that there are no holds barred in going after the money and the terrorists.” David Aufhauser, general counsel of the US Treasury Department and chairman of the National Security Council policy coordinating committee on terrorist financing recently outlined increasing Saudi cooperation. A joint investigative task force was created after the May 2003 bombings and is also focused on investigating the November 2003 bombings. Computer records of al-Qaeda associates arrested in the kingdom have already helped law enforcement officials uncover terrorist financing networks across the Gulf. Saudi domestic police powers of interrogation and compulsory process are being used to validate US intelligence regarding Saudi terror financing suspects. Aufhauser’s stated deadline is precise. The taskforce must achieve tangible enforcement results, beyond the initial deep cooperation, before March of 2004.

Staunching the flow of funding to terrorist groups is a daunting challenge. Some US observers believe the intense Saudi efforts on the home front will divert resources from investigating terrorist links beyond the kingdom.

Unfortunately, the US cannot credibly charge other nations with prioritizing homeland security at the expense of cracking down on domestic networks funding terrorism abroad. The most glaring example is the seemingly uninterrupted supply of funding raised in the US for terrorist groups operating in Colombia and other parts of the Americas.

Proceeds of Vice: US-Colombian Terror Financing

Armed guerrillas such as the United Revolutionary Armed Forces of Colombia (FARC) and paramilitaries including the United Self-Defense Forces of Colombia (AUC) rely heavily on the proceeds of narco-trafficking for financing. Both groups have been designated as terrorists by the US State Department. Both are beneficiaries of laundered income from sales of an estimated 580 tons of cocaine sold annually in the United States. The laundering of US dollars back into

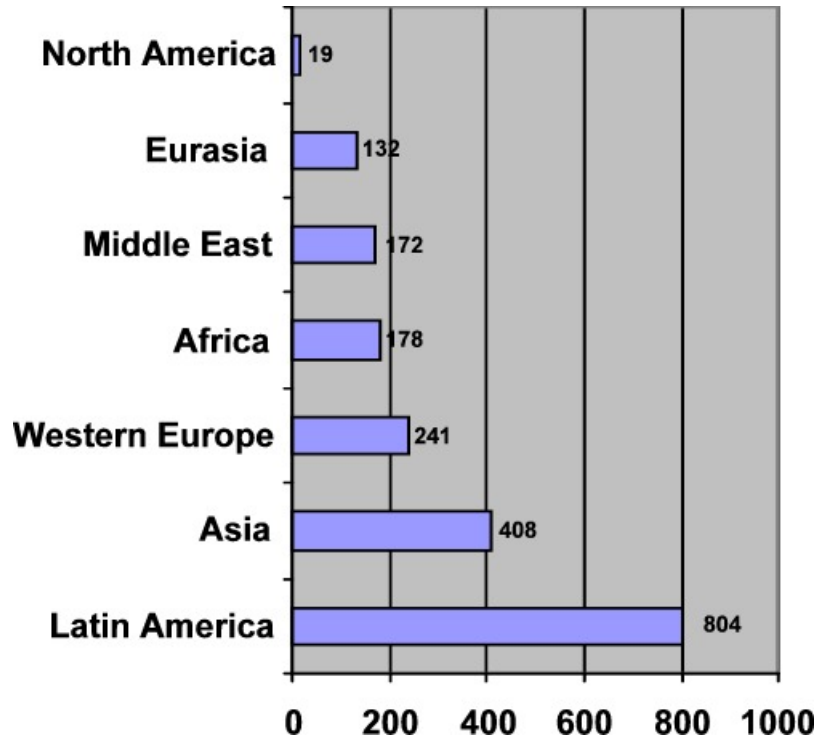
Colombian pesos finances payrolls, arms and explosives purchases, clandestine operations, and spectacular attacks against soft civilian targets. These laundered funds from the original crime of drug trafficking are used in a second crime against humanity.

For years a key money laundering strategy has been the cash purchase and exportation of manufactured goods from the United States, particularly south Florida, to sell at below market prices in Colombia's vast black market, known as "San Andresitos". Attempts to shut down this channel of terrorist financing were long met with reluctance and apathy from US law enforcement officials, municipal governments and corporations. The case of Roberto Rothstein, an authorized appliance dealer based in Medellin was one of many businessmen who simply could not compete with contraband US washing machines and refrigerators sold below market prices with defaced serial numbers. His numerous appeals to corporate headquarters and US law enforcement officials to disrupt and curtail large cash purchases with laundered funds from authorized appliance distributors in South Florida fell upon deaf ears. By some estimates the export of US manufactured goods continues to be used to launder up to \$5 billion a year in illegal narcotics money. New laundering techniques through insurance contracts and other services are also increasing. Rothstein ultimately went out of business with a \$17 million dollar loss. However, the Colombian people lost even more.

In 2002 Colombian terrorists groups killed 3,500 in a country with a population of only 42 million. The Colombian political leadership was also not immune to acts of terror. On August 7, 2002, new Colombian President Alvaro Uribe's inaugural ceremonies in Bogota occurred amidst a FARC mortar attack that killed 21 Colombians. Yet beyond some isolated successes, the US has been almost completely ineffective over the last decade in stemming the flow of laundered money to Colombian terrorists. As US Secretary of Defense Donald Rumsfeld correctly stated in August of 2003 "Colombia is today the number one victim of terrorism". (See Exhibit #3) Unfortunately, America is Colombia's ATM of terror finance. In America the cash based "underground" accounts for an estimated 11% of the total US economy. Unfortunately, US officials have few control points as obvious or easy to monitor and control as charities or metal donation boxes.

Exhibit #3 Total International Attacks by Region 1997-2002

(Source: Office of the Coordinator for Counterterrorism 2003)



New Strategies for Cutting off Terrorist Funding

9/11 reversed a downward trend in financial oversight in the US. For years the US rolled back or simply did not enforce existing rules about offshore shell bank transactions and other obvious laundering networks in favor of US-Caribbean “tax competition” and other priorities. After 9/11 the attitude changed and new multi-agency investigative units were created to track down terrorists’ assets and transmission channels, block bank accounts, and persuade other countries to identify and block terrorist funds.

President Bush signed Executive Order 13244 on September 23, 2001 giving new powers to the Treasury Department and other agencies. The Treasury Department recently noted that it had frozen \$36.6 million in terrorist-related assets in the United States and \$136.7 million seized worldwide. 173 countries have frozen assets, and 315 individuals and organizations have been listed as terrorists.

However, the scorecard for actually creating a new domestic infrastructure to stop financial flows to terrorists reveals that the US effort is proceeding slowly. (See Exhibit #4) Although the US Treasury and Attorney General stated in 2003 that manufactures based laundering continues to be a problem, their strategy prefers to educate importing countries about how to track suspicious export-import patterns rather than taking the more efficient action: strident and strict enforcement at home.

Exhibit #4 US Anti-Terror Financial Controls

(Source: MoneyLaundering.com, September 2003)

Effort	Result
Freeze assets in the US for terrorist activities	\$36.6 million
Electronic data mining of “suspicious activity” forms filed by US financial institutions	Data entry outsourced to a Native American tribe in the Midwest.
Secure data transmission network for suspicious activity data	This congressionally mandated (October 2001) secure data transmission network is not yet up and running.

It is not enough for America only to attempt to cut off finances raised overseas and channeled to terrorists targeting America. The US must also take painful steps that bring the fight against terror financing home, even at the risk of upsetting cultural and business norms. For the US to speak with credibility in the global fight against terror financing, it must become more effective in combating money laundering and terror financed through the US financial system. Proclamations and a focus on flows beyond American borders, while politically safe, are not effective long-term strategies.

Staunching the flow of terror dollars raised in America will in time indirectly extinguish the fire of many raging conflicts around the world and ultimately make America safer. Americans will know that the battle against terrorism financing has begun in earnest when “off the books” transactions and laundering are blocked in a meaningful way within the US. By demonstrating to the world that it has confronted and eliminated its own domestic terror financing, the US will be better positioned to insist that all nations take a zero tolerance approach toward rolling up their own domestic terror financing networks.

ABOUT THE AUTHORS

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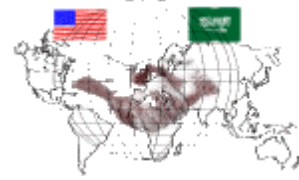
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