

Testimony of
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United States Department of the Treasury
November 8, 2005

DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS
EMBARGOED UNTIL 9:30 AM Contact: Molly Millerwise
November 8, 2005 202-622-2960

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Before the Senate Committee on the Judiciary

Chairman Specter, Ranking Member Leahy and other distinguished members of the Committee, thank you for inviting me to testify today before you on the Kingdom of Saudi Arabia. This is an important topic that touches at the very heart of our efforts as a government to combat terrorism throughout the world. We have learned over the last four years that the war on terror requires the collective efforts of every country, working to counter terrorism both within its own borders and in every corner of the globe. In this collective fight, we depend on the wisdom, vigilance, and support of both our allies and those whom we traditionally hold at arm's length. In this mix of relationships, Saudi Arabia is by all measures one of the countries most central to our global counterterrorism efforts. I would characterize the quality of this relationship as one of active partnership aimed at achieving progress on several issues. The success of global anti-money laundering and counterterrorist financing (AML/CFT) efforts relies, in good measure, on ensuring that this partnership is real, focused and lasting.

Like any partnership, however, ours has experienced times of frustration and impatience. Partnerships evolve over time, and those that last, can point to a long list of trials which have tested both sides of it. Our relationship with Saudi Arabia is no exception.

Today, Saudi Arabia is actively countering the threat of terrorism. This is a key success, unfortunately catalyzed by the May 2003 terrorist attacks in Riyadh, which alerted the Kingdom that terrorism was not only a theoretical global problem, but very much a local one. Having now suffered multiple attacks within the Kingdom itself, Saudi Arabia has come to understand the clear and present danger that terrorism and its vast support structures pose to its citizens and the very fabric of everyday life. The United States experienced the same shock on September 11, 2001 and the difficult months and years that have followed.

The Saudis have demonstrated serious determination to take aggressive action against al Qaeda. The Saudi Government has also taken steps to address the more fundamental issue of confronting extremist ideology by waging a campaign within the Kingdom against those it terms "deviants" who pervert Islam to preach violence. This campaign has included working with religious leaders to eliminate hatred-filled sermons and repeated statements by the King addressing this issue. But

on counterterrorist financing, the Saudis need to do more. This includes taking steps to ensure that Saudi funds are not sent overseas to promulgate the very hatred and extremism that Saudis are confronting at home.

Saudi Arabia should build on its own domestic efforts to exert active leadership regionally, and by enhancing its bilateral counter-terrorist financing relationships worldwide. It should go after individual contributors to extremist organizations and monitor how Saudi funds sent overseas, including Saudi government funds, are being used. Saudi Arabia is aggressively tackling the scourge of extremism and terrorism it faces within the Kingdom. What happens outside the Kingdom is also of the utmost importance, however, since extremism in one country can easily find its way elsewhere in the world and pose a threat to us all. As Under Secretary Levey has said, wealthy donors in Saudi Arabia are still funding violent extremists around the world, from Europe to North Africa, from Iraq to Southeast Asia. We hope that Saudi Arabia will take effective action against these individuals to disrupt their facilitation of violence and to send a clear message that such activity will not be tolerated by the Kingdom.

Points of Progress

Saudi Arabia has undertaken many measures to stem the tide of terrorist financing within the Kingdom since the terrorist attacks in Riyadh, May 2003. In fact, in some respects Saudi Arabia has gone further than many countries in the region to build serious systems aimed at combating illicit financing. These measures include new regulations in the charitable sector, increased vigilance and sophistication in the financial sector, and regional integration on matters of anti-money laundering and counter-terrorist financing.

Charitable Sector

Among the efforts that we have conducted jointly with the Saudis, the most public and prominent were our joint designations of Al-Haramain Islamic Foundation branches globally for that organization's support to the worldwide al-Qaida network. These branches were listed by the United Nations as well. Public designations of individuals and entities such as Al-Haramain not only cut these supporters off from the global financial system, but also they send the strong public message that the U.S. and its partners will not tolerate the efforts of charities to disguise their activities while engaging in false marketing. The support of Saudi Arabia in these designations reflected our united front against a common enemy.

In addition to these targeted actions, Saudi Arabia has taken concrete steps to systemically protect its charitable sector. Since May 2003, the following regulations have been put in place:

- ? Enhanced customer identification requirements apply to charitable accounts;
- ? Each charity must consolidate its banking activity in one principal account;
- ? No cash disbursements are permitted from charitable accounts; payments are only allowed by check payable to the first beneficiary and must be deposited in a Saudi bank;
- ? No ATM or credit cards may be issued against a charitable account (all outstanding ATM and credit cards for such accounts have been canceled); and
- ? No transfers from charitable accounts are permitted outside of Saudi Arabia.

These restrictions are far-reaching in scope and highlight the degree to which Saudi Arabia has taken oversight of this sector seriously. We are also awaiting the establishment of a Charities Commission to oversee all charities and NGOs based in the Kingdom. The financial controls outlined above combined with this oversight body will represent progress made in combating terrorist financing in the Saudi Arabian charitable sector.

Financial Sector

Saudi Arabia has also made systemic changes to its financial sector. Saudi Arabia boasts a

sophisticated financial sector, regulated by the Saudi Arabian Monetary Authority (SAMA). As a member of the Gulf Cooperation Council (GCC), Saudi Arabia is subject to mutual evaluations conducted by the Financial Actions Task Force (FATF), the premier international body dedicated to promulgating and seeing global compliance of AML/CFT standards. These mutual evaluations are conducted by a team of experts that evaluate a country's compliance with the internationally-recognized forty recommendations on anti-money laundering and nine special recommendations on counterterrorist financing. In February 2004, FATF produced its assessment of Saudi Arabia and found the Kingdom to have met most of its general obligations with the FATF recommendations.

Saudi Arabia also sits in a region that is comprised of cash-based economies. The entire region is grappling with the challenge of cash couriers, how to track them, how to penalize them, and how to prevent the abuse of cash-based economies. Recently, Saudi Arabia decreased the reporting threshold for cash transiting its borders to \$16,000. This reporting enhancement not only reflects significant political will but also allows law enforcement to take more frequent action against those who they suspect of carrying cash into the country for illicit purposes.

The Saudi Government has also created some useful institutions to aid in the fight against terrorist financing. It recently established a financial intelligence unit (FIU) to engage in the essential process of reporting, analyzing, and disseminating critical financial information within Saudi Arabia and internationally. The FIU became operational as of September 10, 2005. FIUs play a crucial role in establishing the backbone of information-sharing among countries worldwide. We expect to engage with our counterparts in the Saudi FIU to increase our effectiveness in preparing reports of suspicious activity for action. We are already actively engaged, moreover, in joint analysis at the Joint Terrorist Financing Task Force in Riyadh where agents from IRS Criminal Investigation Division (IRS-CID) and FBI sit side-by-side with their Saudi counterparts to analyze important streams of data together.

Regional Integration

With respect to Saudi Arabia's regional role on these issues, it is instructive to reflect on the Middle East North Africa Financial Action Task Force (MENAFATF) which held its second plenary in Beirut this past September. Saudi Arabia figures prominently in this regional body, holding the Executive Secretary seat in the MENAFATF's leadership structure. Attended by all 14 members, the recent plenary demonstrated a commitment to raising awareness in the region and becoming a force in the global dialogue on anti-money laundering and counterterrorist financing issues. The plenary adopted three excellent papers on hawala, cash couriers, and charities which underscore the degree to which the region is grappling with the institutions and typologies most subject to abuse by supporters of terrorism. Saudi Arabia co-authored the paper on charities which offers a candid assessment of the issue and prescriptive recommendations for how countries in the region should deal with it.

Anecdotal evidence suggests that all of the measures discussed above have made it more difficult for sponsors of terrorism to fund their causes through the formal financial system. We also must acknowledge the extraordinary efforts of Saudi Arabia's internal security forces, which have been waging an ongoing battle on the ground with al-Qaida, and have themselves sustained casualties. In light of these measures, it is clear that Saudi Arabia has taken the threat seriously, especially with regard to the threat of attacks on its own soil.

Challenges Ahead

While we support and welcome these efforts, public and resolute leadership against all aspects of terrorist financing is absolutely crucial and Saudi Arabia needs to take its efforts in this area to

the next level. In recent years, Saudi-U.S. cooperation against terrorist finance has increased and achieved important successes. In order for this relationship to mature, however, Saudi Arabia will need to move beyond reacting to information provided by the U.S. and to lead the effort to identify and take action against sources of terrorist financing.

The subject of charities and NGOs has been a lingering concern of ours in the context of counterterrorist financing. As I noted above, Saudi Arabia has taken steps to bring its charities and NGOs under control. We have, however, been repeatedly raising the issue of so-called international NGOs, namely the International Islamic Relief Organization (IIRO), the World Assembly of Muslim Youth (WAMY), and the Muslim World League (MWL). The Saudis have responded that charitable organizations and these international NGOs are de facto prohibited from sending funds abroad. It is not clear to us that this de facto prohibition is having true effect and we remain deeply concerned about this issue. Furthermore, these restrictions do not apply to foreign branches of Saudi-based NGOs and charities, which can transfer money among themselves throughout the world with little accountability to the Kingdom. It is possible, for example, for an IIRO official in Saudi Arabia to advise IIRO branches in country X and country Y to transfer money to each other, outside of Saudi regulatory reach.

Saudi officials must concern themselves beyond the limits of restrictions within the Kingdom. They must recognize that organizations so closely associated with Saudi Arabia, anywhere in the world, are de facto Saudi responsibility. These organizations must become an integral part of Saudi focus and policy. I am not suggesting that Saudi Arabia go it alone. This type of a comprehensive strategy will require the coordination of many regional and global counterparts. But Saudi Arabia itself must be actively engaged in ensuring that these organizations are responsive to Saudi oversight. The Saudis must care not only what happens in IIRO Riyadh but they must also be concerned with what transpires in every other IIRO office around the world. As my testimony previously notes, the Saudis have repeatedly said that they will form a Charities Commission to officially oversee all charities in the Kingdom. We eagerly await the establishment of this mechanism and expect that all international charities and NGOs will be covered by its oversight.

Even when the Charities Commission takes form, it will not address the issue of private donors. While current regulations take account of the financial activities of charitable concerns, they do not apply to direct donations made by private donors. This issue, which we have raised on numerous occasions with the Saudis, has been a problem in the past and continues to concern us. Especially as charities and NGOs are held under closer scrutiny, it will become increasingly important to focus on the ways in which private giving has and is being abused.

Palestinian Terrorist Groups

The fight against terrorist financing cannot be limited to al-Qaida funding alone. Just as Saudi Arabia is working to ensure that Saudi funds do not support al-Qaida, they must also work equally diligently to thwart the funding of Palestinian terrorist groups that undermine peace and stability in the Middle East.

We were troubled, in this regard, by the recent clip from an August 29, 2005 program aired in Saudi Arabia on Iqra TV, a Saudi-based station, which solicited funds for the Saudi Committee for the Support of the al Quds Intifadah and asked donors to direct funds to a Joint Account 98 at "all banks in the Kingdom of Saudi Arabia." Account 98 had been a regular issue of concern that we have raised with the Saudis at all levels. They have repeatedly assured us that Account 98 no longer exists and that they are making efforts to staunch the flow of funds to these groups. The U.S. shares Saudi Arabia's concern for meeting the humanitarian needs of the Palestinian people,

but it is vitally important for Saudi Arabia to act resolutely against all terrorist organizations, and to cut off support for groups like HAMAS intent on undermining progress towards peace and undermining the Palestinian Authority.

CONCLUSION

There is no doubt that Saudi Arabia's perspective on counterterrorism has evolved over the last few years, and with that change in perspective has come real progress on systemic issues within the Kingdom. We encourage Saudi Arabia to make greater efforts to counter terrorism and the financing of terrorism in third countries. Such leadership requires a comprehensive, proactive, and zero-tolerance approach to terrorism that includes widespread vigilance over global charities and wealthy private donors, as well as total intolerance for support to all terrorist organizations. We hope that Saudi Arabia accepts this challenge of leadership, and the greater responsibilities that come along with it. As Saudi Arabia does so, we will be able to say that we have entered into a new stage of our partnership in the war against terrorism.