

Testimony of

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Mr. Chairman and Members of the Committee, thank you for the opportunity to speak to you today on behalf of the Department of State on this important subject. I am accompanied today by Mr. William Pope, the Principal Deputy Coordinator in the State Department's Office of Counterterrorism (S/CT).

Over the past year and a half, the War on Terrorism has met with some stunning successes -- the liberation of Afghanistan from Taliban control, the break-up of terrorist cells in Singapore and the United Kingdom, and major arrests of terrorists in Greece. But as events in Saudi Arabia, Morocco, Israel and Chechnya tragically illustrated last week, the War on Terrorism has not ended. In his speech at the Vinell compound in Saudi Arabia, Secretary of State Powell said, "Notwithstanding ... the damage you see here today, it will not deter the United States, ... in our ... effort to go after this kind of terrorism and roll it up: go after their finances; go after their information systems, their intelligence systems; make sure we take full advantage of our law enforcement assets."

Well before September 11, 2001, the State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL) was working to combat narcotics production and trafficking, international money laundering, cyber crimes and theft of intellectual property rights. In FY 2003, Congress appropriated INL more than \$900 million to advance these objectives. In the wake of the terrorist attacks, our mission -- to provide support to counternarcotics and other anti-crime efforts worldwide -- received increased attention.

While S/CT has the lead in the Department for coordinating our activities in the war on terrorism, INL strongly supports these efforts through our counternarcotics, anti-money laundering, and crime control activities, which provide training, equipment and institutional support to many of the same host nation law enforcement agencies that are charged with a counter-terrorist mission.

To counter the increasing linkage and overlap among terrorist, drug and other criminal groups, INL has begun integrating counternarcotics and anti-crime programs with broader law enforcement efforts to help stop these threats before they reach U.S. soil. We do this through a comprehensive range of bilateral, regional and global initiatives aimed at building up the law enforcement and justice systems of key foreign countries so that they can better control crime problems internally -- before they threaten the United States. Such efforts include extending the U.S. first line of defense by helping other nations strengthen their border control enforcement, thus ensuring that terrorists and other trans-national criminals have no place to hide themselves, their weapons or their ill-gotten money.

The Terrorist Interdiction Program (TIP), developed by S/CT to install powerful computer databases at airports and other points of entry in friendly countries, enables immigration officials quickly to cross-check passports and visas of arriving persons against a database containing information on terrorist suspects and other criminals.

We also work diplomatically with other countries and with international organizations to develop stronger international law enforcement and financial regulation standards and to close jurisdictional gaps through which terrorists and other criminals sometimes slip. INL's programs to fight corruption are an integral part of our anti-crime efforts, since ingrained corruption often frustrates attempts to reform the legal, political, economic and social institutions, which, in the long run, are the keys to controlling terrorism and other crime.

Although the sources of funds may vary between terrorists and other criminals/drug traffickers (for example, terrorists may obtain funding from "clean" sources such as contributions to charities that are diverted, or from front-company operations), the methods used by terrorists and drug traffickers to transfer funds are similar.

Illicit finances, and the means used to conceal profits and transfer funds, are of special concern. Both groups use informal value transfer systems such as "hawala" or the deeply established Colombian peso black market exchange

and also rely on bulk cash smuggling, multiple accounts, electronic transfers, commodities and front organizations to raise, move and launder money. The methods terrorists and drug traffickers use can commonly include passing money through businesses or humanitarian organizations which carry on substantial activities which are otherwise apparently legitimate, helping cover and launder the criminal and terrorist money. Both types of groups make use of fraudulent documents, including passports and other identification and customs documents to smuggle people, goods and weapons.

Increasingly, terrorist and criminal organizations, which have fundamentally dissimilar motives for their crimes, may cooperate by networking or sub-contracting on specific tasks when their objectives or interests intersect. For example, certain South American kidnapping gangs frequently sell custody of their victims to larger terrorist groups on what amounts to a "secondary market."

FROM STATE-SPONSORSHIP TO DRUG TRAFFICKING AND OTHER CRIME

In the past, state sponsors provided funding for terrorists, and their relationships with terrorist organizations were used to secure territory, weaken an adversary or obtain weapons. In recent years, however, as state sponsorship of terrorism has come under increased scrutiny and greater international condemnation, terrorist groups have looked increasingly at drug trafficking and other criminal activities as sources of revenue.

Unlike other crime, however, drug trafficking often has a two-fold purpose for some terrorists. Some terrorists not only obtain operational funds through drugs, but also believe they can weaken their enemies by flooding their societies with addictive drugs. So while certain terrorist groups are increasingly involved in organized rackets in kidnapping, piracy, weapons trafficking, extortion, people smuggling, smuggling of cigarettes and other contraband, financial fraud or other crimes, drug trafficking occupies a special position both in terms of profitability and as a perceived direct weapon used against the United States and certain other countries. Some terrorist groups in particular use this argument to rationalize their involvement in illicit activity to their membership or support base.

Just as terrorists and other criminals increasingly cooperate with one another or adopt one another's methods, law enforcement efforts against profit-driven and ideologically motivated criminals and terrorists also increasingly overlap. For example, INL-sponsored training to foreign law enforcement authorities on bomb-blast investigations is valuable regardless of a bomber's motivation. The same is true of most other capacity-building programs, such as strengthening forensic laboratories or improving a police agency's management systems. Likewise, INL's programs around the world to strengthen maritime patrols as well as sea, land and airport security, may in some regions be targeted primarily against drug or migrant smugglers, but carry significant collateral benefits in fighting terrorism.

In other regions or circumstances, terrorists and their support infrastructure may have a higher priority but other organized criminal activity is caught in the same net. For example, a scanner that detects a hidden compartment is valuable whether it is used to locate drugs, cash, poached ivory or a bomb.

Fighting money laundering and terrorist financing provides a particularly clear example of the need for inter-agency and international cooperation across crime-fighting and counter-terrorism disciplines. INL works with the Departments of Justice, Treasury and Homeland Security as well as other U.S. entities in cooperating with nations around the world to thwart criminals' attempts to launder their funds and to investigate and prosecute those who are involved in moving criminal proceeds. These same law enforcement controls also help prevent the raising and movement of terrorist support funds.

This is not to say that fighting crime and fighting terrorism are synonymous. There are important areas in law, policy, diplomacy and program management where the two must be treated separately. The point is that as the lines between terrorists and other criminals increasingly blur, governments must fight back with adequate flexibility. Law enforcement is one key tool among several in counter-terrorism, and one that benefits from increased inter-agency and international cooperation. It also stretches limited resources--critical in these trying economic times.

DRUG TRAFFICKING AND TERRORISM

In Colombia, the links between drugs and terrorism are of particular concern. U.S. policy supports the Colombian

Government's efforts to strengthen its democratic institutions, promote respect for human rights and the rule of law, intensify counter-narcotics efforts, foster socio-economic development, address immediate humanitarian needs, and end the threats to democracy posed by narcotics trafficking and terrorism.

Since the date of our previous testimony on this topic (3/13/02), a good deal has changed. A new President - Alvaro Uribe - assumed office August 7, 2002, and has set Colombia firmly on a course of strengthening its military and police forces to defeat the narco-terrorist threat. Congress has granted the Departments of State and Defense expanded authorities to assist the Colombian government in its unified campaign against narcotics trafficking and activities by designated terrorist organizations.

There are a number of terrorist groups operating in Colombia -- the three largest of which are the Revolutionary Armed Forces of Colombia (FARC), the United Self-Defense Groups of Colombia (AUC), and the National Liberation Army (ELN). Revenue that they receive from narcotics cultivation, taxation and distribution provides at least half of the funding that the FARC and AUC rely on to support their terrorist activities. We estimate that the ELN derives much less of its funding from narcotics activities, and it may be no accident that the ELN is the smallest and least-powerful of the three groups. There would appear to be a direct correlation between drug activity and organizational viability and reach in Colombia. Certainly the FARC's growth in numbers is directly related to the increase in its involvement with illicit drug cultivation and exploitation.

Drug money facilitates terrorist operations such as the FARC car bombing in February of the Club El Nogal in Bogotá. As the FARC has expanded urban operations, they may also be reaching out to international terrorists for additional technical expertise. The ongoing trial of three alleged IRA operatives arrested in Colombia in 2001 is but one example.

Drug money finances attacks, such as the multiple-mortar attack on President Uribe's inauguration last August which killed 21 residents of a poor Bogotá neighborhood. And without drug money, FARC units would not be able to arm themselves and dominate the amount of territory in southern Colombia that they do, a region where three American citizen contractors are still being held hostage by FARC units after their plane's engine malfunctioned and they had to make an emergency landing on February 13.

The AUC is a loose and ever-shifting umbrella group of anti-guerilla forces, the majority of which engage in narcotics-related activities. The best-known AUC leader, Carlos Castano, stated in 2000 that "70 percent" of AUC operational funding was from drug money and described it as an undesired but necessary evil. AUC elements appear to be directly involved in processing cocaine and exporting cocaine from Colombia. In 2002, Castano dissolved the AUC and subsequently reformed it, claiming to have purged the elements more heavily involved in narcotics trafficking. Castano may be making a bid for political legitimacy through such action. Nevertheless, we note little change in AUC narcotics activities, and in September 2002, the U.S. Department of Justice indicted Castano on charges of drug trafficking.

The ELN - which has remained marginally more loyal to its Marxist roots than the FARC - expresses a disdain for illegal drugs, but still takes advantage of the profits available where it regulates and taxes coca production in areas it controls.

Andean-produced cocaine and heroin pass through Central America, the Caribbean and Mexico. Attacks on each link of this nefarious chain create ripples down the line. For example, recent Mexican successes against drug cartels operating there should be considered positive blows in the global war on terror because they complicate the finances of terrorist groups operating in the Andes.

The situation in Afghanistan is also of note. We have ample evidence that the Taliban condoned and profited from the drug trade when it was in power. We also know that the Taliban has provided sanctuary to and received military assistance from terrorist groups in Afghanistan. Taliban taxes on opium harvests, heroin production, and drug shipments helped finance its military operations against rival factions. These taxes also bestowed legitimacy on Afghan drug traffickers. Since the Taliban were forced out of power, we have seen reports that they, and other groups seeking to undermine the regime of President Karzai, use drug trafficking to arm their militia and mount operations

against the government, U.S. forces and international organizations in Afghanistan. The enormous profits gained through drug trafficking have been turned to strengthening warlords, corrupting local officials and fomenting terror and instability throughout the country.

Given the continued high price of opium in 2002 and 2003, there is evidence that stockpiles may have been depleted over the last year. The annual U.S. government estimate for opium poppy cultivation in Afghanistan shows an increase during the crop season in 2002 (approximately 30,750 hectares). Early reports indicate that planting of poppy during the fall of 2002 was substantial, making the potential 2003 harvest this spring large as well. However, once the UN Office on Drugs and Crime (UNODC) completes the annual opium poppy survey, we will have a better idea of the size of the 2003 crop.

Two other groups bear mentioning. The Peruvian terrorist group Shining Path continues to derive substantial income from providing security to Peruvian traffickers transporting drugs out of the main coca cultivation areas of Peru. Although outright acts of extreme violence against the civilian population have diminished over the years, Peruvian authorities believe that the Shining Path actively supports and foments the cocalero strikes and violence that have destroyed USG-supported Peruvian alternative development efforts in coca growing areas and set back both forced and voluntary eradication efforts. Additionally, based on unclassified information, the lucrative narcotics trade in Afghanistan has been a source of funding for a fourth terrorist group, the Islamic Movement of Uzbekistan (IMU). Members of the IMU have been involved in the trafficking of Afghan narcotics through Central Asia.

COUNTERING THE FINANCIAL ASPECTS OF NARCOTERRORISM WITH TRAINING AND TECHNICAL ASSISTANCE

In addition to trying to curtail the flow of funds to terrorists from drug trafficking, the U.S. government also has initiated active programs to curb other sources of terrorist funding.

The connection between terrorists and narcotics trafficking can vary, but the methods and programs to attack the financial aspects of terrorists and international criminal organizations are similar.

By fostering and developing comprehensive anti-money laundering and counter-terrorist financing regimes, we empower our allies to detect, prevent, disrupt, prosecute and seize the financial assets that fuel terrorists and transnational criminals -- whether the source of those funds is narcotics, kidnappings, smuggling, diversion of charitable donations, or financial fraud schemes.

Just as it became apparent in the mid 1990's that the problem of money laundering was much broader than narcotics-related proceeds, we now recognize the close relationship between money laundering and terrorist financing. Indeed, in our most recent International Narcotics Control Strategy Report (INCSR), we define the differences and similarities between these two phenomena.

As the INCSR notes, as far as training and technical assistance is concerned, there is no appreciable difference between anti-money laundering and counter-terrorist financing assistance. In each case, the objectives and tools are the same: build and institutionalize comprehensive regimes to help counter money laundering and terrorist financing.

The basic building blocks are well understood. They start with having a firm legal foundation that criminalizes money laundering and terrorist financing, adheres to international standards, and provides investigators and prosecutors with the necessary tools to use against sophisticated organizations -- whether they are criminal cartels or terrorist cells.

Assistance must also be given to the formal financial sector to prevent its abuse by criminal elements and terrorist organizations; concepts such as "know your customer" and the detection of suspicious transactions are important elements in countering money laundering and terrorist financing.

The creation and enhancement of Financial Intelligence Units, which collect, analyze and disseminate financial reports and intelligence domestically and internationally, serve as the linchpin of both anti-money laundering and counter-terrorist financing regimes.

Training investigators in financial investigations gives police and other authorities the ability to "follow the money" and take action whether the funds lead to criminal organizations, terrorist groups or both. This training includes new analytical techniques as well as methods for dealing with informal systems such as hawalas, alternative remittance systems and trade-based money laundering, all of which first came to the attention of the USG through narcotics-related money laundering investigations.

Finally training of prosecutors and judges in the complexities of money laundering, terrorist financing, asset blocking and forfeiture and as well as the new requirements under the Financial Action Task Force's (FATF) Eight Special Recommendations on Terrorist Financing and United Nations Security Council Resolution 1373 are critical if we are to starve narco-terrorist of their funding.

In order to address the training and technical assistance associated with multi-faceted demands of international anti-money laundering and counter-terrorist financing, and recognizing the close link between terrorism and crime, and anti-money laundering and counter-terrorist financing, INL co-chairs with the Office of the Coordinator for Counterterrorism (S/CT) an interagency group with over 20 representatives from other agencies. This group prioritizes terrorist financing assistance and designs and implements sequenced training and technical assistance programs designed to develop comprehensive anti-money laundering and counter-terrorist financing regimes.

Such coordinated efforts are critical since training and technical assistance to enhance the capacity of our partners in both anti-money laundering and counter-terrorist financing serves as an international early warning and interdiction system against financial threats from transnational organized crime, terrorist organizations and narco-terrorists who use the proceeds of crime to fund their operations.

DIPLOMACY TO RAISE STANDARDS, CLOSE GAPS AND SHARE BURDENS

In addition to helping developing countries build law enforcement and justice system capacity, we collaborate with developed countries and international organizations to strengthen international norms and standards to fight crime, close jurisdictional and enforcement gaps that terrorists and other criminals exploit, and share burdens. Multilateral approaches can sometimes generate better "buy-in" with assistance recipient and donor countries, provide a legal or political framework for governments needing to justify domestic legal changes, and allow the United States to affect outcomes in areas, such as Burma, where our direct influence is limited. Assistance or advice from international organizations (rather than directly from the United States) is often more palatable for countries with sovereignty concerns. Working with multilateral organizations also allows the United States to tap into deep pools of substantive or regional expertise.

INL works closely, for example, with countries taking the lead in re-establishing Afghan public security capabilities, including Germany on training and equipping the national police, Italy on developing and modernizing the judicial system, and the United Kingdom on creating mobile counter-drug forces. Working with several U.S. agencies, the State Department played a key role in expanding the scope of the 31-member-country FATF, the world's standard-setting body on money-laundering, to develop eight new recommendations on combating terrorist financing, including improved regulation of remittance systems and steps to prevent exploitation of charitable organizations. INL capitalized on this progress to add support to regional FATF-like organizations in the Caribbean, Asia/Pacific and elsewhere.

Since corruption is strongly correlated with drug trafficking, terrorism and other crime, and since it often undermines the political, social and economic development that would reduce those threats, INL has led in elevating the fight against corruption to the top tier of foreign policy objectives. For example, INL has provided diplomatic and financial support for United Nations negotiations expected to yield the first global convention against corruption. INL has provided experts and other assistance to help more than 60 countries implement anti-corruption commitments through mechanisms of the Organization of American States, Council of Europe, Stability Pact Anticorruption Initiative for Southeast Europe, Asian Anticorruption Initiative and other bodies. We will support follow-up to the third biennial Global Forum on Fighting Corruption, a U.S.-initiated process that South Korea will host in 2003. INL also supports diverse bilateral anti-corruption efforts, such as the Culture of Lawfulness program, which teaches schoolchildren in Mexico and elsewhere how corruption hurts their communities.

When the United States serves as President of the Group of Eight countries (G-8) in 2004, the State Department will use the U.S. chairmanship of the Crime (Lyon) and Counter-terrorism (Roma) Experts Groups to advance initiatives including increasing G-8 assistance for law enforcement and counter-terrorism capacity building. Other G-8 initiatives relevant to the overlap between fighting terrorism and other crime should include implementing an expected 2003 agreement on G-8 biometric identification standards for travel documents.

Mr. Chairman, I thank you again for this opportunity to speak to you today, and we look forward to taking questions from you and other members of the Committee.

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