

USAWC STRATEGY RESEARCH PROJECT

**ENFORCEMENT OF TARGETED FINANCIAL SANCTIONS:  
THE MILITARY ROLE**

by

LTC Héctor L. Colón  
U.S. Army Finance Corps

CDR Phillip G. Pattee  
Project Advisor

The views expressed in this academic research paper are those of the author and do not necessarily reflect the official policy or position of the U.S. Government, the Department of Defense, or any of its agencies.

U.S. Army War College  
CARLISLE BARRACKS, PENNSYLVANIA 17013

# REPORT DOCUMENTATION PAGE

Form Approved OMB No.  
0704-0188

Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing this collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to Department of Defense, Washington Headquarters Services, Directorate for Information Operations and Reports (0704-0188), 1215 Jefferson Davis Highway, Suite 1204, Arlington, VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to any penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number. PLEASE DO NOT RETURN YOUR FORM TO THE ABOVE ADDRESS.

<b>1. REPORT DATE (DD-MM-YYYY)</b> 07-04-2003	<b>2. REPORT TYPE</b>	<b>3. DATES COVERED (FROM - TO)</b> xx-xx-2002 to xx-xx-2003	
<b>4. TITLE AND SUBTITLE</b> Enforcement of Targeted Financial Sanctions: The Military Role Unclassified		<b>5a. CONTRACT NUMBER</b>	
		<b>5b. GRANT NUMBER</b>	
		<b>5c. PROGRAM ELEMENT NUMBER</b>	
<b>6. AUTHOR(S)</b> Colon, Hector L. ; Author		<b>5d. PROJECT NUMBER</b>	
		<b>5e. TASK NUMBER</b>	
		<b>5f. WORK UNIT NUMBER</b>	
<b>7. PERFORMING ORGANIZATION NAME AND ADDRESS</b> U.S. Army War College Carlisle Barracks Carlisle, PA17013-5050		<b>8. PERFORMING ORGANIZATION REPORT NUMBER</b>	
<b>9. SPONSORING/MONITORING AGENCY NAME AND ADDRESS</b> ,		<b>10. SPONSOR/MONITOR'S ACRONYM(S)</b>	
		<b>11. SPONSOR/MONITOR'S REPORT NUMBER(S)</b>	
<b>12. DISTRIBUTION/AVAILABILITY STATEMENT</b> APUBLIC RELEASE			
<b>13. SUPPLEMENTARY NOTES</b>			
<b>14. ABSTRACT</b> See attached file.			
<b>15. SUBJECT TERMS</b>			
<b>16. SECURITY CLASSIFICATION OF:</b>		<b>17. LIMITATION OF ABSTRACT</b>	<b>18. NUMBER OF PAGES</b>
a. REPORT Unclassified	b. ABSTRACT Unclassified	c. THIS PAGE Unclassified	Same as Report (SAR) 41
			<b>19. NAME OF RESPONSIBLE PERSON</b> Rife, Dave RifeD@awc.carlisle.army.mil
			<b>19b. TELEPHONE NUMBER</b> International Area Code Area Code Telephone Number DSN
			<small>Standard Form 298 (Rev. 8-98) Prescribed by ANSI Std Z39.18</small>



## ABSTRACT

AUTHOR: LTC Héctor L. Colón

TITLE: Enforcement of Targeted Financial Sanctions: The Military Role

FORMAT: Strategy Research Project

DATE: 07 April 2003

PAGES: 41

CLASSIFICATION: Unclassified

The United States is leading an international effort to disrupt the financial networks of terrorists groups in general and Al-Qaida's in particular. Disrupting Al-Qaida's money flow is key to reduce its capability to plan and execute future terrorist attacks. United Nations Security Council Resolutions 1373 and 1390 provide legal authority to block terrorist financial networks through a number of multilateral targeted financial sanctions. This SRP examines the role that military forces can and should play in enforcing targeted financial sanctions. This SRP concludes that military capabilities are critical during the first and most important step of financial sanction enforcing – identifying the targets.



## TABLE OF CONTENTS

ABSTRACT .....	iii
ACKNOWLEDGEMENTS.....	vii
ENFORCEMENT OF TARGETED FINANCIAL SANCTIONS: THE MILITARY ROLE.....	1
<b>THE ENEMY AS A SYSTEM .....</b>	<b>2</b>
LEADERSHIP .....	3
ORGANIC ESSENTIALS .....	4
INFRASTRUCTURE.....	4
POPULATION AND FIELDED MILITARY.....	4
<b>FINANCING TERRORISM.....</b>	<b>5</b>
INHERITANCE AND PERSONAL FUNDS.....	5
CHARITIES .....	7
DRUG TRAFFICKING .....	8
MONEY LAUNDERING .....	9
HAWALA SYSTEM .....	10
FINANCING TERRORISM IN SUMMARY .....	10
<b>ECONOMIC SANCTIONS AND THE WOT .....</b>	<b>11</b>
ECONOMIC SANCTIONS DEFINED.....	12
U.S. POLICY OBJECTIVES.....	12
POLICY TOOLS.....	13
TARGETED FINANCIAL SANCTIONS.....	14
<b>U.S. STRATEGY TO DISRUPT TERRORIST FINANCING.....</b>	<b>15</b>
FINANCIAL ACTION TASK FORCE (FATF).....	16
SECURITY COUNCIL RESOLUTIONS .....	17
U.S LEGISLATION.....	18
INTERAGENCY INVOLVEMENT.....	18
MILITARY SUPPORT.....	19

<b>CONCLUSION.....</b>	<b>20</b>
<b>RECOMMENDATION.....</b>	<b>22</b>
ENDNOTES.....	25
BIBLIOGRAPHY .....	31

## ACKNOWLEDGEMENTS

I am very grateful for Mr. Jim Hanlon's rigorous editing and recommendations. To Professor Patricia Pond I owed my gratitude for teaching me about structure and flow.



## ENFORCEMENT OF TARGETED FINANCIAL SANCTIONS: THE MILITARY ROLE

Our priority will be first to disrupt and destroy terrorist organizations of global reach and attack their leadership; command, control and communications; material support; and finances. This will have a disabling effect upon the terrorists' ability to plan and operate.

—National Security Strategy, September 2002

Immediately after the catastrophic terrorist attacks of 11 September 2001, the United States launched military, diplomatic, economic, and informational responses to cripple operations of international terrorist groups in general and the Al-Qaida network in particular. A critical objective of some these actions is the coordinated international effort to disrupt the financial network of Al-Qaida. Clearly, disrupting Al-Qaida's money flow will considerably reduce its capability to plan and execute future terrorist attacks. However, the United States currently views its efforts to disrupt Al-Qaida financial support exclusively as a law enforcement issue, with only limited support from the military. Curiously, many suggest that military forces and capabilities should have no role in this fight. Such critics ignore the fact that over the years the military has effectively contributed to similar efforts when other Federal agencies benefited from military support. This SRP examines the role that military forces can and should play in enforcing targeted financial sanctions. This SRP concludes that military capabilities are critical during the first and most important step of financial sanction enforcing – identifying the targets. The United Nations is already imposing similar sanctions against elite groups or rogue states identified as supporters of Al-Qaida's terrorist activities. However, the UN lacks resources and capabilities to identify potential targets. For background, this SRP describes Al-Qaida as an enemy system in accordance with Colonel John Warden's five-ring model, with special attention to the role of financial networks as one of Al-Qaida's organic capabilities. The SRP describes how those networks operate. The SRP next assesses the importance of applying multilateral targeted financial sanctions against Al-Qaida's supporters. In conclusion, the SRP recommends military capabilities that could support enforcement of targeted financial sanctions designed to disrupt Al-Qaida financial networks.

Operations ENDURING FREEDOM and NOBLE EAGLE have taught us that the War on Terrorism (WOT) requires unorthodox utilization of military capabilities, as well as other elements of national power. Al-Qaida, which considers itself a military organization, pursues a major strategic goal of freeing of the Muslim world from western influence. Without doubt, Al-

Qaida views the United States as its primary target. In 1998, Bin Ladin in tandem with other terrorist groups' leaders issued the now infamous fatwa where they call for the killing of Americans and their allies regardless of whether they are military or civilian. Law enforcement agencies alone do not have the resources and capabilities to defend against such a vicious and capable enemy as Al-Qaida. Al-Qaida's financial networks have global reach; they are complexly varied. Al-Qaida's financial networks combine Bin Ladin's personal funds, collections of charitable organizations, and drug trafficking revenues to cite only primary sources. The network employs intricate money-laundering schemes and the Hawala system, which is an informal way to transfer money outside regulated financial systems. To disrupt this financial network, the United States must use all of its instruments of national power: economic, diplomatic, informational, and military. The administration is currently applying its economic, informational, and diplomatic powers to disrupt the terrorists' money flow with law enforcement agencies leading the charge. However, law enforcement agencies, despite support from economic, informational, and diplomatic instruments of power, may be relatively ineffective against heavily armed and savage non-state actors and rogue states conducting financial dealings in countries that are unable or unwilling to cooperate. To confront this threat, the United States should not withhold its military capabilities. However, the United States should seek cooperation from its allies and the international community to achieve required legitimization and good will. The United Nations Charter in general and Security Council Resolution 1337 in particular, authorize the use of military forces for the enforcement of targeted financial sanctions against terrorist organizations. Unfortunately, history reveals that UN sanctions enforcement efforts have yielded mostly disappointing results for the UN and most of its member states lack a credible capacity to enforce sanctions. To improve the chances for successful targeted financial sanctions against Al-Qaida, the United States must use its military resources to support the enforcement of such sanctions.

### **THE ENEMY AS A SYSTEM**

Studying the enemy as a system helps military planners and other analysts identify the enemies' center(s) of gravity. Systematic analysis enables planners to understand and defend against hostile terrorist groups. The concept of describing the enemy as a system was introduced during World War II.<sup>1</sup> Air Force Colonel John Warden is a major proponent of the concept; he successfully applied it in the planning of the air campaign for DESERT STORM. To apply the concept, COL Warden developed a "simplified model", which he called the five-ring model<sup>2</sup>. According to Warden the model "seems to describe most systems with acceptable

accuracy and it is easily expandable to get finer details as required”<sup>3</sup>. In a 1995 article, Warden offers three variations of the model. First, the five rings are depicted in a static, simple graphical form. The second variation reveals a number of subsystems moving around the center. Finally, a third variation, in which the rings become ellipses accounts for dynamic systems. Subsystems then orbit around given centers. Their varied orbital distances from the

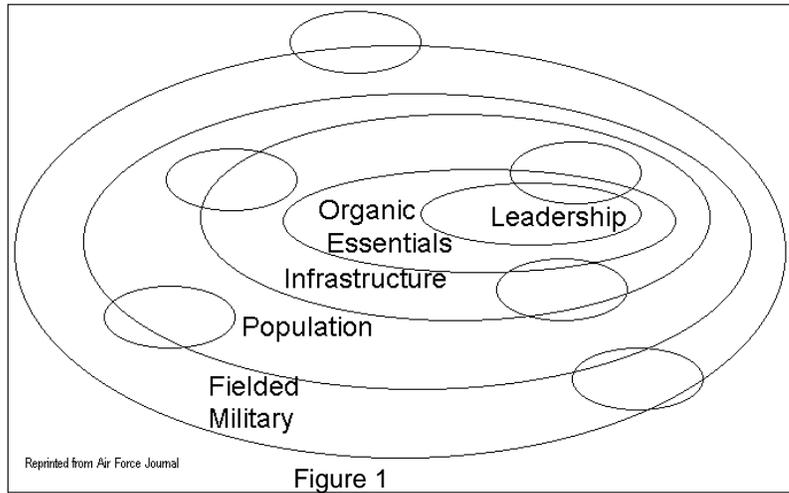


Figure 1

center indicate their relative importance to the center. Figure 1 offers a systematize view of Al-Qaida according to Warden’s third variation. Critical Al Qaida’s subsystems are independent terrorists’ cells spread around the world. Within the Al-Qaida network organization, not all subsystems “are going to have precisely the same relationship among the five rings”<sup>4</sup>. Chuck Lutes, student at the George Washington University, used the five-ring model to describe Al-Qaida as a system in the “traditional military approach”<sup>5</sup>. Lutes’ analysis of Al-Qaida identifies the factors and considerations that make up its leadership, organic essentials, infrastructure, population, and fielded military. This analysis is useful in identifying vulnerabilities of the Al-Qaida system.

## LEADERSHIP

Under Usama Bin Ladin’s leadership, Al-Qaida has become a network of a number of members and factions from several Islamic militant organizations around the world. Among them are Egypt’s Islamic Group and Al-Jihad, Algeria’s Armed Islamic Group, Pakistan’s Harakat ul-Mujahidin, the Islamic Movement of Uzbekistan, and opposition groups in Saudi Arabia.<sup>6</sup> To coordinate and direct terrorist activities AL-Qaida relies on a consultation council and a number of committees: military, business, religious, and media. The organization is “distributed and networked”<sup>7</sup>. Sarcastically, Time likened the Al-Qaida network to “fast-food franchises”<sup>8</sup>. The leadership, through its committees, provides broad guidance and leaves the

detailed planning and execution to the cells. Thus, the command and control of the organization is rather unstructured and its leadership is in a constant state of flux. Warden suggests that in such cases it is difficult to attack the inner ring (leadership) directly. An indirect approach is necessary. Warden recommends attacking the surrounding rings: organic essentials, infrastructure, population, and fielded military.<sup>9</sup>

#### ORGANIC ESSENTIALS

Lutes identifies Al-Qaida finances as an organic essential to the organization (second critical ring).<sup>10</sup> Other organic essentials include safe heavens and religious support.<sup>11</sup> Warden asserts that “organic essentials are those facilities or processes without which the state or organization cannot maintain itself”<sup>12</sup>. Warden then concludes that:

- a. Damage to organic essentials leads to the collapse of the system.
- b. Damage to organic essentials makes it physically difficult or impossible to maintain a certain policy or to fight.
- c. Damage to organic essentials result in internal or economic repercussions that are too costly to bear.<sup>13</sup>

Many strategists have advocated attacking Al-Qaida financial networks as an indirect measure to weaken the organization’s leadership and supporters. Lutes and other scholars of terrorist organizations have also used other models, besides Warden’s of systems thinking in analyzing Al-Qaida. The results were similar. Financial networks are constantly identified as critical targets that must be attacked to incapacitate Al-Qaida. For example, a RAND research study concluded that finances are among the “things terrorist hold dear”<sup>14</sup>.

#### INFRASTRUCTURE

Al-Qaida infrastructure does not conform to the traditional definition of a state’s transportation networks and production capabilities. Lutes describes Al-Qaida as a “multi-national holding company” in which the headquarters sits in one location and the subsidiaries are spread all over the world.<sup>15</sup> This arrangement deprives adversaries of a well-defined infrastructure that can be easily targeted and effectively destroyed.

#### POPULATION AND FIELDDED MILITARY

In the Al-Qaida system, fourth and fifth rings (population and fielded military) must be considered as one and the same. Lutes notes, “a blurred line of distinction between the terrorists themselves and the population within which they operate is a unique characteristic of

terrorist organizations”<sup>16</sup>. Al-Qaida population and militants are a coalition of disparate radical Islamic groups of varying nationalities. The Los Angeles Times reported that “Bin Laden’s crusade against the west is increasingly middle class. He has drawn engineers, computer specialists, soldiers, and as the world learned after last week’s catastrophic terrorist attacks—pilots”<sup>17</sup>. Al-Qaida members operate in small and very independent cells (two or three members per cell) with no recognized leader. This unorthodox organizational hierarchy makes terrorists very difficult to track and apprehend.<sup>18</sup>

Some critics consider the five-ring model too static to portray accurately the “fluid and dynamic structure of a terrorist organization”<sup>19</sup>. However, the model enables us to perceive Al-Qaida as an enemy system “thereby dissecting the critical nodes with the goal of identifying centers of gravity”<sup>20</sup>. Identification of the critical nodes facilitates the decision of whether to attack the critical node directly or indirectly. In the case of Al-Qaida, attacks on the critical nodes should be both: direct and indirect attacks. To get to the leadership, infrastructure, population, and fielded military, direct attacks on the organic essentials are paramount. The United States attacked Afghanistan to deprive Al-Qaida of a safe heaven (primary objective of Operation ENDURING FREEDOM). However, disrupting Al-Qaida financial networks is proving much more difficult. The Al-Qaida financial networks have a global reach. Among its sources are personal funds, collections of charitable organizations, and revenues from drug trafficking. The network operates around the world through elaborate schemes, including intricate money laundering and Hawala.

## **FINANCING TERRORISM**

As stated above, finance networks are an organic element of the Al-Qaida enemy system. Funding for AL-Qaida comes from many sources. The State Department reported that Bin Laden uses personal funds from his multi-million inheritance to finance Al-Qaida and that the group also “maintains moneymaking front organizations, solicits donations from like minded supporters, and illicitly siphons funds from donations to Muslim charitable organizations”<sup>21</sup>. Despite the lack of hard evidence, investigators are looking at the connection between Bin Laden and some Al-Qaida members with the Afghani, Pakistani, and South America drug trade.<sup>22</sup>

## **INHERITANCE AND PERSONAL FUNDS**

Reportedly, Bin Ladin inherited about \$45 million (initial estimates of \$300 million are now disputed) from his father, who died in an aircraft accident in 1968. Bin Ladin has invested

in stocks and real state; he also owns a number of profitable businesses in North Africa and the Middle East. With a total estimated net worth of over \$100 million, Bin Ladin was able to finance a significant portion of the “recruitment, transportation, and training of Arab nationals who volunteer to fight alongside the Afghan Mujahadin”<sup>23</sup>. Eventually, Bin Ladin organized the Islamic Salvation Foundation, or Al-Qaida, to provide a steady supply of trained individuals to resist the Soviet invasion of Afghanistan.<sup>24</sup> A 1996 Central Intelligence Agency report cite some of Al-Qaida’s achievements in Afghanistan:

- A network of al-Qaida recruitment centers and guesthouses in Egypt, Saudi Arabia, and Pakistan has enlisted and sheltered thousands of Arab recruits. This network remains active.
- Working in conjunction with extremist groups like the Egyptian al-Gam’at al-Islamiyyad, also known as the Islamic Group, al-Qaida organized and funded camps in Afghanistan and Pakistan that provided new recruits paramilitary training in preparation for the fighting in Afghanistan.
- Under al-Qaida auspices, Bin Ladin imported bulldozers and other heavy equipment to cut roads, tunnels, hospitals, and storage depots through Afghanistan’s mountainous terrain to move and shelter fighters and supporters.<sup>25</sup>

In 1989, the Soviets pulled out from Afghanistan, leaving the Mujahadin victorious. Bin Ladin returned home to Saudi Arabia but continued to support Islamic groups that were opposed to current moderate Islamic governments. Bin Ladin’s growing extremism and criticism of the Saudi government led him to seek asylum in Sudan, where he established various businesses. But more importantly, he gathered around him hundreds of ex- Afghan fighters who were not welcomed in their countries because of their extremist views.<sup>26</sup> In 1995, Sudan, under pressure from the international community, expelled Bin Ladin. He then returned to Afghanistan. The CIA has reported that while in Sudan, Bin Ladin not only provided safe heaven to extremists, but also gave financial support to terrorists:

- Islamic extremists who perpetrated the December 1992 attempted bombings against some 100 U.S. Servicemen in Aden—billeted there to support the U.N. relief operations in Somalia—claimed that Bin Ladin financed their group.
- A joint Egyptian-Saudi investigation revealed in May 1993 that Bin Ladin business interests helped funnel money to Egyptian extremists, who used the cash to buy unspecified equipment, printing presses, and weapons.
- By January 1994, Bin Ladin had begun financing at least three terrorist training camps in southern Sudan—camp residents included Egyptian, Algerian, Tunisian, and Palestinian extremists—in cooperation with the NIF. Bin Ladin’s Al-Hijrah for Construction and Development works directly with Sudanese military officials to transport and provision terrorists training in such camps.

- Pakistani investigators have said that Ramzi Ahmed Yousef, the alleged mastermind of the February 1993 World Trade Center bombing, resided at the Bin Ladin-funded Bayt Ashuhada (house of martyrs) guesthouse in Peshawar during most of the three years before his apprehension in February 1995.
- A leading member of the Egyptian extremist group al-Jihad claimed in a July 1995 interview that Bin Ladin helped fund the group and was at times aware of specific terrorist operations mounted by the group against Egyptian interests.
- Bin Ladin remains the key financier behind the “Kunar” camp in Afghanistan, which provides terrorist training to al-Jihad and al-Gama’at al-Islamiyyah members, according to suspected terrorists captured recently by Egyptian authorities.<sup>27</sup>

Al-Qaida’s financial assets have been targeted by two American administrations. In August 1998, former President Clinton signed an Executive Order freezing any U.S. assets owned by Bin Laden in the United States. However, the EO failed to include many of the terrorist organization linked to Al-Qaida and did not put pressure on foreign banks to counteract terrorist financing. This effort was futile in identifying Al-Qaida’s assets in the United States. Within days after the 9/11 attacks, President Bush signed an Executive Order expanding the reach of the efforts against terrorist financing. President Bush ordered a freeze of financial assets of suspected Islamic terrorist groups and individuals. Moreover, he authorized the Treasury Department to impose sanctions on any bank that provided financial services to known terrorist groups. Thus far, the United States (with the help of several countries around the world) has frozen over \$104 million of Al-Qaida’s financial assets; \$24 million of which are known to belong to Bin Laden. The challenge to the United States is that Bin Laden has still access to 75% of his estimated net worth.

## CHARITIES

Although Bin Ladin’s contribution to terrorism from personal funds is notorious, investigators now claim, “charity not Bin Ladin’s fortune is al-Qaida’s main bankroll”<sup>28</sup>. Through elaborate schemes, Al-Qaida has “penetrated and manipulated” legally established charitable organizations.<sup>29</sup> In addition, Al-Qaida has created charitable organizations that serve as fronts “for distributing money to international networks”<sup>30</sup>.

The flow of money from charities to terrorists must be disrupted if we are to win the WOT. Although many donors with good intentions are oblivious to the fact that terrorists are siphoning charities’ funds, some wealthy donors knowingly use charities to support terrorist activities. The reason wealthy donors give million of dollars through charities is “either out of dedication to his [Bin Ladin’s] cause or as protection money”<sup>31</sup>. Many charitable front organizations use the U.S.

banking system to deposit, invest, and transfer their funds. The stability and reliability of this banking system provides terrorist financiers the same opportunities and confidence that international investors enjoy.

The estimated funding channeled through charities for Al-Qaida terrorist efforts exceeds a hundred million dollars. U.S. investigators have identified a number of charities that they believe provide funding to terrorist organizations. The assets of several of these organizations have been frozen. For example, the Holy Land Foundation, which reportedly raised \$13 million in 2001 from American donors, was shut down early this year.<sup>32</sup> In another investigation, U.S. federal agents established a link between a company called BMI (Arabic Beit ul Mal, or House of Finance) and charities that support terrorist activities.<sup>33</sup> In particular, investigators were able to trace \$2.1 million to Mercy International—a charity with ties to Al-Qaida, with offices in Nairobi and Kenya.<sup>34</sup> According to testimony presented in the prosecution of Al-Qaida members in 2000 and 2002, Mercy International allegedly supported the 1998 Al-Qaida attacks against the U.S. embassies in east Africa.<sup>35</sup>

#### DRUG TRAFFICKING

Drug trafficking activities (illegal sale of narcotics and protecting traffickers' logistics network) provide terrorists with another important source of funding. Various terrorist groups that were financially dependent on the Soviets shifted to drug trafficking at the end of the Cold War.<sup>36</sup> Because this provides a readily available source of money, Muslim extremists also shifted to drug trafficking. The illegal trade of opium in Afghanistan and Pakistan, before and during the Taliban regime, to fund terrorist activities has been well documented by the government of India—the target of years of terrorist attacks by Pakistan.<sup>37</sup> As early as 1994, the UN also recognized a lethal link between drug trafficking and terrorism.<sup>38</sup> “Al-Qaeda has been supported by the trafficking of heroin if not directly, as least indirectly via the Taliban in Afghanistan.”<sup>39</sup> In Narco-Terrorism, Douglas J. Davids observed:

Interestingly, some Al-Qaida members may be making a profit from drug trafficking in South America. Currently, the Bush administration is collecting evidence of Al-Qaida cocaine trafficking operatives working on the Paraguay-Argentina-Brazil border. This tri-nation border area is home to a large Muslim population, and it is believed that Islamic terrorist organizations associated with Al-Qaida and Iran's Party of God, such as the Lebanese Hezbollah and the Egyptian Islamic Jihad, among others, operate in this tri-border area.

Al-Qaida members are also believed to produce terrorist funds from drug rights in the U.S. Amin Mohamed Ahmed, of Yemen, is currently wanted by U.S. Customs for the manufacture and sale of methamphetamines. Ahmed is

believed to be an associate of Usama Bin Ladin and responsible for raising funds for terrorist acts.<sup>40</sup>

The funding sources are only one aspect of the ongoing investigations. Of particular importance to U.S. and international investigators is how terrorist organizations in general and Al-Qaida in particular launder and move their money around the world to finance terrorism.

#### MONEY LAUNDERING

Among others, drug traffickers, terrorists, and arm dealers wash an estimated \$1 trillion through money laundering schemes every year.<sup>41</sup> The Attorney General estimates that “almost half of it is attributable to the proceeds from drugs trafficking”<sup>42</sup>. “After foreign exchange and the oil industry, the laundering of dirty money is the world’s third-largest business”<sup>43</sup>. In its basic form, money laundering is a three-step process:

1. Placement: injecting the dirty money into the financial system through bank deposits, purchase of money orders, and other negotiable instruments.
2. Layering: transferring the funds through several accounts to erase the link to criminal activity; shell or dummy companies are established worldwide for this purpose.
3. Integration: bringing the money back into circulation and legal economic activity such as purchase of real estate and other investments.

The investigation that culminated with the closure of Bank of Credit and Commerce International (BCCI) in 1991 revealed the commonality of money laundering schemes. BCCI served both the bad and the good guys. In the mid 1980s “Abu Nidal, the Middle Eastern terrorist, began channeling funds through BCCI. Nidal was soon followed by members of the Medellin cartel”<sup>44</sup>. Another notorious customer of BCCI was Saddam Hussein; through BCCI, he laundered money siphoned from Iraqi oil revenues. Both the National Security Council (Iran-Contra money) and the CIA (to fund Afghan rebels opposing the Soviet invasion) had accounts with BCCI.<sup>45</sup>

Unlike drug traffickers that must wash small denomination bills, Al-Qaida employs money-laundering schemes to “disaggregate and distribute significant amounts of money into smaller denominations to sustain or expand a network of comparatively small cells (typically 3 to 4 operatives). These cells need cash in small denominations to do the recruitment and conduct operations.”<sup>46</sup> As done by any other organization profiting from drug trafficking, Al-Qaida must launder drug money to disassociate the organization from the source of the money.

## HAWALA SYSTEM

Hawala has rightly been called the invisible financing of terrorism.<sup>47</sup> Through the Hawala system, anybody may transfer money almost instantaneously from one country to another, outside the normal banking system, and without any paper trace. The money is usually advanced to depositors on a “handshake and, some times, a password”<sup>48</sup>. For its effectiveness and security, drug traffickers, terrorists, and other criminals are increasingly using the Hawala system to finance their activities worldwide. However, Hawala fulfills a social role in third world countries. It helps “millions of Pakistanis, Indians, Filipinos and other people from Asia working in foreign countries” repatriate much needed cash.<sup>49</sup>

Federal investigators have discovered several Hawala operations within the U.S. Just as the overseas operations, domestic Hawalas serve both criminals (terrorists and drug traffickers) and immigrant workers. In November 2001, the U.S. Treasury Department shut down two Hawalas (Al Barakaat and Al Taqwa) that allegedly facilitated transfer of money from the U.S. to terrorist groups overseas. Al Barakaat and Al Taqwa had offices in Alexandria and Falls Church, Virginia; Minneapolis, Minnesota; Boston, Massachusetts; Seattle Washington; and Columbus, Ohio. Their overseas operations expand from Dubai to Somalia and Switzerland to Italy.<sup>50</sup>

Investigation into the funding for the catastrophic attack of 9/11 disclosed that Al-Qaida reportedly used a Hawala to transfer millions of dollars to Dubai; eventually some of the funds ended up in the hands of Mohammed Atta, the alleged leader of the attack.<sup>51</sup> Al-Qaida’s illegal trade in gold and diamonds fits quite well with the operation of Hawalas—gold is often used to balance Hawala accounts.<sup>52</sup>

## FINANCING TERRORISM IN SUMMARY

The U.S. government clearly recognizes that disruption of the financial infrastructure of terrorism is an essential element of the WOT. The first action President Bush took in the aftermath of 9/11 was to issue an Executive Order “to starve terrorist of their support funds”<sup>53</sup>. The EO broadened the authorities of various federal agencies to target the funding of terrorist organizations domestically and abroad. In seeking to disrupt the financial infrastructure of terrorism, the Bush administration implemented a number of trade measures and economic sanctions. However, the administration has drawn a sharp line between the economic and financial responses and the military campaigns against terrorism. The Treasury Department is the lead agency in conducting the former (considered strictly a law enforcement issue). The military plays a limited supporting role in this phase of the WOT. The Department of Defense

plans and executes the military campaign. However, only a broad coordinated strategy—in which all resources and capabilities are brought to bear—can effectively disrupt the complex and sophisticated terrorists’ global financial networks. Since it is global, it must be attacked globally with the support of the international community. Indeed, unilateral sanctions have proven to be ineffective in a globalized economy and only a strong enforcement mechanism can render sanctions effective.<sup>54</sup> More importantly, the international community— particularly the UN—prefers targeted to comprehensive sanctions. The UN has recently advocated targeted sanctions to decrease the second- and third order-effects of comprehensive sanctions.

### **ECONOMIC SANCTIONS AND THE WOT**

It was no surprise that one of the first U.S. government policy responses to the 9/11 attacks involved economic sanctions. A 1998 Congressional Research Service Report asserted, “Some suggest there is a post Cold War trend toward sanctions becoming the method of first resort in foreign policy”<sup>55</sup>. A cursory review of the number of sanctions imposed in recent decades supports this assertion. For example, there have been 14 cases of UN multilateral sanctions since 1990 and more than 50 cases of U.S. and European Union sanctions during the same period.<sup>56</sup> Economic sanctions are normally the final diplomatic effort before military action.

In today’s globalized environment, enforcement of economic sanctions is very difficult. Countries around the world are taking advantage of the increasing opening of new markets, which provide virtually unlimited sources of desired commodities. Another factor negatively affecting the effectiveness of economic sanctions is their undesirable second-order effects.<sup>57</sup> More important among negative effects is their impact on non-governmental population: hunger, deprivation, and even death of children owing to cut-offs of medical supplies. Critics argue that such undesirable second-order effects do not justify the imposition and enforcement of comprehensive sanctions. To avoid criticism and reduce social consequences, the UN has implemented a “smart” sanctions strategy that makes use of targeted sanctions.

The Security Council, in response to member states’ dissatisfaction with comprehensive and general trade sanctions, has shifted almost entirely to targeted sanctions. Since 1990, all Security Council and European Union sanctions have been selective.<sup>58</sup> Most familiar examples of these targeted sanctions are those imposed on Serbia in 1992 and Afghanistan in 1999. Preliminary results indicate, however, that smart sanctions strategy is not a panacea. Much work needs to be done to improve their imposition and enforcement.

## ECONOMIC SANCTIONS DEFINED

Economic sanctions are “coercive economic measures taken against one or more countries to force a change in policies, or at least to demonstrate a country’s opinion about other’s policy.”<sup>59</sup> “For example, economic sanctions include measures such as trade embargoes, denial of foreign assistance, and restriction in exports and imports. Although economic sanctions are limited tools, they raise the cost of an objectionable policy and apply pressure that might lead to a negotiated settlement.”<sup>60</sup> However, sanctions do not work in a vacuum; they must be used in combination with other policy instruments within an overall strategy.

The President’s authority to impose economic sanctions is discharged in two ways. First, the President may declare a national emergency and invoke the powers vested in his office by the International Emergency Economic Powers Act. Secondly, the President may exercise the authority stated in various Public Laws. The U.S. Congress may also impose sanctions either by conferring additional presidential authority or by enacting laws that will automatically trigger sanctions when the targeted state does not meet certain conditions.

## U.S. POLICY OBJECTIVES

The United States uses economic sanctions as instrument of policy both unilaterally and multilaterally. The executive and judicial branches of the United States have enacted laws or imposed economic sanctions unilaterally to protect U.S. interest. Under the UN’s auspices, the U.S. may participate in the imposition and enforcement of multilateral sanctions. For example, the United States has imposed sanctions against governments for violating human rights, sponsoring international terrorism, or engaging in the proliferation of weapons of mass destruction. A Congressional report specifies reasons for which the U.S. may impose sanctions:

- express its condemnation of a particular practice such as military aggression; human rights violations; militarization that destabilizes a country, its neighbors or the region; proliferation of nuclear, biological, or chemical weapons or missiles; political, economic, or military intimidation; terrorism; drug trafficking; or extreme national political policies contrary to basic interests or values of the United States (e.g., apartheid, communism);
- punish those engaged in objectionable behavior and deter its repetition;
- make it more expensive, difficult, or time-consuming to engage in objectionable behavior;
- block the flow of economic support that could be used by the targeted entity against the United States or U.S. interest;

- dissuade others from engaging in objectionable behavior;
- isolated a targeted country (or company or individual);
- force a change or termination of objectionable behavior; or
- coerce a change in the leadership or form of government in a targeted country.<sup>61</sup>

## POLICY TOOLS

The report then cites the following economic policy tools, which the U.S. government has used at one time, or another in response to a variety of targeted countries' repugnant behaviors:

- Foreign assistance, all or some programs, could be terminated, suspended, limited, conditioned, or prohibited. Foreign assistance to particular organizations that operate in targeted countries could be curtailed. U.S. government arms sales and transfers, military assistance, and International Military Education and Training (IMET) funding could be similarly restricted. Scientific and technological cooperation, assistance, and exchanges could be reduced or halted.
- Both public and private sector financial transactions could be restricted; assets in U.S. jurisdictions could be seized or frozen, or transactions related to travel or other forms of exchange could be limited or prohibited.
- Importation and exportation of some or all commodities could be curtailed by denying licenses, closing off shipping terminuses, or limiting related transactions.
- Government procurement contracts could be canceled or denied.
- Negative votes on loans, credits, or grants in international financial institutions could be cast, or the United States could abstain in voting.
- Trade agreements or other bilateral accords could be abrogated, made conditional, or not renewed. Beneficial trade status could be denied, withdrawn, or made conditional. Trade and import quotas for particular commodities could be lessened or eliminated altogether. The U.S. tax code could be amended to discourage commerce with a sanctioned state.
- Funding for investments, through the Overseas Private Investment Corporation, Trade and Development Agency, or Export-Import Bank, could be curtailed.
- Aviation, maritime, and surface access to the United States could be canceled or denied.
- Certain acts associated with sanctionable behavior could be made a criminal offense—making the targeted individual subject to fines or imprisonment.

Additionally, sanctions could be applied against those individuals, businesses, or countries that continue to trade with or support targeted individuals, businesses, or countries.<sup>62</sup>

This policy framework provides instruments to respond to countries that offer safe haven to terrorist organizations. It also addresses private sector financial transactions and responses to targeted individuals; these measures are critical in designing targeted sanctions against non-state actors.

The United Nations Charter (Chapter VII, Articles 41 and 42) set forth for the Security Council the legal framework for imposing economic sanctions and the authority to enforce such sanctions with military forces if needed.

#### TARGETED FINANCIAL SANCTIONS

The UN adopted a smart sanctions strategy because it needed sanctions policies that were, in the words of Secretary General Kofi Annan, “less blunt and more effective”<sup>63</sup>. Smart sanctions are “strategies that impose coercive pressure on decision-making elites”<sup>64</sup>. David Cortright and George A. Lopez define smart sanctions policy as “one that imposes coercive pressures on specific individuals and entities and that restricts selective products or activities, while minimizing unintended economic and social consequences for vulnerable populations and innocent bystanders”<sup>65</sup>. Among other things, smart sanctions strategy targets financial sanctions. Tools available under targeted financial sanctions include freezing financial and capital assets, blocking financial flows, canceling debt reschedules, and withholding credits, loans, and humanitarian assistance.<sup>66</sup> Nonetheless, the only measure that might prove to be effective without triggering injurious second order effect is the freezing of financial assets.<sup>67</sup> To convey effectively the message that the WOT is directed exclusively at terrorist organizations and not of the entire Muslim world, U.S. policy makers must eliminate undesirable second and third order effects of economic sanctions. Targeted financial sanctions indeed limit these unanticipated and counter-productive effects.

The United States now acknowledges that successful operations to “dismantle the financial infrastructure of terrorist groups like Al-Qaida must be international in nature”<sup>68</sup>. Therefore, the United States is cooperating (when it is security prudent) with the UN to freeze financial assets (key targeted financial sanction tool) of elite groups believed to support terrorist groups. Jimmy Gurule, Treasury Undersecretary for Enforcement put it this way:

Thus, when the U.S. designates persons or entities [as having terrorist connections] those names are forwarded to the UN Sanctions Committee. The members of the UN Committee have 48 hours to object or the names are placed

on the UN Security Council list. All states are required to freeze assets and prevent assets from being made available to the terrorists.<sup>69</sup>

The smart sanction strategy adopted by the UN thus seeks to target decision-making elites, either particular individuals or groups. The first and most critical step in enforcing targeted financial sanctions is to identify the targets; next assets and resources that are most valuable to the target are identified. Finally, sanctions are designed to deny access to valuable assets and resources to coerce the targeted parties to change their policies.

The international community has made great strides in designing effective targeted sanctions policymaking. For example, the Interlaken process sponsored by the Swiss government set in motion several important initiatives. At the Interlaken conference academic, diplomatic and banking experts, lawyers, and NGO staff drafted a manual for the design and implementation of targeted financial sanctions. The manual provides states and banks a number of useful templates and decision-making tools for achieving sanctions' objectives.<sup>70</sup> However, the UN is experiencing "serious problems in its international efforts to track the terrorist network's finances"<sup>71</sup>. The UN and most of its member countries lack the intelligence resources to identify potential financial sanctions targets.

#### **U.S. STRATEGY TO DISRUPT TERRORIST FINANCING**

The U.S. strategy to disrupt the financial infrastructure of terrorist groups includes enacting new legislation and strengthening current legislation as well as working with the international community through both the UN and bilateral/multilateral agreements with key countries. Yet, all these efforts to disrupt terrorist financial networks rely on law enforcement resources, with the military playing only a limited support role. Many critics argue that the military should stay out of this mission completely. What those critics fail to notice, however, is that the U.S. government had substantially increased the number of law enforcement resources for terrorism investigations even before the 9/11 attacks. Between 1993 and 2000, the number of FBI agents assigned to counterterrorism more than doubled to 1,400.<sup>72</sup> In its June 2000 report, the National Commission on Terrorism acknowledged the value of law enforcement agencies in the investigation and apprehension of terrorists, but emphasized the diplomatic and military responses to terrorist incidents and advocated improved intelligence gathering.<sup>73</sup>

Internationally the United States has vigorously joined the efforts of the Financial Action Task Force (FATF)—created by the group of leading financial nations (G-8). (The G-8 members are Britain, Canada, France, Germany, Italy, Japan, Russia, and the United States). The United States is also assisting the UN by identifying supporters of terrorist organizations against which

to apply economic sanctions. Domestically, federal agencies have integrated their efforts to identify and disrupt the terrorist money flow both at home and abroad.

In light of the small percentage of funds that have been identified and frozen, it appears that the global effort to cut off terrorists' financial assets clearly exceeds the capacity of U.S. law enforcement agencies. The Treasury Department recently reported that approximately \$104 million in terrorists' assets had been frozen—\$34m in the U.S. and \$70m in over 160 countries around the world.<sup>74</sup> This is an impressive figure until it is compared to the estimated Al-Qaida's net worth of \$580 million and the additional hundredths of millions allegedly owned by other known terrorist organizations.<sup>75</sup> Federal agencies are facing similar challenges in their campaign to stop money laundering related to drug trafficking. For example, since 1995 the Treasury Department has identified more than 10 drug kingpins and 568 Specially Designated Narcotic Traffickers. Overall, the Department has confiscated \$275 million.<sup>76</sup> This is roughly 1 percent of the estimated \$300 billion to \$500 billion of the annual drug trade revenue.<sup>77</sup> Similar failure in disrupting the financial networks of terrorists' organizations could have catastrophic consequences.

#### FINANCIAL ACTION TASK FORCE (FATF)

Established by the G-8 in 1989, the FATF includes 29 member countries. Until 11 September 2001, the purpose of FATF was solely to combat "money laundering on an international, multilateral level"<sup>78</sup>. In the aftermath of the 9/11 attacks, the FATF broadened its scope to "address terrorism financial issues"<sup>79</sup>. As a result, the FATF issued eight Special Recommendations on Terrorist Financing to help governments safeguard their financial institutions from terrorist disruption.<sup>80</sup> These are the eight recommendations:

- I. Ratification and implementation of UN instruments. (Particular importance placed on implementation of United Nations Security Council Resolution 1373).
- II. Criminalizing the financing of terrorism and associated money laundering.
- III. Freezing and confiscating terrorist assets.
- IV. Reporting suspicious transactions related to terrorism.
- V. International co-operation: Under this recommendation, the FATF encourages mutual legal assistance or information sharing. It also discourages nations from providing safe heavens for individuals charged with financing terrorism, terrorist acts or terrorist organizations.

- VI. Alternative remittance: This is a recommendation for the licensing or registering of all individuals and establishments that are in the business of transmitting money, negotiable instruments, and anything of value.
- VII. Wire transfers: This recommendation asks for inclusion of meaningful originator information on all fund transfers.
- VIII. Non-profit organizations: This recommendation solicits a review of laws and regulations that relate to entities that can be abused for the financing of terrorism.<sup>81</sup>

However, FATF recommendations are only that, recommendations. Peer pressure is the only enforcing mechanism. However, the first recommendation provides the first divergence to this constraint. In promoting implementation of UNSCR 1373, FATF is indirectly encouraging UN sanctions enforcement measures that by de facto include action by military forces.

#### SECURITY COUNCIL RESOLUTIONS

Shortly after the 9/11 attacks, the UN moved surprisingly quickly not only to condemn the attacks, but also to pass Security Council Resolution (UNSCR) 1373 on 28 September 2001. UNSCR 1373 “mandates that all States prevent and suppress the financing of terrorist acts”<sup>82</sup>. The resolution also created a monitoring arm—the Counter-Terrorist Committee charged with tracking the implementation of the resolution. Subsequently the UN adopted additional UNSCRs, which foster international cooperation in starving terrorists of financial support. Jimmy Gurule, Treasury Undersecretary for Enforcement describe the scope of the new UNSCRs:

For instance, many countries, despite the good intentions of the government, do not have the domestic laws necessary to allow the government to take blocking action legally. In some of these cases, legal authority was obtained via UN Security Council Resolutions (UNSCRs) 1267, 1337 and 1390. Let me take a moment to explain how this works. UNSCRs 1267 and 1337 are now combined in UNSCR 1390. UNSCR 1390 was adopted January 16, 2002, and requires all UN member States to block the assets of the Taliban, Usama bin Ladin, the al-Qaida organization and those linked to them. Thus, when the U.S. designates persons or entities under E.O. 13224, those names are forwarded to the U.N. Sanctions Committee. The members of the U.N. Committee have 48 hours to object or the names are placed on the U.N. Security Council lists. The UN’s so called “1267 Committee” maintains a list of blocked individuals and entities. All states are required to freeze their assets and prevent assets from being made available to them.<sup>83</sup>

The UNSC carefully crafted these resolutions to ensure selective implementation—exclusively directed at specific groups. The resulting targeted financial sanctions should disrupt

the money flow of terrorist groups without inflicting unreasonable suffering on innocent civilians. However, the UN and most member states lack the capability to enforce sanctions. Without enforcement, sanctions are null. So, the United States must continue its efforts to support passage on UN resolutions designed to contain financing of terrorist organizations. However, more importantly, the United States must intervene, using all instruments of power, to ensure that the resolutions are strongly enforced.

#### U.S. LEGISLATION

Still in shock from the terrible attacks of September 11 and at the urging of the President, the U.S. Congress passed the USA Patriot Act in September 2001. Through this legislation, the President and the U.S. Congress strengthened existing money laundering legislation. The Patriot Act:

[A]mends federal law governing a range of illegal monetary transactions, including money being manipulated for the purpose of corruption of officials. It further prescribes guidelines under which the Secretary of the Treasury may require domestic financial institution and agencies to take specified measures if reasonable ground exist for concluding that jurisdictions, financial institutions, types of accounts, or transactions operation outside or within the United States are of primary money laundering concern.<sup>84</sup>

The Patriot Act allows Federal agencies, among other things, to legally confiscate funds from interbank and correspondent bank accounts. These accounts were previously excluded from money laundering legislation. More importantly, the strengthen legislation allows for the forfeiture of any asset that in any way, form, or shape is related to terrorist activities.<sup>85</sup> Although the legislation strengthens law enforcement authority, seizure of overseas assets will continue to depend on the cooperation the U.S. authorities receive from other countries. Cooperation will be more difficult where is needed the most—in countries that are unwilling or unable to enforce international laws and establish adequate institutions.

#### INTERAGENCY INVOLVEMENT

The Departments of Justice, State, and Treasury, the Coast Guard, the National Security Council, the intelligence community and other federal agencies have integrated their efforts to identify and disrupt the terrorist money flow. For example, in Operation GREEN QUEST the U.S. Customs Service sought to disrupt the Al-Qaida's abuse of the Hawala system in Dubai, Hong Kong, and Malaysia.<sup>86</sup> Through various customs mutual assistance agreements, "the U.S. Customs Service assists in gathering information and evidence for trade fraud, smuggling, violation of export control laws, money laundering, and narcotic trafficking"<sup>87</sup>.

As a result of the 9/11 attacks, the U.S. Treasury Department established the Foreign Terrorist Assets Tracking Center (FTATC) through which the department tracks and targets terrorist financing worldwide.<sup>88</sup> With the participation of other Federal agencies, the FTATC strives to identify and freeze terrorist groups' assets to curtail their activities.<sup>89</sup>

The United States administers and enforces economic sanctions through the Office of Foreign Assets Control (OFAC).<sup>90</sup> The Department of Treasury established OFAC during World War II (under the name of the Office of Foreign Funds Control) to protect the financial assets of occupied countries in Europe.<sup>91</sup> During the Cold War years, OFAC administered a number of important seizures of financial assets in North Korea and China (1950), Iran (1979), and in South Africa (1986).<sup>92</sup> Today OFAC is leading U.S. efforts to freeze financial assets of terrorist organizations and their supporters.

The U.S. Treasury Department agency that leads the efforts in collecting data that may be used against money launderers is the Financial Crimes Enforcement Network (FinCEN). Established in 1990, FinCEN serves as a hub for information on financial transactions in general and cash transactions in particular.<sup>93</sup> FinCEN analysts study financial transactions to identify patterns that may indicate illegal activities. Financial intelligence (the product of the study on the financial transactions) is passed to domestic and international law enforcement agencies through a network of Finance Intelligence Units.<sup>94</sup> Governments around the world have established Financial Intelligence Units (FIUs) to coordinate the exchange of investigative information. FIUs (also known as the Egmont Group) analyze financial information and disseminate intelligence data to their particular countries' domestic and international law enforcement agencies.<sup>95</sup> The FIUs meet every year to "find ways to cooperate in money laundering issues, especially in the areas of information exchange, training and the sharing of expertise"<sup>96</sup>.

## MILITARY SUPPORT

Law enforcement and other federal agencies have taken the lead in disrupting terrorist financing, while the military plays a limited supporting role. The bulk of the support is restricted to intelligence gathering in foreign countries and loans of specialized equipment. The targets of DoD intelligence efforts are the leaders and lieutenants of the terrorists groups. Shortly after the USS Cole attack, the Defense Intelligence Agency (DIA) revamped its counterterrorism operation and established a new terrorism analysis center.<sup>97</sup> In addition to the DIA, the Department of Defense's intelligence gathering apparatus includes assets of the National

Security Agency, the Central Imagery Office, the National Reconnaissance Office, and the intelligence arms of the military services.<sup>98</sup>

However, military support to law enforcement within the United States is highly restricted. Critics argue that the century old Posse Comitatus Act specifically prohibits the use of military forces to enforce domestic law. However, a more careful review of the PCA reveals that this is a quite narrow interpretation and leaves out a very important aspect of the act. In fact, the act establishes that “Whoever, except in cases and under circumstances expressly authorized by the Constitution or Act of Congress, willfully uses any part of the Army or Air Force as Posse Comitatus or otherwise to execute the laws should be fined”<sup>99</sup>. The PCA indeed permits the use of the military in law enforcement activities when authorized by the Constitution or by statute. In efforts to combat the importation and use of illegal drugs, Congress has passed various laws that provide greater flexibility and facilitate DoD’s support to law enforcement agencies.<sup>100</sup> However, many still consider the PCA a major obstacle to using our military in support of homeland defense. This misinterpretation of the PCA hindered military assistance during the Los Angeles Riots in 1992. Flawed interpretation of the PCA led the Task Force Commander to faulty employment of federalized National Guard soldiers. The JTF-LA Cdr did not understand that the President’s Executive Order of 1 May “provided the JTF-LA the authority to restore law and order, which included the performance of law enforcement activities”<sup>101</sup>. In the WOT, we cannot allow misinterpretation of the PCA to inhibit our use of the military.

The first and most important step in enforcing targeted financial sanctions is the identification of the targets—elite groups, financiers, and other supporters. It is after these elements of terrorists groups that the military intelligence apparatus must devote more attention to help disrupt the financial workings of terrorists. The UN recently complained about the shortcomings in cooperation at the international level to cut off the finances of terrorist organizations. The main point of discord was the lack of intelligence sharing.<sup>102</sup> Comparable conditions have led law enforcement agencies to confiscate only a tiny portion (about one percent) of the estimated money laundered annually by drug traffickers. Similar failure in the fight against terrorist financing could be catastrophic.

## **CONCLUSION**

Financial networks are an organic, essential, and critical capability of terrorist organizations. The U.S. relies on a sophisticated and robust network of policy tools, federal agencies, and international cooperation to disrupt the financial network of terrorist organizations. Even so, money continues to flow to terrorist organizations in general and to Al-Qaida in

particular. The dollar amount of the assets frozen by the Treasury Department (in cooperation with Federal and international agencies) since 9/11, pales in comparison to the estimated sums of assets owned by terrorist groups.

The New York Times reported in December 2002, “the United Nations group formed to stop the flow of funds to Al-Qaida has concluded that serious problems in international efforts to track the terrorist network’s finances have left it still able to receive money<sup>103</sup>”. This particular situation may indicate the U.S.’s unwillingness to cooperate with the UN. It also highlights serious obstacles that exist in coordinating efforts through various countries around the world. However, the best chance that the U.S. has in disrupting terrorist financing is to work in close coordination with the international community and with the UN in particular. The enforcement of targeted financial sanctions starts with the identification of targets. The US military can make a significant contribution at this most critical step of the enforcing process.

Efforts to prevent money laundering are difficult to carry out in countries that are not willing to cooperate. “The dirty money tends to find the dark spots—the countries having lax regulations, weak institutions, or an inability to enforce the laws. These are good places to bank if you are a criminal”<sup>104</sup>. However, the U.S. homeland itself provides money-laundering facilities. In fact, many investigations have discovered that terrorist organizations receive financial support from organizations and schemes created for that purpose within the United States borders.<sup>105</sup>

Funding also comes from the insidious link between terrorism and drug trafficking—a fact that until recently was overlooked, if not intentionally at least calculatingly.<sup>106</sup> Terrorist groups profit both from protecting the supply routes of drug traffickers and from selling drugs.

The events on 9/11 were the very first catastrophic terrorist attacks on the continental United States by a foreign adversary in the two and a quarter centuries of history. Although many measures and diverse initiatives have since been implemented, the threat of a catastrophic terrorist attack is as strong today as it was before 9/11. To prepare for and prevent future attacks, the United States should employ all available capabilities both at home and abroad. The U.S. military has historically defended the homeland—it was the forefathers’ primary reason for raising an armed force. The time has come for serious debate about removing legal restrictions (actual or perceived) that prevent DoD’s execution of the homeland defense mission. Both the National Security Strategy and the National Military Strategy call for a “broad portfolio of military capabilities that include the ability to defend the homeland”<sup>107</sup>.

## RECOMMENDATION

The United States should continue to use multilateral economic targeted sanctions to accomplish its national goals and objectives, in particular to disrupt the financial network of terrorists groups. The United States should support the UN efforts to freeze the financial assets of elites groups and financial backers. This particular type of targeted financial sanction limits second and third order effects. Military forces have a long history as the sanctions enforcer of choice.<sup>108</sup> Enforcement of targeted financial sanctions is a critical aspect of the WOT. In particular, military forces and capabilities could assist in identifying targets—elites groups and financial supporters and facilitators. The identification of targets is the first and most important step in enforcing targeted financial sanctions.

In supporting the UN, the United States will unequivocally acknowledge that sanctions imposed in cooperation with other states and international organizations have generally produced better results than unilateral restrictions.<sup>109</sup> Although achieving consensus among several states is always difficult, the United States will gain significant advantage, goodwill, and world cooperation from an internationally coordinated sanctions policy.

Without international cooperation the campaign to disrupt the money flow to groups, such as Al-Qaida will lack legitimacy and will ultimately be futile. The efforts to starve terrorists from financial support should focus on targeting the financial assets of decision-making elites. It should employ military forces and capabilities to enforce sanctions, particularly in countries that do not have adequate regulations, infrastructure, and law enforcement resources. This recommendation supports Security Council Resolution 1373, which among other things created the Counter-Terrorism Committee and ordered countries to impose financial sanctions against persons and organizations that commit or support terrorist acts.

Military forces have valuable capabilities that could facilitate the identification of elites groups, and financiers of terrorist groups. For example, the U.S. military is capable of establishing a communications network anywhere in the world that could serve to identify and track groups' elites involved in the financing of terrorist groups. This communication capability could serve very well in countries that do not have the assets to expediently pass critical information to U.S. and international agencies.

The military intelligence community could contribute to enforce sanctions “by collecting, integrating, and analyzing massive amounts of data and information on large numbers of seemingly diverse entities”<sup>110</sup>. Knowledge is critical to success in the WOT. Nobody has made this point stronger than President Bush himself: “Knowledge reduces risk or uncertainty for the decision maker, regardless of the echelon—squad leader to the President”<sup>111</sup>. Infiltration of the

terrorist financial networks—such as offshore banks and charity organizations—will help U.S. agencies predict future attacks by following the money flow. It will also identify groups' elites and financial supporters so the UN may impose targeted financial sanctions.

Human Intelligence (humint) will be most productive in locations where corruption is rampant, laws and regulations are too lax, and there is simply an unwillingness to cooperate with international efforts to stop the terrorism money flow. In particular to detect and dismantle Hawala operations that support terrorist financing. Department of Defense humint assets are scarce, but at the same time are well trained and experienced. In the past, DoD has deployed these resources worldwide to places such as Panama, the Persian Gulf, and Somalia.<sup>112</sup> DoD not only receives the lion's share of the \$30 billion intelligence budget, but also has over 1,000 operatives and 13,000 intelligence analysts.<sup>113</sup>

Information operation (IO) is a field developing field; it embraces a whole range of capabilities from Operational Security (OPSEC) to satellite imagery. Of great interest is its capability not only to protect friendly computer networks (Computer Network Defense), but also to execute Computer Network Attacks. These include attacks on telephone networks (the main communication channel of Hawala operators). The legal implications of conducting offensive IO are yet to be fully explored. However, we should consider the benefits of identifying and disrupting the financial dealings of terrorist groups in troublesome offshore banking operations, despite any legal issues that may prove relevant.

Finally, the same Civil Affairs capabilities that permit military forces to perform activities and functions normally associated with reconstruction of local governments could support the enforcement of targeted financial sanctions. For example, personnel with knowledge in accounting, financing or banking could help in establishing accepted banking regulations and procedures in countries that lack expertise. Alternatively, these same personnel could work covertly as bank personnel in countries unwilling to cooperate with international banking regulations. In addition, civil affairs professionals or military personnel with banking education could augment Federal agencies to track down suspicious money transfers and financial transactions.

The most critical step in enforcing targeted financial sanctions is to identify potential targets. Military forces not only have the capabilities to conduct this enforcement action, but they are the sanctions enforcer of choice. Enforcement of targeted financial sanctions should not be the exemption.

WORD COUNT = 8,980.



## ENDNOTES

- <sup>1</sup> Chuck Lutes, "Al-Qaida in Action and Learning: A Systems Approach," December 2001; available from <[http://www.au.af.mil/au/awcgate/readings/al\\_qaida2.html](http://www.au.af.mil/au/awcgate/readings/al_qaida2.html)>; Internet; accessed 19 December 2002.
- <sup>2</sup> John A. Warden, "The Enemy as a System", *Airpower Journal*, 11 (Spring 1995): 44.
- <sup>3</sup> Ibid.
- <sup>4</sup> Ibid, 47.
- <sup>5</sup> Lutes, 1.
- <sup>6</sup> John Prados, ed., *America Confronts Terrorism* (Chicago, IL: Ivan R. Dee, 2002), 193.
- <sup>7</sup> Paul K. Davis and Brian Michael Jenkins, "Deterrence & Influence in Counterterrorism: A Component in the War on al Qaeda," RAND for the Defense Advance Research Project Agency, 2002: 23
- <sup>8</sup> Adam Cohen, "How Bin Laden Funds His Network," *Time*, 1 October 2001, p. 63 (991 words) [database on line]; available from Lexis-Nexis; accessed 25 November 2002.
- <sup>9</sup> Warden, 50.
- <sup>10</sup> Lutes, 4.
- <sup>11</sup> Ibid.
- <sup>12</sup> Warden, 50.
- <sup>13</sup> Ibid.
- <sup>14</sup> Davis, 48.
- <sup>15</sup> Lutes, 4.
- <sup>16</sup> Ibid.
- <sup>17</sup> Bob Drogin, "After the Attack," *Los Angeles Times*, 21 September 2001, part A, pg1 (2056 words) [database on line]; available from Lexis-Nexis; accessed 25 November 2002.
- <sup>18</sup> Lutes, 4.
- <sup>19</sup> Ibid.
- <sup>20</sup> Russell Smith, "Developing an Air Campaign Strategy", 23 November 1999; available from <<http://www.airpower.Maxwell.af.mil/airchronicles/ccsmith.html>>; Internet; accessed 19 December 2002.

<sup>21</sup> Prados, 127.

<sup>22</sup> Douglas J. Davids, Narco-Terrorism: A Unified Strategy to Fight a Growing Terrorist Menace (Ardsley, NY: Transnational Publisher, Inc., 2002) 31.

<sup>23</sup> Prados, 167.

<sup>24</sup> *Ibid.*, 169.

<sup>25</sup> *Ibid.*

<sup>26</sup> Lisa Beyer, "The Most Wanted Man in the World," Time, 24 September 2001, p. 54 (2902 words) [database on line]; available from Lexis-Nexis; accessed 25 November 2002.

<sup>27</sup> Prados, 170.

<sup>28</sup> Cohen, 63.

<sup>29</sup> Kimberly L. Thachuck, "Terrorism's Financial Lifeline: Can it be severed?," Strategic Forum, no.191 (202): 3.

<sup>30</sup> *Ibid.*

<sup>31</sup> Cohen, 63.

<sup>32</sup> Thachuck, 3.

<sup>33</sup> Glenn R. Simpson, "Intricate Web," Wall Street Journal, 26 November 2002, sec A, p. 10.

<sup>34</sup> *Ibid.*

<sup>35</sup> *Ibid.*

<sup>36</sup> Jeffrey Robinson, The Laundrymen: Inside Money Laundering, the World's Third-Largest Business (New York, NY: Little, Brown and Company: Arcade Publishing, Inc., 1996), 259.

<sup>37</sup> Kshitij Prabha, "Narco-Terrorism and India's Security," Strategic Analysis, 10 (January 2001): 5 [database on line]; available from ciaonet; accessed 2 October 2002.

<sup>38</sup> *Ibid.*

<sup>39</sup> Thachuck, 4.

<sup>40</sup> Davids, 33.

<sup>41</sup> Wendy Chamberlin, "The Fight Against Money Laundering," Economic Perspectives, no. 6 (2001): 2.

- <sup>42</sup> John Ashcroft, "Prepared Remarks, Organized Crime Conference," 7 August 2001; available from <<http://www.usdoj.gov/ag/speeches/20001/0807organizedcrimerem.htm>> accessed 3 February 2003.
- <sup>43</sup> Robinson, 13.
- <sup>44</sup> Ibid, 52.
- <sup>45</sup> Ibid, 59.
- <sup>46</sup> Thachuck, 3.
- <sup>47</sup> N.S. Jamwal, "Hawala-The Invisible Financing System of Terrorism," Strategic Analysis, 26, no.2 (2002): 181.
- <sup>48</sup> Cohen, 63.
- <sup>49</sup> Jamwal, 182.
- <sup>50</sup> Reyko Huang, "The Financial War Against Terrorism," Center for Defense Information, (January 2002)[database on line]; available from [ciaonet](http://ciaonet); accessed 2 October 2002.
- <sup>51</sup> Ibid, 188.
- <sup>52</sup> Thachuck, 4.
- <sup>53</sup> White House, "Fact Sheet on Terrorist Financing Executive Order," 24 September 2001; available from <<http://www.whitehouse.gov/news/releases/2001/09/print/20010924-2.html>>; Internet; accessed 2 October 2002.
- <sup>54</sup> Gary C. Hufbauer, Jeffrey J. Schott and Kimberly A. Elliot, "Economic Sanctions Reconsidered," Institute for International Economics (Washington, DC) 1990.
- <sup>55</sup> Congressional Research Service, Report for Congress, "Economic Sanctions to Achieve U.S. Foreign Policy Goals: Discussion and Guide to Current Law," June 5, 1998, 1.
- <sup>56</sup> David Cortright and George A. Lopez, eds., Smart Sanctions: Targeting Economic Statecraft (Lanham, MD: Rowman & Littlefield, 2002), 1.
- <sup>57</sup> Ibid.
- <sup>58</sup> Ibid.
- <sup>59</sup> Congressional Research Service, 2.
- <sup>60</sup> Cortright, 15.
- <sup>61</sup> Congressional Research Service, 3.

<sup>62</sup> Congressional Research Service, 4.

<sup>63</sup> Cortright, 23.

<sup>64</sup> Ibid.

<sup>65</sup> Cortright, 2.

<sup>66</sup> Ibid.

<sup>67</sup> Cortright, 23.

<sup>68</sup> U.S. Embassy Islamabad, "U.S. Reports Progress on Curbing Terrorist Financing," 31 May 2002; available from <<http://www.usembassy.state.gov/>> Internet; accessed 19 December 2002.

<sup>69</sup> Ibid.

<sup>70</sup> David Cortright and George A. Lopez, Sanctions and the Search for Security (London: Lynne Rienner, 2002), 111.

<sup>71</sup> "Effort to Cut Off Qaeda Funds Hits Snags," New York Times, 17 December 2002; available from <<http://ebird.dtic.mil/Dec2002/e20021217126942.htm>>; accessed 17 December 2002.

<sup>72</sup> David Masci, "War on Terrorism," CQ Researcher, 12, October 2001, available from <<http://library.cqpress.com/cqresearcher/document.php?id=cqresrre20011012&type=hitlist....html>>; Internet; accessed 14 November 2002.

<sup>73</sup> Ibid.

<sup>74</sup> U.S. Embassy Islamabad.

<sup>75</sup> Thachuck, 4.

<sup>76</sup> Gary C. Hufbauer, Jeffrey J. Schott and Barbara Oegg, "Using Sanctions to Fight Terrorism," International Economics Policy Brief, 01 no. 11. November 2001. <<http://www.iie.com/policybriefs/news01-11.htm>> accessed 3 September 2002.

<sup>77</sup> Ibid.

<sup>78</sup> Ibid.

<sup>79</sup> Ibid.

<sup>80</sup> Ibid.

<sup>81</sup> Financial Action Task Force on Money Laundering, Special Recommendations on Terrorism Financing, 31 October 2001, available from <[http://www1.oecd.org/fatf/aboutFATF\\_en.htm](http://www1.oecd.org/fatf/aboutFATF_en.htm)>; Internet; accessed 6 February 2003.

<sup>82</sup> Ibid.

<sup>83</sup> Ibid.

<sup>84</sup> Thachuck, 5.

<sup>85</sup> Ibid.

<sup>86</sup> Ibid.

<sup>87</sup> Ibid.

<sup>88</sup> Ibid.

<sup>89</sup> White House.

<sup>90</sup> J. Carver, "Making Financial Sanctions Work: Preconditions for Successful Implementation of Sanctions by the Implementing State", Paper presented at the Experts Seminar on Targeting Financial Sanctions, Interlaken, Switzerland.

<sup>91</sup> Cortright, Smart Sanctions: Targeting Economic Statecraft, 24.

<sup>92</sup> Ibid.

<sup>93</sup> Robinson, 32.

<sup>94</sup> Ibid, 33.

<sup>95</sup> Thachuck, 5.

<sup>96</sup> U.S. Embassy Islamabad.

<sup>97</sup> Prados, 402.

<sup>98</sup> Maurice R. Greenberg and Richard N. Haass, "Making Intelligence Smarter," Council on Foreign Relations, April 1998: [database on line]; available from ciaonet; accessed 2 October 2002.

<sup>99</sup> Chris Quillen, "Posse Comitatus and Nuclear Terrorism," Parameters, Spring 2002; available from <<http://carlisle-www.army.mil/usawc/Parameters/02spring/quillen.htm>>; Internet; accessed 17 October 2002.

<sup>100</sup> Thomas R. Lujan, "Legal Aspects of Domestic Employment of the Army," Parameters, Autumn 1997; available from <<http://carlisle-www.army.mil/usawc/parameters/97autumn/lujan.htm>>; accessed 31 October 2002.

<sup>101</sup> Ibid.

<sup>102</sup> Effort to Cut Off Qaeda Funds Hits Snags.

<sup>103</sup> Ibid.

<sup>104</sup> Joseph Myers, "International Standards and Cooperation in the Fight Against Money Laundering," Economic Perspectives, no. 6 (2001): 9.

<sup>105</sup> Thachuck, 5.

<sup>106</sup> Davids, xiv.

<sup>107</sup> George W. Bush, The National Security Strategy of the United States of America (Washington, D.C.: The White House, September 2002), 30.

<sup>108</sup> Bernard F. Griffard, "The Costly Remedy," Forum for the Applied Research and Public Policy, no. 1 (Spring 2000): 24.

<sup>109</sup> Congressional Research Service, 6.

<sup>110</sup> Brad T. Andrew, "Army Intelligence Support to Homeland Security," Military Professional Intelligence Bulletin, no. 3, July-September 2002, 48.

<sup>111</sup> Ibid.

<sup>112</sup> Douglas Waller, "The Soldiers Spies," Time, 29 May 1995, 31.

<sup>113</sup> Ibid.

## BIBLIOGRAPHY

- Andrew, Brad T. "Army Intelligence Support to Homeland Security." Military Professional Intelligence Bulletin no. 3, (July-September 2002): 48.
- Ashcroft, John. "Prepared Remarks, Organized Crime Conference." 7 August 2001. Available from <<http://www.usdoj.gov/ag/spechees/20001/0807organizedcrimerem.htm>>. Internet. Accessed 3 February 2003.
- Beyer Lisa. "The Most Wanted Man In the World." Time, 24 September 2001, p. 54 (2902 words). Database on line. Available from Lexis-Nexis. Accessed 25 November 2002.
- Bush, George. The National Security Strategy of the United States of America Washington, D.C.: The White House,
- Carver J. "Making Financial Sanctions Work: Preconditions for Successful Implementation of Sanctions by the Implementing State." Paper presented at the Experts Seminar on Targeting Financial Sanctions. Interlaken, Switzerland 1998.
- Chamberlin Wendy. "The Fight Against Money Laundering." Economic Perspectives 6 (2001): 2.
- Cohen Adam. "How Bin Laden Funds His Network." Time, 1 October 2001, p. 63 (991 words). Database on line. Available from Lexis-Nexis. Accessed 25 November 2002.
- Congressional Research Service, Report for Congress. "Economic Sanctions to Achieve U.S. Foreign Policy Goals: Discussion and Guide to Current Law," June 5, 1998, 1.
- Cortright David and Lopez George A., eds. Sanctions and the Search for Security. London: Lynne Rienner, 2002.
- Cortright David and Lopez George A., eds. Smart Sanctions: Targeting Economic Statecraft. Lanham, MD: Rowman & Littlefield, 2002.
- Council on Foreign Relations. "America Still Unprepared- America Still in Danger." Council on Foreign Relations. New York, 2002.
- Davids Douglas J. Narco-Terrorism: A Unified Strategy to Fight a Growing Terrorist Menace Ardsley, NY: Transnational Publisher, Inc., 2002.
- Davis Paul K. and Jenkins Brian Michael. "Deterrence & Influence in Counterterrorism: A Component in the War on al Qaeda." RAND for the Defense Advance Research Project Agency, 2002
- Drogin Bob. "After the Attack." Los Angeles Times, 21 September 2001, part A, pg1 (2056 words). Database on line. Available from Lexis-Nexis. Accessed 25 November 2002.
- "Effort to Cut Off Qaeda Funds Hits Snags." New York Times, 17 December 2002; Available from <<http://ebird.dtic.mil/Dec2002/e20021217126942.htm>>. Accessed 17 December 2002.

- Financial Action Task Force on Money Laundering. "Special Recommendations on Terrorism Financing". 31 October 2001. Available from [http://www1.oecd.org/fatf/aboutFATF\\_en.htm](http://www1.oecd.org/fatf/aboutFATF_en.htm). Internet. Accessed 6 February 2003.
- Greenberg Maurice R. and Haass Richard N. "Making Intelligence Smarter." Council on Foreign Relations, April 1998: Database on line. Available from cionet. Accessed 2 October 2002.
- Griffard Bernard F. "The Costly Remedy." Forum for the Applied Research and Public Policy, 1 (Spring 2000): 24.
- Huang Reyko. "The Financial War Against Terrorism." Center for Defense Information. (January 2002). Database on line.; Available from cionet. Accessed 2 October 2002.
- Hufbauer, Gary C., Jeffrey, J. Schott and Kimberly A. Elliot. "Economic Sanctions Reconsidered." Institute for International Economics, December 1990.
- Hufbauer, Gary C., Jeffrey, J. Schott and Barbara Oegg. "Using Sanctions to Fight Terrorism." International Economics Policy Brief 11. November 2001. Available from <http://www.iie.com/policybriefs/news01-11.htm>. Internet. Accessed 3 September 2002.
- Jamwal N.S. "Hawala-The Invisible Financing System of Terrorism." Strategic Analysis, 26, no.2 (2002): 181.
- Lujan Thomas R. "Legal Aspects of Domestic Employment of the Army." Parameters Autumn 1997. Available from <http://carlisle-www.army.mil/usawc/parameters/97autumn/lujan.htm>. Internet. Accessed 31 October 2002.
- Lutes Chuck. "Al-Qaida in Action and Learning: A Systems Approach." December 2001. Available from [http://www.au.af.mil/au/awcgate/readings/al\\_qaida2.htm](http://www.au.af.mil/au/awcgate/readings/al_qaida2.htm). Internet. Accessed 19 December 2002.
- Masci David. "War on Terrorism." CQ Researcher 12 (October 2001). Available from <http://library.cqpress.com/cqresearcher/document.php?id=cqresrre20011012&type=hitlist...html>. Internet; Accessed 14 November 2002.
- Myers Joseph. "International Standards and Cooperation in the Fight Against Money Laundering." Economic Perspectives, no. 6 (2001): 9.
- Prabha Kshitij. "Narco-Terrorism and India's Security." Strategic Analysis, 10 (January 2001): 5 Database on line. Available from cionet. Accessed 2 October 2002.
- Prados John, ed. America Confronts Terrorism. Chicago, IL: Ivan R. Dee, 2002.
- Quillen Chris. "Posse Comitatus and Nuclear Terrorism." Parameters (Spring 2002). Available from <http://carlisle-www.army.mil/usawc/Parameters/02spring/quillen.htm>. Internet; Accessed 17 October 2002.
- Robinson Jeffrey. The Laundrymen: Inside Money Laundering, the World's Third-Largest Business. New York, NY: Little, Brown and Company: Arcade Publishing, Inc., 1996.

- Simpson Glenn R. "Intricate Web." Wall Street Journal, 26 November 2002, sec A, p. 10.
- Smith Russell. "Developing an Air Campaign Strategy." Air Chronicles, (23 November 1999)  
Available from <<http://www.airpower.Maxwell.af.mil/airchronicles/ccsmith.html>>. Internet.  
Accessed 19 December 2002.
- Thachuck Kimberly L. "Terrorism's Financial Lifeline: Can it be severed?" Strategic Forum,  
no.191 (202): 3.
- U.S. Embassy Islamabad. "U.S. Reports Progress on Curbing Terrorist Financing." (31 May  
2002). Available from  
<<http://www.usembassy.state.gov/islamabad/www02053106.htm>>. Internet. Accessed  
19 December 2002.
- Waller Douglas. "The Soldiers Spies." Time, 29 May 1995, 31.
- Warden A. "The Enemy as a System." Airpower Journal, 11 (Spring 1995): 44.
- White House. "Fact Sheet on Terrorist Financing Executive Order." 24 September 2000.  
Available from <<http://www.whitehouse.gov/news/releases/2001/09/print/20010924-2.html>>. Internet. Accessed 2 October 2002.