Disrupting Terrorist Financing Networks: The US Treasury and its Partners

An Interview with US Treasury Department Under Secretary David Cohen

YJIA: You first joined the Treasury Department in the late ‘90s, and then returned in 2009 after nine years of practicing law. During this time, how has the Treasury’s role in addressing a wide range of terrorist threats evolved?

Cohen: Enormously. I was in the General Counsel’s office from October 1999 through July 2001. Our principal focus at the time, in the illicit finance realm, was anti-money laundering efforts. I came in the fall of 1999, just after Larry Summers had become Secretary. One of his initiatives was anti-money laundering as a way to protect the US financial system. He had a notion also of working more internationally on anti-money laundering issues. This was an issue the Department had been working on for quite some time, but that he really wanted to elevate in terms of importance.

I worked on anti-money laundering issues, with a little bit of counterterrorism as part of it, but the main focus of our efforts was on dealing with how illegal proceeds become integrated into the financial system. The simplest way to think about the difference between anti-money laundering and counterterrorist financing is that in money laundering, you have illegally derived proceeds that are put into the financial system and then moved, laundered, and cleansed, and come out the other end as clean money. Terrorist financing is just the opposite: you have clean money that is put into the financial system and then comes out the other end for illicit purposes. In the 1999 to 2001 period, we were focused mostly on anti-money laundering issues. In the intervening ten years, a lot changed.

After 9/11, there was a huge increase in counterterrorism efforts generally, and also in...
counterterrorist financing. Domestically, the most significant legal development was an executive order that was adopted in September 2001 that is the foundation of our ability to freeze the assets and prevent transactions by people who are determined to be involved in terrorist financing.

For the Treasury Department, another important development was the creation of the Department of Homeland Security (DHS) in 2003. There had been, for many years, law enforcement agencies at the Treasury Department. They were all part of the Treasury Department because they had all begun as revenue collecting agencies. The job that I currently hold used to be called the Under Secretary for Enforcement, and that person was responsible for overseeing the activities of these law enforcement agencies. But over the years, it became increasingly dissonant with Treasury’s dominant focus to have these law enforcement agencies there.

In 2003, when Homeland Security was created, those agencies were taken out of the Treasury Department. The Under Secretary for Enforcement position was eliminated and all that remained was an office that continued to have responsibility for the domestic regulatory agency that does anti-money laundering work, called the Financial Crimes Enforcement Network (FinCEN), and another agency, the Office of Foreign Assets Control (OFAC), which is the agency that administers the sanctions programs.

In 2004, Congress passed a law that created the job I have now, the Under Secretary for Terrorism and Financial Intelligence (TFI). OFAC and FinCEN are still part of it and there were two new pieces: a policy operation called the Office of Terrorism Financing and Financial Crimes (TFFC), which is led by an Assistant Secretary, and an intelligence agency called the Office of Intelligence and Analysis (OIA), which is also led by an Assistant Secretary. OIA, which focuses specifically on financial intelligence, is the only intelligence agency in any finance ministry in the world.

By the time I returned to Treasury in 2009, there were about 750 employees in TFI. So it was a relatively large operation with not just the two regulatory pieces, FinCEN and OFAC, but also the intelligence agency and the policy shop. It was a complete reorientation of what the Treasury Department was focused on. We are still focused on anti-money laundering – it’s still very important. But we now also spend an enormous amount of time focused on counterterrorist financing and have the infrastructure and the legal tools to go after terrorist financing in a way that we did not have when I was there from 1999 until 2001.

**YJIA:** Can you discuss the Treasury’s efforts and successes in targeting donors and fundraisers for terrorist groups? Considering that terrorist plots are often relatively inexpensive, what is the role of financial interference in disrupting terrorism?

**Cohen:** It is true that individual plots typically don’t cost very much. For example, in the case of the failed printer cartridge plot in 2010, it cost maybe $5,000 to pull that off.
The 9/11 Commission also did an analysis of how much it cost to conduct the attacks in New York and Washington. But the real expense for terrorist organizations like al-Qaeda and al-Qaeda affiliates is not simply how much it costs to conduct a particular attack, but how much it costs to maintain the infrastructure that they need so that they can develop the plots, pay and train the operatives, get the materials they need, pay the families of terrorists who were killed in plots, and to maintain security. So if you look at these terrorist organizations as what they are — as organizations — not just at the specific attack, you will see that it actually costs much more money than you would think.

We’ve had a fair amount of success, particularly with what had been the Gulf-based model for the financing of al-Qaeda, in going after the financial facilitation networks that they need in order to maintain their organizations. That, along with many other efforts to weaken al-Qaeda, has had a real impact on their ability to sustain themselves. But the capacity of terrorist organizations to find new revenue sources is constantly morphing and we need to react and, to some extent, predict and stay ahead of where the new funding sources will come from.

**YJIA:** The disruption of terrorism financing and the efficacy of sanctions both depend on the cooperation of the international community. How does the United States encourage foreign countries and corporations to cooperate on such measures, particularly given that enforcement and monitoring are costly?

**Cohen:** A lot of the success that we’ve had in tamping down this Gulf-based donor model has been in working with partners, such as Saudi Arabia, the United Arab Emirates (UAE), and to some extent Qatar and Kuwait — encouraging those jurisdictions to take seriously the threat of terrorism and its connection to the financing that is the lifeblood of terrorist organizations. We have had success in part by acting through our own unilateral authority, but I think even more so by partnering with three different groups of entities.

One is with the UN through Security Council Resolution 1267. Whenever we designate someone [as a terrorist] under our counterterrorism authorities, we also try to get that person designated [as a terrorist] at the UN under UNSCR 1267. The reason is that our designations forbid US persons from dealing with anyone designated and by freezing assets in the US, but if the UN designates someone, it becomes an obligation on every member state to freeze the assets of that individual, as well as to deny travel to the individual. This is a quite powerful sanction. Yet there is still a wide gulf between the people we designate and who the UN has designated.

The second group of entities we work with is the private sector and financial institutions around the world, explaining the risk to their own reputations and commercial interests of doing business with designated terrorists. So although it is an obligation of countries around the world to prevent transactions of UN-listed individuals, many financial institutions also screen transactions against the OFAC list, which is our list of designated individuals, purely as a matter of commercial self-interest.

The third piece is working with governments on what is very much a shared desire and mutual imperative to combat terrorism. And so countries in the Gulf, European
countries, countries in Southeast Asia – wherever there is a terrorist financing issue – we try to share information when we can about the threats and about facilitators and fundraisers. We work with them to improve their capacity to disrupt financing networks and also do the hard work of diplomacy to encourage countries to develop the will to do so.

Returning to the question of whether it is costly or not, I think the same or a very similar analysis is undertaken by countries – what’s the benefit and what’s the cost if we don’t. Countries where we’ve had less progress analyze that differently than countries where we’ve had more progress. It also differs depending on the terrorist organization involved. With Al-Qaeda, there is almost universal agreement that everything should be done to try and undermine Al-Qaeda’s financing networks. For organizations that we regard as terrorist and others don’t – Hezbollah is a great example – we have a much harder time, including with some of our closest allies in Europe.

**YJIA**: US officials have stated that sanctions directed at al-Qaeda and Libya have been more successful than those aimed at North Korea and Iran. What explains this difference in success? Can you draw on these cases to make any generalizations about the factors that enable sanctions to work?

**Cohen**: That’s a very complicated question. Sanctions come in many different varieties. There are the traditional country-based sanctions, such as on Cuba – that is very much the old model. What my office is well-known for, and I think deservedly so, is moving to a much more targeted sanctions approach, whether it’s weapons of mass destruction proliferators, terrorist financiers, narcotics traffickers, transnational organized crime groups. We’re using sanctions to try and disrupt their financial network.

So to some extent, the success of sanctions depends a little bit on what sanctions you’re talking about. But I think the key ingredients of an effective sanctions program are, first, targeting the sanctions against a problem that is amenable to sanctions as a tool to address it. Basically, we have a hammer but not every problem is a nail, and we’ve got to make sure that we use sanctions in circumstances where they can have an impact.

There are a lot of problems in the world that you can’t effectively address through financial pressure, financial disruption, or other economic disruption. It is enormously important that sanctions are part of a broader policy. I can’t imagine a situation where sanctions alone will achieve the objective we are trying to achieve.

Second, sanctions are much more effective when they are internationalized, whether it’s through the UN Security Council adopting a complementary sanctions program, the EU, or other countries – there are a lot of different varieties that this can come in. But the more that we are able to have counterparts around the world join us in the sanctions effort, the more effective the sanctions will be. This doesn’t mean that what we do needs to be exactly the same as what the UN does, the EU does, or the Arab League does – for instance, if you’re thinking about Syria. But having some broader international effort is very important.

And I think the last piece is having an effective enforcement mechanism, which depends a lot on having good information about who deserves to be sanctioned and enforcing the sanctions that are in place – trying to detect sanctions evasion and being able to address it when it happens.
YJIA: Over the course of thirty years, the Iranian regime seems to have become adept at evading sanctions. How can the United States effectively target entities affiliated with the regime, such as the Revolutionary Guard, with sanctions?

Cohen: It’s a hard target given the use of front companies and efforts to evade. That being said, we—again, with partners in Europe in particular, but also at the UN—have identified the Islamic Revolutionary Guard Corps (IRGC) as a very important target. We have sanctioned a number of IRGC affiliates and fronts, most importantly its major construction arm, Khatam al-Anbia, which has had the effect of really impairing the ability of Khatam al-Anbia to do business in Europe and for the IRGC to use Khatam al-Anbia as a way to develop projects, whether it’s oil and gas fields or the Tehran metro. It has had a real impact.

The other important IRGC entity that we have sanctioned and that the EU also recently sanctioned is a port operator called Tidewater, which is the major port operator in Iran. It runs the container terminal at Bandar Abbas through which ninety percent of the container traffic into and out of Iran transits. Tidewater is an IRGC company that we sanctioned in June 2011 and the EU sanctioned in January of this year. One interesting thing about Tidewater is that it had been a privately owned company in Iran for many years. It was profitable, ran a good operation, had facilities at Bandar Abbas, the Imam Khomeini port, and a number of other ports, including some inland rail terminals. The IRGC in late 2009 came in, kicked out the ownership, and took over the business—in part, because it was a lucrative business and also in part so that the IRGC could have control over the container ports in order to both export materials that they’re trying to export in violation of Security Council resolutions and import things that they shouldn’t be importing.

We are continuing to identify how the IRGC is expanding into and distorting the operations of the Iranian economy, displacing the average Iranian businessman. Our sense is that the more we are able to expose what the IRGC is doing, the more difficult it becomes for the IRGC to use these front companies to operate. It also demonstrates to the Iranian public that we will do what we can to try and diminish the importance of the IRGC in the economic life of Iran.

YJIA: Some experts are concerned that sanctions on Iran’s economy are consolidating the grip of the Revolutionary Guard over the economy by boosting its control over the growing black market while restricting the private sector. Can you discuss the impact of sanctions on the domestic balance of power in Iran and the population?

Cohen: I think our sanctions are designed to undermine the power of the IRGC. The dynamics within Iran are complicated and I don’t think we can pretend to know precisely how any particular action will play out nor do I think we ought to believe that we can completely control how the internal dynamics in Iran are going to develop. There is a lot that is completely outside of our control and a lot of what goes on internally in Iran is not a reflection of, or a reaction to, sanctions. That said, our sense is that the more we are able to expose and isolate the IRGC, the better off the Iranian public is. 

—Interview conducted and edited by Hanna Azemati.