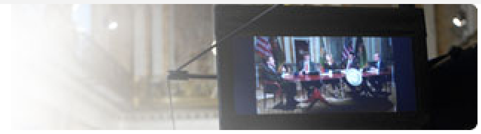

Written Testimony by Assistant Secretary for Terrorist Financing Daniel L. Glaser before the House Committee on Foreign Affairs

10/13/2011

“Emerging Threats and Security in the Western Hemisphere: Next Steps for U.S. Policy”

Chairman Ros-Lehtinen, Vice Chair Gallegly, Ranking Member Berman, and distinguished members of this Committee, thank you for the opportunity to appear before you today to discuss emerging threats and security challenges in the Western Hemisphere, as well as priorities for U.S. security assistance and policy in the region. I am pleased to be here with my State Department colleagues, Ambassador Brownfield, Ambassador Goldberg, and Principal Deputy Assistant Secretary Jacobson.

The Western Hemisphere is a region of particular importance to the Treasury Department and critical to our mission of safeguarding the U.S. financial system. Our economic and financial institutions are fundamentally intertwined with those of our neighbors, most notably Mexico, a country confronting vicious transnational criminal organizations (TCOs) whose tentacles extend into the United States. Illicit financial activity in one corner of the region will inevitably find its way across our borders and into our financial institutions.

The Treasury Department possesses an array of tools and capabilities to target this illicit financial activity and safeguard our financial system from abuse. Our targeting capabilities include financial sanctions, the imposition of special regulatory measures and requirements, and engagement with at-risk financial institutions and jurisdictions. Along with our interagency colleagues, systemically we work bilaterally and through a variety of multilateral bodies to set anti-money laundering/combating the financing of terrorism (AML/CFT) international standards, work toward their universal adoption, and hold jurisdictions accountable for effective implementation.

Today, I’d like to talk to you about how we are employing these tools and capabilities to address illicit financial threats in the Western Hemisphere. I will start by discussing our efforts to disrupt, and ultimately dismantle the financial networks that support narcotics trafficking, terrorist groups and other illicit networks through targeted action, and then describe our systemic work to build a strong regional AML/CFT architecture.

Narcotics

The threat emanating from narcotics trafficking has been and remains the preeminent illicit finance challenge in the region. Perhaps more than any other illicit financial activity, narcotics-related money laundering places our financial institutions at risk and undermines the integrity of financial systems throughout the region. According to the National Drug Intelligence Center, Mexican and Colombian drug trafficking organizations “annually generate, move, remove and launder between $18 billion and $39 billion in wholesale distribution proceeds.” Much of this dirty money moves across our borders and transits our financial system.

Historically, economic sanctions have been our primary weapon to target the financial networks of drug trafficking organizations. Starting first in Colombia and then following the evolution of the narcotics industry to Mexico and beyond, the Treasury Department, through the Office of Foreign Assets Control (OFAC), has systematically targeted individuals and entities associated with some of the largest and most dangerous drug cartels operating in South America and Mexico, including – among others—the Cali and Medellin cartels; the Sinaloa, Gulf, Tijuana, and Juarez cartels; and the Los Zetas, La Familia Michoacana, and the Beltran Leyva Organization. Over the past several years, the United States has sanctioned nearly 2,300 individual and entities in Latin America involved in narcotics trafficking.

Our efforts against the Colombian cartels stand as one of our most successful programs to date. OFAC actions combined with other law enforcement efforts have disrupted over $1 billion worth of assets—in blockings, seizures, forfeitures, and the failure of enterprises—and through the cooperation of the Colombian private sector, have dramatically restricted cartel access to the formal economy. These actions contributed to the broad Colombian and U.S. law enforcement pressure that led to the reversal of cartel fortune that we have witnessed over the last two decades in Colombia. Notwithstanding this success, Colombian DTOs, which still dominate the global production of cocaine, remain a priority for the Department, and we continue to attack their networks. In February, for example, we designated Colombian national Jorge Milton Cifuentes Villa and more than 70 associated individuals and entities operating in six countries as Specially Designated Narcotics Traffickers (SDNTs). Jorge Milton Cifuentes Villa, a dual Colombian-Mexican citizen, is a cocaine source of supply and money launderer for Sinaloa Cartel leader Joaquin “Chapo” Guzman Loera.

As the vertical integration of the hemispheric drug trade under the control of Colombian cartels gave way to a more segmented market progressively dominated by Mexican TCOs in the 1990s, the center of our counter narcotics sanctions efforts in the Western Hemisphere has increasingly shifted to Mexico. Since June 2000, close to 500 individuals and entities have been designated by OFAC under the Foreign Narcotics Kingpin Designation Act (the “Kingpin Act”), resulting in the blocking of approximately $16 million in financial assets in the United States and the exclusion of these persons from participation in the U.S. financial system. As of last month, $15.7 million of these blocked assets has subsequently been seized and forfeited by U.S. law enforcement.

Even as sanctions remain a centerpiece of the Treasury Department’s counternarcotics strategy, we recognize the importance of drawing upon additional tools to achieve a deeper and more lasting impact. This requires developing a specific understanding of the financial infrastructure of the Mexican TCOs. More detailed information about the key accountants, bookkeepers, attorneys and others who launder money for the cartels as well as the formal and informal financial institutions they use will allow for more varied and powerful disruption.

We have been working closely with our partners throughout the interagency to develop this information. Our partnership with the Drug Enforcement Administration (DEA), an organization which for many years has understood the importance of money laundering to drug cartels and whose information has proven vital to OFAC sanctions investigations, is especially close. The Treasury Department’s close collaboration with DEA is evidenced, most recently, by our joint work in support of the identification of the Lebanese Canadian Bank as a financial institution of primary money laundering concern under Section 311 of the USA PATRIOT Act for its role in facilitating a narcotics trafficking and money laundering network spanning South America, West Africa, and the Middle East. To build on the momentum of Treasury-DEA cooperation, I recently detailed a staff member to DEA’s Financial Operations Division to join the OFAC personnel who have been embedded in the unit for many years.

The Intelligence Community (IC) is also a key player in this effort. Treasury Assistant Secretary for Intelligence and Analysis, Leslie Ireland, recently named National Intelligence Manager for Threat Finance by the Director for National Intelligence, has made DTO finances an IC priority. As a result, we have already begun to see an increase in the quality and quantity of information and analysis on DTO finances.

But we alone cannot arrive at a comprehensive understanding of DTO financial networks. We need the active collaboration of our foreign counterparts who are on the front lines of the battle against the cartels. In this regard, the U.S.-Mexico Merida High-Level Consultative Group has played an important role in catalyzing enhanced bilateral cooperation. At its most recent meeting in April, the High Level Group identified money laundering as a priority security challenge and named the Treasury and Justice Departments as co-leads for the U.S. Government tasked with revitalizing bilateral efforts on this critical issue. We have taken this leadership role seriously. Over the past month, I have made two trips to Mexico to meet with counterparts to identify new avenues for enhanced information collection and sharing. In the process, I have met with senior officials in the Government of Mexico (GOM) policy, regulatory, law enforcement and intelligence sectors and I am confident that they share the view that as many tools of national power as possible must be brought to bear against TCO financial networks in a coordinated, bi-national manner. The Department of the Treasury's efforts in this important endeavor have been assisted and advanced by the Department of Justice's Asset Forfeiture and Money Laundering Section and Office of Overseas Prosecutorial Development, Assistance and Training both operationally as well as in building prosecutorial capacity.

We must also acknowledge the important steps the GOM is taking to counter drug-related money laundering. Consider, for example, the June 2010 Mexican regulations restricting U.S. dollar deposits aimed at drastically limiting the placement of U.S. origin drug money into the Mexican financial system. These regulatory changes were informed in part by joint analytical efforts between Treasury's Financial Crimes Enforcement Network (FinCEN) and the Mexican financial intelligence unit, the Unidad de Inteligencia Financiera (UIF), over multiple years to better understand U.S. dollar cash flows across our borders. Leading up to the publication of the regulations, the Mexican Finance Ministry coordinated with Treasury, and FinCEN was able to simultaneously publish an advisory for the U.S. financial system on the new regulations warning our institutions to be vigilant against the potential for a surge in money laundering activity in the U.S. in response to the Mexican restrictions. FinCEN and the UIF continue close coordination in monitoring the impact of these regulatory changes and potential diversion of funds, including to third countries.

Mexican regulators have also recognized the increased vulnerability of non-bank financial institutions—such as money remitters and informal exchange centers—as the formal financial system experiences the additional regulations and enhanced scrutiny. Accordingly, the GOM has made the significant decision to transfer supervision over these institutions from the Tax Administration to the Banking Commission which has greater supervisory expertise and resources. In 2012, the Banking Commission will take on this new responsibility and hopes to hire and train 80 new examiners to focus on this sector.

The GOM has taken other unprecedented steps to shore up its AML/CFT framework. Just recently, the Mexican Senate passed amendments to Mexico's AML law which would impose strict caps—not simply reporting requirements—on the use of cash to purchase high value items, such as artwork (300,000 pesos/approx. $25,000), vehicles (400,000 pesos/approx. $34,000) and real estate (500,000 pesos/approx. $43,000). The goal of these measures is to encourage a shift away from a cash-based economy towards more efficient—and more traceable—electronic payments. Few jurisdictions in the world have been willing to implement such far-reaching and fundamental reforms. The Mexican congress's lower house, the Chamber of Deputies, is expected to approve the measure in the next legislative session.

A comprehensive strategy to attack the financial resources of Mexican TCOs must not only include the U.S. and Mexico, but also the broader region. Central America, in particular Guatemala and Panama, serves as a critical narcotics transit and money laundering center. Indeed, preliminary information indicates that one of the primary effects of the regulatory tightening in Mexico is the displacement of bulk cash smuggling and money laundering activity in these two countries. With this in mind, I recently took a joint mission with counterparts from the Mexican Finance Ministry and Banking Commission—an unprecedented display of bilateral coordination and regional leadership—to Guatemala and Panama where we engaged host country authorities on these developments and on the importance of taking concerted action to undermine cartel financial networks. Going forward, both countries will remain priorities. It will be particularly important for Panama to be more proactive in addressing the significant deficiencies in its anti-money laundering controls and enforcement efforts. Taking steps in this direction, we are encouraged by recent efforts by Panama to increase financial transparency, in particular by entering into a tax information exchange agreement with the Treasury Department, and the accomplishment of being removed from the Organization for Economic Cooperation and Development's grey list of tax havens on July 6, 2011.

Terrorism

Although the terrorist financing challenge in Latin America does not rise to the level of the narcotics-related financing threat, we take terrorist fundraising and facilitation seriously wherever it occurs. Within the Western Hemisphere, we have focused our efforts on Venezuela and the Tri-Border Area (TBA) of Brazil, Paraguay, and Argentina. Neither Al-Qa'ida nor its affiliates derive a significant amount of financial support from the region although we remain vigilant to this possibility.

Over the past several years, Treasury has demonstrated a strong commitment to exposing terrorist financing and facilitation activity in Venezuela. The nexus between the narco-terrorist group, the Revolutionary Armed Forces of Colombia (FARC), one of the few organizations in the world bearing the dubious distinction of being both a designated "kingpin" and "specially designated global terrorist," and Venezuelan government officials, has been a particular focus. In September 2008, OFAC designated three senior Venezuelan security officials under the Kingpin Act (two of whom were in office at the time of designation) for, among other things, protecting drug shipments from seizure by Venezuelan anti-narcotics authorities, providing weapons and official Venezuelan government identification to the FARC and pushing for greater cooperation between the Venezuelan government and the FARC. Other significant designations include the FARC International Commission representative in Venezuela.

Although not as extensive as its involvement with the FARC, there are also troubling ties between Caracas and Hezbollah which we have sought to expose through targeted sanctions. For instance, in June 2008, OFAC designated two key Venezuelan supporters of Hezbollah under Executive Order 13224, which targets terrorists, those individuals or entities owned or controlled by or acting for or on behalf of terrorists, and those providing financial, material, or technological support to terrorists or acts of terrorism. One of these individuals, Ghazi Nasr al-Din, used his position as a senior Venezuelan diplomat to provide financial support to Hezbollah. The other, Fawzi Kan'an, the owner of two Caracas-based travel agencies, serves as a key facilitator and fundraiser for Hezbollah officials.

Hezbollah has also engaged in significant fundraising and facilitation activity in the TBA. Starting in 2006, we have systematically designated over a dozen individuals in the area as well as several entities for providing financial support to Hezbollah leadership in Lebanon. Most recently, in December 2010, we imposed sanctions against Hezbollah's chief representative in South America responsible for oversight of the group's counterintelligence activities in the TBA, Bilal Mohsen Wehbe.

We have not relied solely on sanctions under the Kingpin Act and EO 13224 to disrupt narco-trafficking and terrorist financing networks in the Western Hemisphere. In February 2011, for example, we identified the Lebanese Canadian Bank under Section 311 of the USA PATRIOT Act as an institution of primary money laundering concern. This action dealt a significant blow to a transnational money laundering network with a significant presence in the Western Hemisphere. Hezbollah derived financial support from this network which was controlled by OFAC-designated Lebanese Kingpin, Ayman Joumaa.

Iran

While it is in the interests of an increasingly isolated Iran to seek expansion of its economic and financial ties to Latin America, the reality is that, to date, Iran has failed to establish a meaningful foothold in the region. When Iran has managed to make inroads, we have been quick to act. Most notably, we designated Banco Internacional de Desarollo, a Venezuela-based subsidiary of the Export Development Bank of Iran. We subsequently worked to secure its designation by the European Union and Australia, thereby significantly curtailing its access to the international financial system. We have also proactively engaged with governments and private sector officials throughout the region to warn against the risks of doing business with Iran. For example, in August 2010 then Assistant Secretary David Cohen traveled to Brazil and Ecuador to discuss implementation of the financial provisions of United Nations Security Council Resolution 1929 and implications for foreign financial institutions of the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (CISADA).

Systemic Reform Efforts

Equally important as our targeted measures is Treasury's work to build a robust domestic and international AML/CFT framework to safeguard the financial sector. Through the Financial Action Task Force (FATF) and its associate regional bodies in the Western Hemisphere, we have been working for many years to set anti-money laundering and counter-terrorist financing standards and best practices and hold countries in the region accountable for their implementation. Uneven implementation creates vulnerabilities in the regional regulatory and enforcement architecture that can be–and, indeed, have been–exploited by illicit networks, in particular DTOs. Using a methodology jointly developed by the FATF, International Monetary Fund (IMF), and World Bank, every country in the region, with the notable exception of Cuba, has been or is scheduled to be assessed against the international AML/CFT standards. These assessments are published and highlight weaknesses in each jurisdiction alongside recommendations for remedying those deficiencies.

Based in part on a G-20 Leaders' call, the FATF has instituted an additional review process that publicly identifies jurisdictions that fail to meet international AML/CFT standards and may therefore pose a risk to the international financial system. I serve as co-chair of this process within the FATF. Jurisdictions that have been identified by this process must commit to an Action Plan of ambitious reforms. If the reform timelines specified in the Action Plan are not met, the FATF will issue increasingly strong public warnings, potentially culminating in a specific call for regulatory countermeasures from member countries. In an age when global financial institutions rely upon the FATF in their assessments of jurisdictional risk, this process has served as a great catalyst for reform in previously recalcitrant countries.

Within the Western Hemisphere to date, ten jurisdictions have been publicly identified by this process: Antigua and Barbuda, Argentina, Bolivia, Cuba, Ecuador, Honduras, Nicaragua, Paraguay, Trinidad and Tobago, and Venezuela. More than half of these countries have passed important legislation that strengthens their AML/CFT regimes as a direct response to this process. For example, both Honduras and Paraguay have passed legislation criminalizing terrorism finance, which likely would not have happened so quickly without the encouragement from this FATF process.

In addition to our multilateral efforts, Treasury maintains an active technical assistance program managed by the Office of Technical Assistance (OTA) to help jurisdictions implement AML/CFT reforms. My office works with OTA which has recently targeted AML/CFT assistance to a number of high risk jurisdictions within Latin America. We currently have resident advisors from our Economic Crimes Team (ECT) embedded with host governments in Costa Rica, Guatemala, Honduras, and Paraguay. Additionally, ECT Advisors continue to work in Haiti in a robust technical assistance program designed to build up and strengthen that country's AML/CFT capacity. These advisors are working to improve preventative, enforcement and prosecution pillars of their AML/CFT regimes and to ensure their ability to seize and forfeit the proceeds and instrumentalities of crime. Technical assistance provided by ECT comprises institution building, legislative reform, outreach to AML/CFT stakeholders in the private sector, and capacity building all designed to enable these countries to bring money launderers and drug traffickers to justice using their own authorities and resources.

We recognize that it is not enough for the Department of the Treasury to solely work with our government counterparts in these multilateral and bilateral forums. A fundamental component of our approach to combating illicit finance is sustained engagement with the private sector on these issues. Our Department has reached out to the private sector around the world on illicit finance threats, and the Western Hemisphere is no exception. For example, an important initiative by my office is the U.S.-Latin America Private Sector Dialogue, or PSD. We are currently planning the sixth iteration of this dialogue, to be held in February 2012 in conjunction with the Florida International Bankers Association (FIBA) Annual Anti-Money Laundering and Compliance Conference. We launched the U.S.-Latin America PSD in June 2006 to establish a permanent dialogue between the United States and Latin American financial sectors. This initiative, which began as a roundtable discussion here in Washington, D.C., seeks to achieve better relations and coordination between correspondent financial institutions in these regions. Over 200 participants from approximately 20 different countries representing regulators and financial institutions in the United States and Latin America attend this event on an annual basis. Indeed, this forum has become a place where both U.S. and Latin American financial institutions can lay out their concerns with each other and seek to establish better controls to mitigate risk.

Conclusion

The Department of the Treasury recognizes that the Western Hemisphere presents persistent and unique security threats to our financial system. Under Secretary Cohen and I are committed to prioritizing the Department's work in this region. Our efforts to combat these threats will persist and we will continue to find unique and innovative ways to disrupt and dismantle illicit financial networks. We will also continue our efforts to build consensus with our regional partners to develop our hemispheric approach to ensuring that all countries in the region build strong systems to counter these threats.