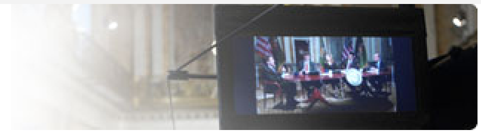
U.S. DEPARTMENT OF THE TREASURY

Press Center



Remarks by Assistant Secretary Daniel Glaser to the Washington Institute for Near East Policy

12/2/2011

"Treasury's Response to the Arab Spring: The Role of Financial Tools in International Security Policy"

As Prepared for Delivery

Good afternoon.

I'd like to thank the Washington Institute for Near East Policy for inviting me here today to speak about the Treasury Department's response to the historic events this year in the Arab world. I would especially like to thank Matt Levitt for giving me this opportunity. Matt played an integral role in the development of Treasury's Office of Terrorism and Financial Intelligence, and he is deservedly recognized as one of the foremost experts in understanding the power that Treasury can bring to bear in responding to national security threats.

From Tunisia to Syria, the people of Arab nations are demanding political change, better economic opportunity, and a greater say in determining their future. As repressive regimes crumble under popular pressure or respond with violence against their own people, the international community has responded nimbly, seeking to address each distinct situation with a distinct, tailored approach that best supports the transition to responsible, representative democracy.

In previous decades, it would have been unheard of for a Treasury Department official to be asked to speak before the Washington Institute to discuss the U.S. Government's and the international community's response to such events. Yet throughout the Arab Spring, the Treasury Department has been at the forefront of the international community's response to these challenges on two fronts.

Treasury has, of course, been at the center of U.S. efforts to marshal international assistance and support for the transitions underway in Egypt, Tunisia and Libya, and to aid in fostering inclusive economic growth in the region.[1] But today, I'd like to focus my remarks on Treasury's Office of Terrorism and Financial Intelligence, which has crafted strategies for applying sanctions and other financial measures tailored to the unique circumstances of each situation we have faced. Along with the United States, the United Nations, the European Union, and our partners in Asia and the Middle East have all increasingly turned to targeted financial sanctions in response to repression and violence. And in a truly remarkable development, both the Arab League and Turkey have in recent days announced far-reaching measures of their own, making financial pressure the centerpiece of their respective efforts to end the bloodshed in Syria.

Before I turn directly to a discussion of the Arab Spring, I'd like to step back to offer some of the context in which we at Treasury's Office of Terrorism and Financial Intelligence view these events. We have witnessed a dramatic change, globally, in the way financial measures are integrated into the international security toolkit. And these developments – the international community's embrace of targeted financial measures, and the effectiveness of those measures – are to a large extent the result of the Treasury Department's efforts over the past decade to create an institutional framework and to develop a strategic model for using financial tools to advance national security objectives.

The Treasury Department's Strategic Approach to Developing Financial Measures

Within the Treasury Department, the mission of the Office of Terrorism and Financial Intelligence, known as TFI, is to marshal the Treasury Department's policy, enforcement, regulatory, and intelligence functions to sever the lines of financial support to international terrorists, WMD proliferators, narcotics traffickers, and other threats to our national security. We seek to meet this responsibility by striving to achieve two overarching goals:

- First, to promote financial transparency by identifying and eliminating vulnerabilities that make the domestic and global financial system susceptible to abuse by illicit actors.
- Second, to identify, disrupt and dismantle the financial networks that support those who threaten U.S. and international security.

Promoting financial transparency is the key to creating a rules-based, global financial system that is hostile to illicit finance. Our efforts focus on both the formal and informal financial sectors, in both the U.S. and internationally. Indeed, a great deal of our work is aimed at strengthening global standards and facilitating implementation of anti-money laundering/counter-terrorist financing regimes, also known as AML/CFT, in countries around the world through the Financial Action Task Force or FATF, and other multilateral bodies.

In conjunction with our effort to promote financial transparency through a global AML/CFT architecture, we have also developed a strategic approach to target the financial networks of those who support terrorists, engage in WMD proliferation, and foment regional instability. This approach combines unilateral and multilateral measures – often but not always built upon UN Security Council Resolutions – and consistent outreach to and dialogue with the private sector.

We first began to put this strategy to the test in 2005 and 2006 against North Korea and Iran, respectively. Beginning with unilateral targeted financial measures, we launched an unprecedented effort to engage the private sector and raise its awareness to the risk of doing business with these jurisdictions. And, most important, we engaged with our international partners to build a multilateral coalition that supports our strategy of financial isolation.

Today, as a result of this multi-front, multi-year campaign, Iran and North Korea have been almost entirely cut off from much of the world's largest financial sectors. Iranian banks have been deprived of much needed access to financial services in Europe, Asia, and the Middle East, and the Iranian government struggles to manage its economy in the face of ever-tightening financial sanctions.

These two case studies demonstrated that we could craft financial strategies tailored to the unique circumstances presented by particular international security challenges. The success of our targeted measures was linked in no small part to the less public but no less significant systemic work of promoting financial transparency and building AML/CFT regulatory regimes. And the work that we did in both areas – targeted and systemic – laid the groundwork for the international community's response to the Arab Spring.

Responding to the Arab Spring

Tunisia and Egypt

In the early days of the Arab Spring, we witnessed the rapid growth of popular movements calling for the ouster of undemocratic rulers in Tunisia and Egypt. These popular movements were able to achieve relatively quick leadership changes. In these scenarios, our goal was to ensure that the outgoing regime elites did not undermine the political transition by looting their nations' treasuries.

To achieve this, we engaged our interagency and international partners to apply a comprehensive anti-corruption strategy to identify illicit holdings, protect against illicit asset flows, and assist in repatriating assets stolen from the people of Tunisia and Egypt. The strategy relied on and benefitted from our prior experience in leading global efforts to trace and repatriate Iraqi assets stolen by the former Hussein regime, as well as longstanding efforts to create a global framework for combating kleptocratic asset flows. And, again, the strategy also relies upon our longstanding efforts to develop a global framework for the implementation of AML/CFT standards – which includes a focus on specific risks of foreign corruption, such as by highlighting the need for financial institutions to apply enhanced due diligence against foreign politically exposed persons and to recognize the potential for asset flight on behalf of deposed regimes.

Our strategy also includes supporting the efforts of the Justice Department to confiscate and repatriate stolen assets, including by working with the joint World Bank and United Nation's Stolen Asset Recovery Initiative, which provides critical assistance to countries that require technical assistance in understanding how to engage the international financial system to recover assets stolen by corrupt elites. And it includes supporting the efforts of the State Department to strengthen the global commitment to developing and implementing a comprehensive anti-corruption regime through a variety of means, including the United Nations Convention Against Corruption (UNCAC), the OECD's Anti-Bribery Working Group, and the G20 Kleptocracy Working Group.

In the cases of Tunisia and Egypt, Treasury alerted the international financial sector to the possibility of large scale embezzlement on the part of the ousted leaders and their close associates. In both cases, Treasury's Financial Crimes Enforcement Network – or FinCEN – issued advisories to warn U.S. financial institutions of the possibility of asset flight by senior Egyptian and Tunisian government officials. The advisories called for enhanced due diligence and scrutiny of transactions that could possibly represent misappropriated or stolen state assets. Treasury shared its advisories with counterparts in other financial centers, many of which took similar actions, globalizing the effort to identify, restrain and repatriate proceeds of corruption.

Libya

In the case of Libya, we faced a fundamentally different challenge. Our primary goal was not to prevent an ousted regime from looting the nation's coffers, but rather to deprive a sitting regime of the resources it needed to sustain a campaign of violent repression. Our aim was to increase the financial pressure on the Qadhafi regime and hasten its downfall.

As we deployed our financial tools to isolate the Qadhafi regime, we were fortunate to be dealing with an unusually favorable set of circumstances. We had broad international support for sanctions, a strong mandate from the United Nations Security Council, and a NATO-backed military effort. Following closely on the heels of President Obama's issuance of Executive Order 13566, imposing broad financial and other sanctions, the U.S. and its partners secured the adoption of UN Security Council Resolution 1970, which required all UN member states to freeze without delay the assets of Qadhafi, his family, and key individuals and entities affiliated with the regime, and to prohibit transactions with them.

The effect of these measures was magnified by the fact that the Qadhafi regime was relatively well-integrated into the international financial system, with a large amount of wealth held in foreign holdings and investments susceptible to the application of sanctions under U.S. and European jurisdiction. Just three days after the President issued the Executive Order, more than $30 billion of Government of Libya assets had been frozen under U.S. jurisdiction. Since March, this total has swelled to more than $37 billion.

This combination of factors – speed, coordination, and comprehensiveness – led to the implementation of one of the most successful sanctions regimes ever put in place.

In reacting so quickly to the events unfolding in Libya, the international community safeguarded the wealth of the Libyan people from misappropriation by Qadhafi and prevented him from accessing a massive war chest to fund new violence. At the same time, the ban on transactions and business with the Qadhafi regime isolated it from the global financial system and key trading partners, restricting its ability to obtain desperately needed goods and services at crucial junctures in the conflict. These sanctions ultimately helped hasten the collapse of Qadhafi by preventing him from accessing the financial resources and channels of commerce necessary to purchase weapons, pay mercenaries and fuel tanks and planes.

The implementation of financial sanctions against Libya was not, of course, without its challenges. The principal challenge we faced in this context was facilitating and coordinating the effective implementation of sanctions in a sophisticated global financial system where the assets of concern were largely held in complex capital market arrangements across multiple financial centers. Treasury's expertise in implementing targeted financial sanctions and its relationships with the private sector and with international counterparts were instrumental in ensuring effective global action.

And although the sanctions regime contributed to our initial policy goals, our work is far from finished. As articulated in Security Council Resolution 2009, we must now turn our attention to making blocked assets available transparently and responsibly, in a manner consistent with the wishes and needs of the Libyan people. Doing so will require significant coordination among nations holding frozen assets and the new Libyan government. We look forward to the day when we will responsibly turn over the Qadhafi regime's frozen assets to and for the benefit of the Libyan people.

Syria

Syria presents a more complicated set of challenges. In Syria, our policy goals are largely the same as in Libya – to deprive the Assad regime of access to resources that can be used to fund its violent oppression and ultimately to hasten Assad's downfall. However, in the case of Syria, our challenge has been to develop and advance a strategy to apply financial pressure to the Assad regime in the absence of a UN Security Council resolution. Such a strategy must combine effective unilateral action with strategic outreach to international counterparts and the private sector.

Since the start of the uprising, the U.S. has led through example in achieving a significant multilateral increase in pressure on the Syrian government to stop its campaign of violence against civilians. Though the U.S. has sought to use sanctions to shift the behavior of the Syrian regime and its insiders long before the beginning of the uprising in March 2011, we have imposed a series of new measures in recent months that are designed to ratchet up pressure on the Syrian government.

President Obama has signed three new Executive Orders since March, each serving as a response to Assad's escalation of violence. E.O. 13572 targets individuals and entities responsible for human rights abuses in Syria. E.O. 13573 expanded this further by targeting President Assad and other senior regime officials. In August, the Administration took the strongest step yet with E.O. 13582, which prohibits transactions between U.S. persons and the Government of Syria, bans the export of U.S. services to and new investment in Syria, and targets a crucial revenue stream for the Syrian government by banning all dealings by U.S. persons in Syrian-origin petroleum products. In addition to these new measures, we continue to hold Syria accountable for all of its illicit behavior and took the important step of designating the Commercial Bank of Syria as supporter of WMD proliferation under Executive Order 13382.

These domestic measures have helped deny the Assad regime access to the resources it needs to continue financing its repression. But the defining element of our Syria strategy – and what has made our strategy effective – has been our close coordination with our partners in Europe and elsewhere and our aggressive outreach to expand the coalition of countries willing to take complementary action.

When President Obama announced the government blocking program under E.O. 13582 and called for Assad to step down on August 18, many of our international counterparts echoed his call. A number of these countries, including Japan, Australia, Switzerland, and Canada, have issued sanctions of their own against Syria. Most notably, the EU implemented a ban on the importation of Syrian oil and gas and prohibited new investment in the Syrian energy sector. Furthermore, following the U.S. designation of the Commercial Bank of Syria for proliferation activity, the EU froze Commercial Bank of Syria assets in Europe. And this week, the EU announced the decision to implement new measures against Syria's energy, financial and trade sectors, including listing additional individuals and entities that are involved in the violence or directly supporting the Assad regime.

Without question, U.S. and EU financial measures have successfully undermined the financial underpinnings of the Assad regime. Our actions against the Commercial Bank of Syria have helped to constrain the Assad regime's primary facilitator of foreign transactions. More importantly, since the EU previously accounted for more than 90 percent of Syria's crude exports, U.S., EU, and Canadian sanctions on the Syrian petroleum industry have effectively eliminated the Assad regime's revenue from the petroleum sector, which accounted for one third of its total revenue prior to the imposition of sanctions.

Additionally, it is difficult to overstate the importance of the Arab League's and the Turkish Government's unprecedented decisions earlier this week to implement wide-ranging sanctions against the Syrian Government. The Arab League's resolution includes a full slate of aggressive financial measures that include calling on member states to cease transactions with the Central Bank of Syria and the Commercial Bank of Syria. The Turkish Government also announced a similarly strong set of measures that includes the freezing of all Syrian Government assets and prohibits dealings with the Syrian Central Bank. Taken together, the Arab League's and Turkey's announcement of sanctions represent a significant step on the road toward ending the bloodshed in Syria.

We have arrived at this current state of affairs in no small part because of the U.S. Government's persistent engagement with its foreign partners. The Treasury Department has played a leading role in emphasizing the power of financial measures, in particular in the Syria context. In recent months, senior Treasury officials have traveled extensively to places like Turkey and the Gulf to deliver this same message.

We recognize that the Assad regime will seek to use the international financial system to evade sanctions whenever possible. Coordinated, multilateral action is therefore critically important to identifying and disrupting potential avenues for the Syrian government to evade sanctions. Equally important is our strategic dialogue with the private sector, particularly in regional financial centers that are potential destinations for Assad regime assets. In the past month, I've travelled to Lebanon and Jordan to engage with public sector officials and caution financial institutions to exercise vigilance against potential sanctions evasion.

We will continue to encourage all of our partners around the world to move without delay to increase the pressure on the Syrian government through targeted financial measures, in the hopes of bringing an end to the violence in Syria and pushing for Assad to step down to allow for a peaceful and democratic transition. Just yesterday we announced the designation of two Syrian individuals, and the identification of a public works company called the Military Housing Establishment, which provides funding to the regime, and Real Estate Bank – which is Syria's second largest bank. And the Administration will continue its efforts to press for a resolution at the UN that will help to further isolate the current Syrian government.

Conclusion

As we continue to respond to developments across the Arab world, we stand ready to take action where needed, and will be ready to apply financial measures in support of our national interests.

We continue to witness the uncertainty of a tumultuous, historic time, however, one thing is certain: Financial tools will continue to play a central role in our nation's and the international community's response, and we will continue to work multilaterally where possible, and unilaterally when necessary, to achieve our policy aims in the context of the historic changes sweeping the Arab world today.

Thank you.

---

[1] These efforts, led by the Treasury Department's Office of International Affairs, are centered around the Deauville Partnership between the G-8, international financial institutions like the IMF and World Bank, the Gulf Cooperation Council, and those Arab countries undergoing transition or seeking to implement reform. Regional countries play a central role in defining the strategic approach to supporting economic development. International partners, including the United States, contribute their technical expertise and financial support. Over the long term, the effort to support inclusive economic growth and opportunity in Arab nations is critically important to safeguarding the principles that guided Arab Spring developments.