

U.S. DEPARTMENT OF THE TREASURY

Press Center



Remarks of Under Secretary for Terrorism and Financial Intelligence David S. Cohen at The Carnegie Endowment For International Peace, “Attacking ISIL’s Financial Foundation”

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WASHINGTON - Good morning. Thank you, Dr. Muasher and thank you to the Carnegie Endowment for hosting me here today. It’s truly an honor to have the opportunity to lend my voice to the ongoing dialogue fostered by Carnegie and its Middle East Studies program.

I come this morning to discuss an especially pernicious expression of the endemic problem of violent extremism, the terrorist group known as the Islamic State in Iraq and the Levant (ISIL). In particular, I will describe the U.S. and international effort my team at the Treasury Department is leading to undermine ISIL’s financial strength, as part of the comprehensive strategy to disrupt, degrade and ultimately defeat ISIL.

Let me begin by briefly reviewing why we are so focused on ISIL. ISIL terrorists have slaughtered thousands of innocent people who did not subscribe to their warped ideology. They have persecuted religious minorities and threatened genocide. They enslave and rape women and girls. They have brutally murdered aid workers and journalists who had traveled to Syria just to bring a small measure of relief to the Syrian people or to tell their story. And the vast majority of their victims are Muslims, Sunni and Shia alike.

As it sows chaos in communities across Iraq and Syria, ISIL threatens core U.S. interests. It threatens American personnel and facilities in Iraq. It threatens our regional allies, including Turkey, Jordan, and Lebanon, who are already strained by the ripple effects of the crisis in Syria.

And because it is attracting so many foreign fighters, destabilizing an entire region, and securing a safe haven, ISIL, if left unchecked, could ultimately pose a direct threat to citizens of the United States and our allies outside of the Middle East. Put simply, a terrorist organization with territorial ambitions and a stated desire to kill innocent people abroad must be confronted.

That is why, under the leadership of President Obama, the international community has come together to stop this threat. The President has tapped General John Allen as Special Envoy to spearhead the establishment of a broad coalition – now some 60 partners strong, ranging from the Middle East to Europe and beyond – behind a strategy to degrade ISIL’s capabilities, roll back its recent gains, and ultimately defeat it.

ISIL has grabbed the world’s attention for its outlandish ambitions and astounding brutality, but also for another reason: its substantial wealth. ISIL’s primary funding tactics enable it today to generate tens of millions of dollars per month. Those tactics include the sale of stolen oil, the ransoming of kidnap victims, theft and extortion from the people it currently dominates, and, to a lesser extent, donations from supporters outside of Syria and Iraq.

So as part of the United States’ broader strategy to degrade and defeat ISIL – a plan that includes a systemic campaign of air strikes; providing additional support for the Iraqi military and the moderate Syrian opposition; delivering desperately needed humanitarian assistance; taking measures to stem the flow of foreign fighters into and out Syria and Iraq; and contesting ISIL’s twisted narrative – we at the Treasury Department are intensifying our focus on undermining ISIL’s finances.

This is a whole-of-government effort, and while we take the lead on the financial component of the strategy, we are working closely with our counterparts in the State Department, the Department of Defense, law enforcement, and the intelligence community. And we are also linked up with international counterparts. Indeed, just last Friday, we hosted a meeting with the State Department that brought together over 20 countries and organizations to identify measures to financially isolate and undermine ISIL, as well as al-Nusra Front and the illegitimate Assad regime.

As with the rest of the campaign against ISIL, our efforts to combat its financing will take time. We have no silver bullet, no secret weapon to empty ISIL’s coffers overnight. This will be a sustained fight, and we are in the early stages. But one thing is certain: so long as ISIL terrorizes the people of Iraq and Syria, imperils the broader Middle East, and threatens U.S. interests overseas and at home, we will remain committed to degrading its financial strength.

The State of ISIL’s Finances

In 2004, the office I lead in the Treasury Department was created and charged with developing and deploying financial tools to combat terrorist financing, reflecting the recognition that one way to forestall terrorist attacks is to deprive terrorist organizations of money.

Through the application of powerful national and international sanctions, close cooperation with foreign partners and the private sector, and enhancements to international financial transparency, we have made it harder than ever for terrorist groups to raise, move, store, and use funds.

In many respects, our campaign against ISIL’s financial foundation will build on our work over the past ten years, and closely resemble our previous campaigns.

But to some extent, ISIL poses a different terrorist financing challenge. It has amassed wealth at an unprecedented pace, and its revenue sources have a different composition from those of many other terrorist organizations. Unlike, for instance, core al-Qa’ida, ISIL derives a relatively small share of its funds from deep-pocket donors, and thus does not, today, depend principally on moving money across international borders. Instead, ISIL obtains the vast majority of its revenues through local criminal and terrorist activities.

So, just as ISIL relies in part on new models to fund itself, we too are adapting our tools and techniques to combat ISIL’s financial activities. Before turning to the specific steps we are taking, let me take a moment to detail these sources of revenue.

First, ISIL has raised a significant amount of its money – many millions of dollars – from selling oil it extracts from fields in Syria and Iraq.

Our best understanding is that ISIL has tapped into a long-standing and deeply rooted black market connecting traders in and around the area. After extracting the oil, ISIL sells it to smugglers who, in turn, transport the oil outside of ISIL’s strongholds. These smugglers move oil in a variety of ways, from relatively sizeable tankers to smaller containers.

We also understand that ISIL controls oil refineries of various sizes and output capacities, and earns some revenue from the sale of refined petroleum products.

So who, ultimately, is buying this oil? According to our information, as of last month, ISIL was selling oil at substantially discounted prices to a variety of middlemen, including some from Turkey, who then transported the oil to be resold. It also appears that some of the oil emanating from territory where ISIL operates has been sold to Kurds in Iraq, and then resold into Turkey. And in a further indication of the Asad regime's depravity, it seems the Syrian government has made an arrangement to purchase oil from ISIL.

It is difficult to get precise revenue estimates on the value to ISIL of these transactions in light of the murky nature of the market, but we estimate that beginning in mid-June, ISIL has earned approximately \$1 million a day from oil sales.

There are good indications, however, that recent coalition military efforts have begun to impair ISIL's ability to generate revenue from oil smuggling. Airstrikes on ISIL oil refineries are threatening ISIL's supply networks and depriving it of fuel to sell or use itself. Moreover, our partners in the region, including Turkey and the Kurdistan Regional Government, are committed to preventing ISIL-derived oil from crossing their borders. Last week, the International Energy Agency reported that ISIL's ability to produce, refine and smuggle oil had been significantly hampered.

Second, ISIL also kidnaps innocent civilians to profit from ransoms paid to obtain their release.

ISIL did not pioneer kidnapping for ransom – it has been around for thousands of years. And other terrorist organizations, including al Qa'ida's affiliates in Yemen and north Africa, also rely on ransom payments as a key revenue source. As I have said before, kidnapping for ransom is one of the most significant terrorist financing threats today. For ISIL, these ransom payments are irregular, but each one can be a significant boon. This spring, ISIL released captured journalists and other hostages from several European countries. In return, according to press reports, ISIL received several multi-million dollar payments. All in all, ISIL has taken at least \$20 million in ransoms this year.

Third, like its predecessor, al Qa'ida in Iraq (AQI), ISIL raises money – up to several million dollars per month – through a sophisticated extortion racket. In Iraq and Syria, ISIL extracts payments from those who pass through, conduct business in, or simply seek to live in the territory where it operates.

In the Iraqi city of Mosul, for instance, accounts have surfaced of ISIL terrorists going home-to-home, business-to-business, demanding cash at gunpoint. A grocery store owner who refused to pay was warned with a bomb outside his shop. Others who have not paid have seen their relatives kidnapped. Religious minorities have been forced to pay special tributes. We've also seen reports that when customers make cash withdrawals from local banks where ISIL operates, ISIL has demanded as much as ten percent of the value.

Make no mistake: This is not taxation in return for services or even for real protection. It is theft, pure and simple. The money ISIL pilfers is being exchanged not for a guarantee of safety but for the temporary absence of harm.

Fourth, ISIL also profits from a range of other criminal activities. They rob banks. They lay waste to thousands of years of civilization in Iraq and Syria by looting and selling antiquities. They steal livestock and crops from farmers. And despicably, they sell abducted girls and women as sex slaves.

Finally, as I mentioned earlier, ISIL derives some funding from wealthy donors. Even though ISIL currently does not rely heavily on external donor networks, it maintains important links to financiers in the Gulf, as a spate of Treasury designations last month made clear.

Degrading ISIL's Financial Strength

ISIL's revenue streams are, to be sure, diverse and deep. With the important exception of some state-sponsored terrorist organizations, ISIL is probably the best-funded terrorist organization we have confronted. Nonetheless, understanding that this effort will take time, dedication, and broad collaboration, we are well-positioned to degrade ISIL's financial strength.

Our strategy involves three mutually supportive elements. First, we are working to disrupt ISIL's revenue streams in order to deny it money in the first place. Second, we aim to limit what ISIL can do with the funds it collects by restricting its access to the international financial system. And finally, we will continue to impose sanctions on ISIL's senior leadership and financial facilitators to disrupt their ability to operate. Let me elaborate.

Cutting off ISIL's Access to Revenue

The first element of our strategy is working to cut off ISIL's main sources of funding, in particular its revenue from oil sales, ransom payments, extortion and crime, and support from foreign donors.

Oil Sales

To disrupt the market in oil derived from ISIL-controlled fields, we will target for financial sanctions anyone who trades in ISIL's stolen oil.

It is true, of course, that ISIL's oil moves in illicit networks that are largely outside the formal economy, where individuals are less vulnerable to financial pressure. But at some point, that oil is acquired by someone who operates in the legitimate economy and who makes use of the financial system. He has a bank account. His business may be financed, his trucks may be insured, his facilities may be licensed. All that makes ISIL oil facilitators vulnerable.

The middlemen, traders, refiners, transport companies, and anyone else that handles ISIL's oil should know that we are hard at work identifying them, and that we have tools at hand to stop them. We not only can cut them off from the U.S. financial system and freeze their assets, but we can also make it very difficult for them to find a bank anywhere that will touch their money or process their transactions. In combating ISIL's fundraising through oil sales, we will leverage the well-established reluctance of banks around the world to facilitate the financing of terrorism.

Beyond financial sanctions, we are working closely with others in the U.S. government to enhance the ability of our partners in the region to choke off cross-border oil smuggling routes and to identify those involved in the smuggling networks. The Turkish and Iraqi Kurdish authorities have both made commitments to combat whatever oil smuggling occurs in their territory.

And, of course, as I mentioned earlier, our military colleagues are playing a significant role in degrading this source of funding through airstrikes on oil-related targets.

Kidnapping for Ransom

Next, to prevent ISIL from raising funds through ransoms, we are redoubling our efforts to translate the emerging international consensus against the payment of ransoms to terrorist groups into a more widely adopted practice.

It has been U.S. policy for many years to refuse the payment of ransoms or make other concessions to hostage-takers. This policy rests on the sound premise – confirmed by experience – that an explicit and consistently applied no-concessions policy reduces the frequency of kidnappings by eliminating the underlying incentive to take hostages in the first place.

In the context of hostage-taking by terrorists, this policy has even greater force. We know that terrorist organizations – ISIL included – use ransom money to fund the full range of their violent activities. Refusing to pay ransoms to terrorists, therefore, not only makes it less likely that Americans will be taken hostage, but it also

deprives terrorists of funding critical to their deadly aspirations and operations.

We maintain this policy not because we are cold-hearted. To the contrary, at the President's direction, we use all of our military, intelligence, law enforcement, and diplomatic capabilities to secure the release of American hostages. The attempt made this summer by U.S. forces to rescue hostages being held by ISIL reflects this commitment.

But, very simply, if we are to protect our citizens and avoid bankrolling our adversary, every country must adopt and implement a no-ransoms policy.

This norm is beginning to take shape. Last year, the G-8 unequivocally rejected the payment of ransoms to terrorists, and this year, members of the UN Security Council have twice adopted resolutions reaffirming their shared commitment to seek the safe release of hostages without making monetary or political concessions.

Going forward, as we seek to prevent kidnappings from occurring and remain dedicated to freeing those taken, we will continue to urge partner nations to subscribe to a no-ransoms policy. At the same time, we will look to use our counter-terrorism sanctions authorities against those who demand or receive ransoms on behalf of terrorist organizations.

External Donor Networks

We are also concerned about external donor networks. To prevent ISIL from raising funds from donors abroad, we will continue to identify its financial supporters and target them for sanctions.

We have long focused on disrupting the funding networks of ISIL and its predecessor AQI. In fact, we have applied sanctions against more than two dozen individuals associated with AQI or ISIL over the past 10 or so years. And we will continue to target those who would exploit the suffering of innocent people in Syria and Iraq to raise money for their extremist agendas, whether in support of ISIL or any other terrorist group.

In the months ahead, we plan to accelerate our efforts to identify targets for sanctions and take actions against them through our counter-terrorism authorities. In September, President Obama led the United Nations Security Council in unanimously passing a binding resolution to stem the flow of foreign terrorist fighters into – and out of – Iraq and Syria. Security Council Resolution 2178 aims specifically to prevent and suppress the flow of foreign fighters and money to ISIL and al-Nusrah Front, and we are working with others to implement it swiftly.

And we are working especially closely with our friends in the Gulf – who are stalwart partners in the anti-ISIL coalition – to ensure that they all have the tools in place to combat terrorist financing and that they all use those tools effectively. We appreciate the close collaboration and strong steps taken by the Emiratis and the Saudis to combat ISIL financing.

Even though ISIL does not currently rely heavily on the traditional donor model for terrorist financing, that is no reason to relax our efforts in this area. Particularly as we make progress in disrupting ISIL's current sources of income, and as ISIL gains additional prominence in the global terrorist movement, we must be prepared for the possibility that wealthy extremists will increasingly seek to fund it.

Extortion and crime

As for disrupting the revenue that ISIL generates from extortion and other local criminal activities, we recognize that Treasury's tools are not particularly well-suited to the task. We can and we will identify and designate the individuals who oversee ISIL's extortion networks, calling attention to those who are brutalizing the people of Iraq and Syria. But our experience combating AQI's extortion networks, which ISIL mimics, drives home the point that shutting down the revenue flow from ISIL's extortion networks ultimately will require breaking its hold on territory. Other lines of effort in the anti-ISIL coalition are focused on this crucial objective.

Nonetheless, even where Treasury's financial tools cannot cut off certain revenue streams, we still have a crucial role to play, and that brings me to the second key element of our strategy.

Restricting ISIL's Access to the International Financial System

As we work to disrupt ISIL's sources of income, we are focused on restricting ISIL's access to the international financial system in order to impair its ability to collect funds from abroad, and to move, store, and use the funds it acquires locally.

ISIL's ability to make the most effective use of money that it raises depends on its access to the banking system in Syria, Iraq, and internationally. Operating entirely in cash is both cumbersome and risky – cash is bulky, vulnerable to theft, and requires complicated logistics to transport. Moreover, ISIL will have a hard time funding external operations, including facilitating the movement of foreign fighters, without access to the international financial system.

To that end, we are working to limit ISIL's ability to transact through the Iraqi, Syrian, and international banking systems. Scores of bank branches are located in territories where ISIL operates. Through cooperation with the Iraqi authorities, bank headquarters, and the international financial community, we aim to prevent ISIL from using those bank branches.

The private sector is also playing a key role in this element of our strategy. Bank Secrecy Act reports filed with the Treasury by financial institutions provide the U.S. Government with valuable insight into financial activity in areas where ISIL operates. We carefully review these reports for indications of ISIL financing and quickly disseminate information to the appropriate authorities.

Targeted Sanctions Against ISIL's Leadership and Facilitators

The third element of our strategy draws on our time-tested approach to countering the financing of terrorism – that is, we will continue to dismantle ISIL's financial foundation through targeting for designations its leadership, supporters, and financial facilitators.

Running a terrorist organization – especially one that, like ISIL, spans hundreds of miles – is both costly and bureaucratically challenging. In order to keep track of all its revenues and costs, ISIL depends on complex management networks, with CFO-like figures at the top. As we identify the individuals that make up those networks, we will expose and designate them.

We've seen from our fight against al-Qa'ida and other terrorist organizations that sanctioning top officials hampers their ability to raise and handle funds. Doing so against ISIL will make it harder for ISIL to conduct commercial and financial activity, and also clearly identifies for the international community who stands behind this evil organization.

We have already stepped up our designations of ISIL officials, both those based in Iraq and Syria and their financial supporters outside the area. Most recently, on September 24, Treasury sanctioned two high-profile individuals associated with ISIL – a financial facilitator who arranged for a \$2 million donation from the Gulf, and a senior military commander. Both were based in Syria, soliciting donations, procuring military equipment, and recruiting foreign fighters to ISIL's areas. These designations will not, on their own, stop these individuals from operating, but they – and the designations to come – will frustrate ISIL's ability to attract money and fighters.

Before concluding, I'd like to make one final point about our campaign against ISIL's financial foundation.

We should not confuse funding with financial strength. While ISIL today is well-funded, a terrorist group's overall financial strength turns not just on its income, but also on its expenses and, importantly, the degree to which it can dedicate its resources to violent purposes. And in that regard, ISIL operates within certain real constraints.

ISIL's territorial ambitions are a financial burden. Attempting to govern the cities, towns and sprawling territory in Iraq and Syria where it currently operates, much less delivering some modicum of services to the millions of people it seeks to subjugate, is expensive. By way of comparison only – since no one expects ISIL to deliver the same level of services as the legitimate Iraqi government – the official Iraqi budget this year for the provinces where ISIL currently operates is well over \$2 billion. That far outstrips ISIL's revenue, and does not include the price-tag for the territory it seeks to dominate in Syria.

What this means is that ISIL cannot possibly meet the most basic needs of the people it seeks to rule. In fact, we are already seeing reports of water and electricity shortages in Mosul as ISIL fails to deliver. As we make progress in diminishing ISIL's revenues and its freedom to use them, we will further exploit this vulnerability. The consequences of ISIL's inability to meet the cost of governing, by the way, were articulated very well in a recent report by Mona Alami in Sada, Carnegie's online journal for its Middle East program.

Conclusion

With time, patience, and close international cooperation, the steps I have outlined today will help undermine ISIL's financial foundation. I must stress again, however, that the campaign against ISIL's finances will require more than just financial tools.

This is primarily because, given that ISIL is enriching itself locally, cutting off one key source of funds will require dislodging it from territory in which it operates. But more broadly, even as this vital military campaign progresses, we recognize that the only solutions to the conflicts in Iraq and Syria are political in nature. The hateful ideology propagated by ISIL must be countered by tolerant, economically vibrant societies and governments that rule in an inclusive manner. These are long term goals that the United States is deeply committed to fostering.

So while we work toward lasting solutions, Treasury will continue to deploy innovative strategies to disrupt ISIL's financing. Together with our partners in the U.S. government and across the globe, we will degrade and ultimately defeat ISIL.

Thank you.

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