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## Carrots and Sticks for Controlling Terrorism

In the unfolding campaign against international terrorism, economic sanctions and incentives are playing a significant, perhaps decisive, role. Economic statecraft was mobilized quickly as an important part of the U.S. and international response to the 11 September 2001 attacks against the World Trade Center and the Pentagon.<sup>1</sup> The United States and the United Nations have employed both carrots and sticks, lifting sanctions and offering economic assistance to certain nations to encourage their cooperation in counterterrorism efforts while applying targeted financial sanctions against individuals and organizations associated with terrorist activities.

Immediately after the attacks, the United States lifted sanctions on Pakistan that had been imposed in response to that country's testing of nuclear weapons in 1998. The easing of sanctions was designed to encourage Islamabad's cooperation in pressuring the Taliban in neighboring Afghanistan. To keep a balance in its South Asia policy, the White House ended similar sanctions on India. At the United Nations, diplomatic sanctions that had been in place against Sudan since 1996 were lifted in response to Khartoum's sharing of intelligence information with the United States and its reported arrest of thirty people suspected of being associates of Usama bin Laden.

While offering carrots, the United States and the United Nations also applied sticks. In Security Council Resolution (SCR) 1373 (2001), the UN Security Council adopted a groundbreaking resolution ordering countries to impose financial sanctions against persons and entities that commit or abet terrorist acts. As part of the resolution, the Council created the Counter-Terrorism Committee and vested it with authority and resources to carry out broad new antiterrorism mandates. The United States and other countries also acted individually to impose financial sanctions on dozens of individuals and organizations believed to be associated with bin Laden and his al-Qaida network. More than 100

countries reportedly agreed to cooperate in an unprecedented global effort to cut off and trace the financing of bin Laden's terrorist activities.<sup>2</sup> The USA Patriot Act, approved by the U.S. Congress in the wake of 11 September, included sweeping new measures to curtail bank secrecy, regulate money-changing operations, and prohibit U.S. financial institutions from doing business with foreign banks that lack proper regulation and legal supervision. These developments produced an extraordinary upsurge of activity on the sanctions front and reflected the importance decisionmakers have attached to economic sanctions as means of countering terrorism.

In this chapter, we review past uses of sanctions for counterterrorism purposes, analyzing both U.S. unilateral and UN multilateral cases. We complement the analysis in Chapter 6, where we examined the increased use of targeted sanctions to suppress the financing of terrorism, by reviewing the unilateral initiatives of the U.S. government and the multilateral efforts of the Security Council. We conclude that sanctions and incentives can indeed help to tame terrorism but that much greater international cooperation and compliance will be needed to realize this objective.

#### **Lessons from Recent Cases: Sudan and Libya**

The United States has employed economic sanctions and incentives frequently in dealing with nations that harbor, aid, or directly sponsor international terrorism. One of the most important sanctions tools available to the U.S. government is the State Department's list of states sponsoring terrorism. Nations placed on the terrorism list are subjected to harsh sanctions. They are denied economic assistance, dual-use technologies, and military-related exports. The United States is required to oppose loans to these countries from the World Bank and other international financial institutions. The designated states are essentially excluded from access to the U.S. economy. The desire to avoid being placed on the list or to be removed once there is a powerful motivator for states to reduce their support for terrorism and to cooperate in international counterterrorism efforts. This list provides important carrot-and-stick leverage for U.S. policymakers.

Nations most recently on the list include Iran, Iraq, Syria, Libya, Cuba, North Korea, and Sudan.<sup>3</sup> Iran has been at the top of the State Department list for years. According to the latest State Department report on patterns of global terrorism, Iran remains the most active state

sponsor of terrorism.<sup>4</sup> It was placed on the terrorist list because of its assistance to various organizations, including Hezbollah and Hamas (Lebanon), which have carried out terrorist attacks in Israel and engaged in assassination throughout Europe and the Middle East. In recent years, respected analysts have questioned the policy of unilateral sanctions toward Iran and have called for a partial easing of economic restrictions as a means of inducing Tehran's cooperation on a range of issues, including the struggle against terrorism.<sup>5</sup> Such concerns became particularly acute in the wake of the 11 September attacks.

Sudan has been subject to unilateral sanctions by the United States and multilateral measures by the UN Security Council. Sudan was added to the State Department terrorism list in August 1993 because of its support for a wide range of terrorist groups, including al-Qaida, Islamic Jihad (Egypt), and Hamas. Sudan also allowed terrorist training camps to operate on its soil. An additional concern at the time was the presence in Sudan of the increasingly active but not yet well known wealthy Saudi dissident, Usama bin Laden. In 1997, the Clinton administration issued Executive Order 13067, imposing a general trade embargo and a total freeze on Sudan's assets. The United States objected not only to Khartoum's support for terrorism but its military attacks against rebels in southern Sudan, its human rights violations, and its denial of religious freedom.

The UN Security Council had become involved in 1995, following a failed assassination attempt against Egyptian president Hosni Mubarak during a state visit to Ethiopia in June of that year. The suspects involved were traced to sites in Sudan. In January 1996, the Council adopted SCR 1044, demanding that Khartoum extradite the three suspects and desist from aiding and providing sanctuary for terrorist groups. Three months later, in the face of Sudan's refusal to meet UN demands, the Security Council adopted SCR 1054, imposing diplomatic sanctions. The resolution was adopted on 26 April 1996.<sup>6</sup> Just three weeks later, on 18 May, bin Laden was expelled from the country.<sup>7</sup> Although the UN sanctions were very mild, they seem to have prompted Sudan's request that bin Laden leave the country.

A few months later, in August 1996, the Council approved SCR 1070, establishing a ban on international flights to Sudan. The United States and other Council members were dissatisfied at Sudan's failure to comply fully with UN demands and wanted to increase the pressure on Khartoum. A ninety-day delay in the implementation of the aviation sanctions was approved to permit the sending of a humanitarian study team to assess the potential impact of the flight ban on Sudan's fragile

social situation.<sup>8</sup> The delay was also intended to give time for diplomatic maneuvering to gain Sudanese compliance. Although Sudan did not take further steps toward compliance, the Council chose not to implement the threatened travel sanctions, in part for humanitarian reasons and also because of Egypt's unwillingness to support stronger measures. Nonetheless, the U.S. and UN sanctions had some impact on Khartoum's decision to expel bin Laden from the country.

In the late 1990s, the United States entered into a quiet dialogue with Sudan to explore ways of cooperating on counterterrorism efforts. The discussions produced positive results. By the end of 2000, Sudan had signed a number of the UN conventions for combating terrorism and had closed down the Popular Arab and Islamic Conference, a terrorist front organization. A U.S. counterterrorism team visited the country and verified that Sudan had taken concrete measures to reduce its support for terrorist groups. The U.S. dialogue with Sudan intensified after the terrorist attacks on 11 September. Senior Sudanese intelligence officials met in London with State Department representatives to share information on al-Qaida and other terrorist networks.<sup>9</sup> In response to this general pattern of cooperation, the United States encouraged the Security Council to remove diplomatic sanctions. On 28 September 2001, the Council adopted SCR 1372, officially lifting sanctions. After the vote, Secretary of State Colin Powell praised Sudan for arresting extremists linked to terrorist organizations and for cooperating with the investigation of those responsible for the 11 September attacks.<sup>10</sup> In this instance, the United States and the UN used a reward strategy for responding to Sudanese cooperation and encouraging additional support in the future.

As noted in Chapter 8, Libya was subjected to UN travel sanctions because of its support of terrorism. They constituted the first use of Security Council sanctions to combat international terrorism.<sup>11</sup> The Security Council imposed SCR 748 in March 1992, demanding that the two suspects wanted for the bombing of Pan Am flight 103 over Lockerbie, Scotland, and Union des Transports Aériens (UTA) flight 772 over Niger be handed over for trial. The Council also demanded that the Libyan regime end its support for and harboring of international terrorist organizations. To back up its demand, the Council banned all flights to and from Libya. In November 1993, in the face of Libyan defiance of UN demands, the Council broadened UN sanctions to include a ban on oil equipment and all aviation-related services.

The sanctions against Libya did not lock down the entire economy. Selective measures were imposed to isolate Libya from the rest of the

world community, reduce its ability to support terrorism, and impose modest but targeted economic hardships on the country. The aviation sanctions were effective in halting nearly all international flights to the country. The sanctions caused some economic losses, but their primary impact was diplomatic and symbolic, isolating Libya from the global community and branding it an international pariah. The sting of the sanctions in this regard proved more painful to Libya than some would have estimated.

When sanctions were initially imposed, the Qaddafi regime offered to turn over the terrorist suspects to an international tribunal, but this offer was unacceptable to the Security Council and was rejected. A diplomatic stalemate ensued, which was not broken until August 1998, when the United States and the United Kingdom responded to demands from Arab and North African states to negotiate a compromise settlement. Washington and London offered to hold the trial of the two Libyan suspects under Scottish law in a court in the Netherlands. Libya accepted the deal, although it took months of additional diplomatic wrangling before the suspects were finally delivered to The Hague for trial in April 1999.

When the Security Council suspended the sanctions against Libya, Secretary-General Kofi Annan was asked if the sanctions regime had been effective. He responded:

I prefer to think it played a role. . . . No country likes to be treated as an outcast and outside the society of nations. . . . I think Libya wanted to get back to the international community. Libya wanted to get on with its economic and social development. And Libya wanted to be able to deal freely with its neighbors and with the rest of the world.<sup>12</sup>

Although the sanctions had only limited economic impact, they provided bargaining leverage that eventually led to a settlement.

The UN sanctions also had a positive effect in restraining Libyan government support for international terrorism. In the years preceding the imposition of sanctions in 1992, the government of Libya was implicated in attacks against Pan Am flight 103 and UTA flight 772. After sanctions were imposed, Libya ceased its terrorist attacks against international aviation. The U.S. State Department's 1996 report on global terrorism stated flatly, "Terrorism by Libya has been sharply reduced by UN sanctions."<sup>13</sup> This assessment was reaffirmed for us in 1999 in interviews at the Central Intelligence Agency and the State Department. It suggests that the UN sanctions were partly effective in reducing Libyan support for international terrorism. The State Depart-

ment's 2000 report on terrorism confirmed that "Libya continued efforts to mend its international image."<sup>14</sup> It paid compensation to the families of victims of UTA flight 772 and played a high-profile role in negotiating the release of a group of hostages seized in the Philippines by the Abu Sayyaf group, reportedly in exchange for a ransom.

In the fight against global terrorism, the cooperation of Libya, as with Sudan, could be invaluable in securing intelligence about terrorist networks. As part of a larger carrot-and-stick strategy, the United States might begin to ease sanctions on Libya in return for a specific series of cooperative steps, including the signing of UN antiterrorist conventions and active assistance in the hunt for the perpetrators of the 11 September attacks. A strategy of easing coercive pressure could be an effective means of obtaining such cooperation.

### Targeting the Taliban

In the late 1990s, much of the U.S. response to the Taliban regime in Afghanistan was channeled through the UN Security Council. As noted in Chapter 3, the Council imposed targeted financial sanctions, an aviation ban, and an arms embargo against Afghanistan to pressure the Taliban to end its support for international terrorism and turn over Usama bin Laden for trial.

The UN sanctions halted all international flights by Ariana Afghan Airlines, reducing state revenues and isolating the Taliban. It became more difficult for al-Qaida leaders to move resources to and from Afghanistan. The freeze on financial assets netted considerable resources. According to a September 2001 Library of Congress report, the United States impounded \$254 million in Taliban assets.<sup>15</sup> British chancellor of the exchequer Gordon Brown reported the capture of an additional \$88 million of Taliban funds in British banks.<sup>16</sup> These were considerable sums for such an impoverished country. The financial sanctions also served as an impediment to the rehabilitation of Afghanistan's decrepit and barely functional banking system. They were an obstacle to the country's ability to attract investment, acquire foreign exchange, and develop its economy.

Following the overthrow of the Taliban and the installation of a new government in Kabul in December 2001, the United States, the United Kingdom, and other governments released Afghan government and Ariana Afghan Airlines funds. The U.S. government released \$217 million in gold and assets, and the British government released \$79 mil-

lion in assets.<sup>17</sup> These funds, combined with pledges of more than \$5 billion in financial support from various donor countries, were provided in recognition of the overthrow of the Taliban regime and as an essential step toward rebuilding the shattered Afghan economy and infrastructure.

### Carrots as Well as Sticks

The counterterrorism strategy in Afghanistan has included inducements as well as sanctions. Even before the 11 September attacks and subsequent military campaign against the Taliban, international leaders recognized the need for economic inducements to rebuild the country. In an April 2001 report to the Security Council, Secretary-General Annan urged "the development of proposals, including incentives, that will encourage an internal dynamic" toward resolution of the conflict in Afghanistan.<sup>18</sup> In October 2001, U.S. secretary of state Colin Powell testified before the House of Representatives that the strategy for creating a more cooperative regime in Afghanistan should include a smaller version of the post-World War II Marshall Plan.<sup>19</sup> The United Kingdom proposed a five- to ten-year economic reconstruction program for Afghanistan costing \$40 billion.<sup>20</sup> U.S. national security adviser Condoleezza Rice pledged a substantial U.S. effort to aid "the reconstruction of Afghanistan."<sup>21</sup> Private research groups made similar recommendations for a large-scale program of institution building, development, and economic aid.<sup>22</sup> Such support would be conditional on the Afghani government's cooperation with U.S. and UN demands to bring terrorist suspects to justice and close terrorist support bases.

Many observers have also urged an economic incentives package for Pakistan, which has incurred major political and economic costs for its cooperation with U.S.-led antiterrorism efforts. In September 2001, the United States encouraged the International Monetary Fund to proceed with a sizable loan package for Islamabad to cushion the impact of severing political and economic links with Afghanistan. The United States adopted measures of its own, including substantial debt relief.<sup>23</sup>

One of the most important incentives initiatives the United States and other nations could take to solidify international cooperation and address the sources of terrorist violence would be an international plan for the development of impoverished Middle Eastern and central Asian nations. In remarks before the U.S. Commission on National Security in the Twenty-First Century, former speaker of the House Newt Gingrich

urged a major economic development effort for the entire region. "For Muslims at large," Gingrich declared, "we should aggressively be reaching out economically . . . to create a better future."<sup>24</sup> Just as the United States helped to rebuild Japan and Germany after World War II, Gingrich argued, the United States should seek to work with "non-fanatics" in the Islamic world to overcome the poverty and despair that feed terrorism. A key element of a regional development plan would be debt relief, as the Group of 7 leaders emphasized at the Genoa summit in July 2001. Including debt relief in a development plan for the region would provide significant help for local economies and demonstrate a genuine commitment from the United States and other Western nations to the well-being of Islamic societies.

British chancellor of the exchequer Gordon Brown called for wealthy countries to increase international development funds by \$50 billion a year, to fulfill the pledge made by world leaders at the Millennium Summit in 2000 for halving the world's poverty rate over the next fifteen years. Brown argued that "national safety and global reconstruction are inextricably linked" and that advancing social justice is necessary to achieve global security.<sup>25</sup> A large-scale economic development effort by the Security Council, international financial institutions, the United States, and other major financial powers would constitute a powerful inducement for participation in the antiterrorism coalition. Debt relief and other forms of economic development assistance would depend on the recipient states cooperating fully with global antiterrorism efforts, including the enforcement of sanctions and financial restrictions on terrorist networks and states that support them. A multilateral initiative that included carrots as well as sticks would greatly enhance the legitimacy of the antiterrorism cause, especially in Arab and Islamic nations, and strengthen the commitment to prevent terrorist attacks in the future.

### **Suppressing Terrorist Finances**

Terrorists need money to carry out their murderous business. Such funding pays for weapons, travel, training, housing, and benefits for the families of suicide terrorists. Estimates of the total cost of the 11 September 2001 attacks against New York and Washington, D.C., range from as little as \$200,000 to more than \$1 million.<sup>26</sup> U.S. officials traced more than \$325,000 that was transferred to the 11 September hijackers, mostly from accounts in the United Arab Emirates.<sup>27</sup> This rel-

atively small sum represents only the tip of a larger financial iceberg. According to a September 2001 Library of Congress report, the al-Qaida network consists of some 3,000 militants scattered among more than thirty countries.<sup>28</sup> This suggests an annual budget for the bin Laden network alone of tens of millions of dollars. Add to this the budgets of associated organizations, and the annual cost of global terrorism reaches hundreds of millions of dollars. Eliminating this financial base is crucial to reducing the terrorist capacity and threat. Financial sanctions are a vital tool in this effort.

The United Nations recognized the importance of curtailing the funding of terrorism when it approved the International Convention for the Suppression of the Financing of Terrorism in 1999. Building upon previous UN resolutions and agreements, the convention established a comprehensive set of international obligations to prevent the financing of terror and to prosecute those who commit or abet terrorist acts. As of September 2001, thirty-five nations had signed the convention, although only three completed the ratification process. Since the attacks against New York and Washington, D.C., support for the agreement has increased, and most nations are now expected to sign and ratify the document.

Under the terms of the convention, states are required to establish laws criminalizing all forms of involvement in or support for terrorism. States are directed to identify, detect, and freeze any funds used or allocated for the purpose of committing terrorist acts and are encouraged to use the funds derived from such forfeitures to compensate the victims of terrorist attacks or their families. Governments are also obligated to apprehend terrorist suspects and present them for prosecution and, if appropriate, extradition. They must assist one another in the criminal investigation and prosecution of terrorist acts, and they may not refuse such mutual intelligence and legal assistance on the grounds of financial confidentiality.

The convention effectively bans the practice of bank secrecy. Governments must adopt domestic legislation prohibiting the opening of accounts in which the holders or beneficiaries are unidentified or unidentifiable. Financial institutions must verify the legal existence of customers and maintain records of all transactions.<sup>29</sup> Governments must license money-transmitting agencies and establish measures for monitoring international financial transactions. As of September 2001, thirty-five nations had signed the convention. If implemented, these provisions would strike a powerful blow at the financing of international terror. With the adoption of SCR 1373, many of the provisions of the

convention became mandatory for all states, whether or not they had ratified the convention. The operative paragraphs of SCR 1373 were lifted directly from the text of the convention.

### Toward Financial Transparency

In the United States and other major financial centers, including Switzerland, banks are no longer allowed to offer complete anonymity to clients. Government authorities with proper judicial warrants are permitted to scrutinize accounts if criminal activity is suspected. But in many parts of the world, including the Middle East, financial institutions remain closed to regulatory scrutiny and judicial inquiry. A related problem is the presence of unregulated offshore financial centers in places like Nauru in the Pacific or the Cayman Islands in the Caribbean. Terrorists and money launderers use these havens and the secret accounts they offer to hide their criminal activities.

As noted in Chapter 6, major efforts are under way to crack down on offshore financial havens. The Financial Action Task Force (FATF), based at the Organization for Economic Development (OECD) in Paris, has identified more than a dozen jurisdictions that have refused to cooperate with anti-money-laundering efforts.<sup>30</sup> They are referred to as noncooperative countries and territories (NCCTs). As of January 2002, the NCCT list comprised nineteen countries, including Indonesia, Egypt, Israel, Nauru, Russia, and Ukraine.<sup>31</sup> Like the State Department's list of states sponsoring terrorism, the FATF list of noncooperative countries and territories has the potential to serve as an effective tool for influencing the policies of designated jurisdictions. The use of financial carrots and sticks would add weight to the NCCTs list and help to strengthen financial compliance. Jurisdictions that comply with tightened financial controls would receive assistance from international financial institutions and creditor nations; those that refuse to cooperate with disclosure rules would be excluded from these benefits. The FATF has considered the imposition of countermeasures on noncooperative states, including limiting financial transactions with those countries.<sup>32</sup>

The United States is seeking to end the practice of bank secrecy by barring banks that permit anonymous accounts from having access to U.S. financial markets. The U.S. Congress has passed legislation requiring foreign banks that operate in the United States to disclose the identity of each customer and to provide information on the beneficial ownership of every account opened or maintained in the United States.<sup>33</sup> The

secretary of the Treasury would have the authority to designate a specific foreign jurisdiction or financial institution as a "primary money-laundering concern" and to bar or limit its access to U.S. markets. Among the criteria the secretary would apply for determining whether a country qualified as a primary money-laundering concern would be the presence of a mutual legal assistance treaty between that jurisdiction and the United States. Countries without such treaties would find it more difficult to operate in U.S. financial markets.

The new U.S. legislation bans so-called shell banks that have no physical presence in any country. It allows the Treasury Department to place limits on correspondent or pay-through accounts.<sup>34</sup> Foreign banks use these accounts for conducting business in the United States. They provide means by which a secret depositor in such banks can gain access to the U.S. market. Under the new legislation, the Treasury Department can prohibit correspondent accounts unless the bank in question complies with disclosure and reporting requirements.

The new U.S. laws also place limits on money-transmitting businesses. The International Convention for the Suppression of the Financing of Terrorism mandates the regulation of these operations as well. Of special concern is the informal *hawala* system widely employed in South Asia.<sup>35</sup> Under this system, cooperating brokers in separate countries transfer money from one currency to another without paying taxes or bribes and without bookkeeping. A broker in Pakistan asked to transfer \$100,000 worth of rupees will contact a counterpart in the United States, perhaps through a coded message over the Internet, who will pay the equivalent sum in dollars to the designated recipient. No permanent records are kept. It is estimated that \$2–5 billion is transferred through the *hawala* system annually in Pakistan, more than the amount of foreign transfers through the official banking system.<sup>36</sup> Although *hawalas* are illegal in Pakistan, as in most countries, they have eluded law enforcement efforts. New regulations in the United States require the registration of all money services businesses that engage in check cashing and currency exchange or transmittal. Such firms are now required to register in the state in which they operate and to maintain records of all financial transactions. Similar requirements in other countries would begin to place limits on the use of such brokers for the financing of terrorism and other criminal activities.

Because *hawala* brokers often operate informally, innovative efforts in the areas of immigration, commerce, and aviation will be needed to enforce such registration and licensing requirements. Educational efforts will be needed to explain the importance of regulat-

ing *hawala* operations as part of international efforts to prevent terrorist attacks and to crack down on money laundering. Incentives might be provided for brokers to register and legalize their operations. Exemptions from registration fees and taxes might be offered for those who come forward during an initial registration period.

### The Counter-Terrorism Committee

The Security Council took strong action to crack down on international terrorism when it approved SCR 1373. Adopted just two weeks after the 11 September attacks, the counterterrorism resolution was the most sweeping sanctions measure ever adopted by the Security Council. It imposed worldwide financial sanctions, travel restrictions, and military sanctions on terrorists and those who support them.<sup>37</sup> It required every country in the world to freeze the financial assets of terrorists and their supporters and ordered states to deny safe haven to terrorists and prevent the use of their territory for terrorist activities. SCR 1373 required countries to prevent the movement of terrorists by means of effective border control and restrictions on the issuance of travel documents. It mandated measures to prevent recruitment by or the supply of weapons to terrorist groups. The terms of the resolution are summarized in Table 7.1.

Recognizing the need for a concerted effort to implement these far-reaching mandates, the Security Council created a special committee to monitor compliance and provide assistance to states in need of technical expertise. The new body, called the Counter-Terrorism Committee, was not just another sanctions committee. It was a special body that received priority attention and resources. It was chaired by Sir Jeremy Greenstock, permanent representative of the United Kingdom to the United Nations, one of the Security Council's most dynamic leaders. Vice chairs of the committee included the Council's senior diplomat, Sergey Lavrov, permanent representative of the Russian Federation to the United Nations, along with Ambassador Alfonso Valddivieso of Colombia and Ambassador Anund Jagdish Koonjul of Mauritius. To demonstrate the importance of the effort, the Counter-Terrorism Committee met initially at the ambassadorial level rather than among lower-level officials. Staff support and technical experts were assigned to the committee to facilitate its work. The committee's initial request for states to report on their efforts to implement SCR 1373 produced an overwhelming positive response. As of March 2002, more than 135

Table 7.1 Counterterrorism Measures Contained in Resolution 1373 (28 September 2001)

#### Mandatory Obligations

##### Financial Sanctions

- Criminalize the willful provision or collection of funds for conducting terrorist acts;
- Freeze the funds and other economic resources of persons or entities participating in or facilitating terrorism;
- Prohibit persons or entities from making available funds and economic resources for purposes related to the commission of terrorist acts.

##### Territorial Control

- Deny safe haven to those who finance, plan, support, or commit terrorist acts;
- Prevent those who facilitate or commit terrorist acts from using national territory.

##### Travel Sanctions

- Employ effective controls on borders and the issuance of travel documents to prevent the movement of terrorists.

##### Cooperative Criminal Prosecution

- Ensure that persons who participate in or support terrorist acts are brought to justice and that terrorist acts are defined as serious criminal offenses in domestic law;

- Afford other states the greatest measure of assistance in connection with criminal investigations;

- Provide early warning of possible terrorist acts by exchange of information with other states.

##### Military Sanctions

- Suppress recruitment by terrorist groups and eliminate the supply of weapons to terrorists.

#### Recommended Actions

- Intensify and facilitate the exchange of information on the movement of terrorists, the falsification of travel documents, trafficking in arms and explosives, the use of communications technologies by terrorists, and the threat posed by the possession of weapons of mass destruction;

- Become parties to international conventions against terrorism, including the International Convention for the Suppression of the Financing of Terrorism;

- Ensure that asylum seekers have not planned, facilitated, or participated in the commission of terrorist acts;

- Ensure that refugee status is not abused by those who commit or plan terrorist acts.

#### UN Action

- Establish a committee of the Security Council to monitor implementation of the resolution, and call upon all states to report to the committee on the steps taken to implement this resolution.

states had replied to the committee, an unprecedented level of compliance in terms of the number and speed of member state responses.

Not since the adoption of SCR 661 in August 1990 had the United Nations acted so decisively and comprehensively to mobilize international participation. Never before had the Security Council attempted such a massive transformation of the legal capabilities and financial practices of its member states. The success of this groundbreaking effort ultimately depends on the willingness of member states to cooperate. In the early months of 2002, the prospects for compliance seemed favorable.

### Aiding Implementation

As the Security Council Counter-Terrorism Committee began its work, it quickly discovered that many countries lacked the legal or institutional capacity to enforce the measures mandated in SCR 1373. Most nations did not have the legal authority and regulatory means to monitor the transactions of their financial institutions or to freeze financial assets. Even where such capacity did exist, legal and administrative systems varied greatly and impeded coordination.

The Interlaken process sponsored by the government of Switzerland in 1998 and 1999 identified the types of assistance states needed to enhance their capacity for the enforcement of financial sanctions. The Watson Institute for International Studies at Brown University contributed to this effort by convening a series of meetings at the Council on Foreign Relations in New York and at the Naval War College in Rhode Island to explore options for improving the implementation of financial sanctions. The Swiss Confederation, United Nations Secretariat, and the Watson Institute also produced a detailed handbook, *Targeted Financial Sanctions: A Manual for Design and Implementation*, released in October 2001, to assist the Security Council and individual countries in the design and implementation of effective financial sanctions.<sup>38</sup> The manual was published under the aegis of the Swiss government and in cooperation with the UN Secretariat. It contained very detailed guidelines and instructions on the multiple legal and institutional requirements for implementing the financial sanctions mandated in SCR 1373 and other Security Council resolutions. The most helpful instructions provided by the Watson manual were the guidelines for model national legislation. They were relevant to distinct dimensions of sanctions administration, such as assets

management and exemptions, and also offered states options for such matters as sharing information and establishing sunset provisions.

### Lessons from the Anti-Money-Laundering Front

Many of the mechanisms needed for the fight against terrorism are the same as those used to prevent money laundering. As documented in Chapter 6, the international community has devoted substantial efforts in recent years to combating illicit financial flows. The FATF has worked among its twenty-nine member countries as well as nonmember countries to strengthen legal authority and administrative capacity for interdicting illegal transactions. The Financial Crimes Enforcement Network, established by the United States, has assisted dozens of countries in strengthening their intelligence-gathering and law enforcement efforts. The mutual legal assistance treaties signed between the United States and dozens of countries have provided a foundation for the exchange of information and criminal evidence in money-laundering and assets forfeiture cases.

At the heart of U.S. efforts to freeze and block illicit financial transactions is the Treasury Department's Office of Foreign Assets Control and its system of interdicting the accounts of specially designated nationals (SDNs). More than 3,000 names were on the SDN list before the 11 September 2001 attacks, including that of Usama bin Laden. Dozens of additional names were added in the weeks following the attacks, including other prominent figures in the al-Qaida network.

As noted in Chapter 6, the SDN operation depends on name recognition software systems. These systems are only as good as the accuracy of the published list upon which they are based. In the case of the 11 September terrorists, there was considerable uncertainty about the reliability of the identities of those involved. The list of nineteen hijackers released by the U.S. Justice Department in September 2001 contained a number of errors and cases of mistaken identity, partly because the terrorists stole identities. In one case, a hijacker used the name of a Saudi citizen living in Riyadh whose passport had been stolen in 1995. Problems also resulted from the proliferation of similar names in Arab countries, where thousands of people may have the same given and family name. A related complication is the varying standard for the English transliteration of Arab names. The same name can be spelled in several different ways. Even the spelling of the bin Laden network varies: al Qaeda in some renderings and al-Qaida in others. Another

problem is the use of otherwise legitimate businesses and charitable organizations as fronts for illegal financial transactions. The United States has cast a wide net in its crackdown on the financing of terrorism. Inevitably, some innocent people and organizations have been caught in this process. Inadvertent financial harm to certain individuals and entities may be the unavoidable price of waging an aggressive campaign against the financing of terror. Improved procedures will be needed, however, to provide prompt judicial remedy for individuals and entities mistakenly affected by the freezing of financial assets.

### Conclusion

The UN's fight against terrorism will be long and will require a major commitment of resources by member states. Providing economic assistance and other inducements to enhance international cooperation will cost billions of dollars and will lie outside the direct purview of the Counter-Terrorism Committee. Strengthening the capacity to enforce financial sanctions and other restrictions on terrorists will require vast changes in economic and political practice among many nations. Here the UN can be most helpful. Building sustained political will for the necessary changes in domestic legislation will be difficult. Results will not come quickly, but over time, UN tools of economic statecraft can make a significant contribution to the worldwide campaign against terrorism, much as earlier UN sanctions were vital to dissuading Libya and Sudan from supporting terrorism in the 1990s.

### Notes

1. In this chapter, we depart from the book's exclusive examination of UN sanctions to include U.S. actions as well. As the injured party in the 11 September 2001 attacks, the United States has been a leader in calling for effective financial sanctions in response to these attacks.
2. Joseph Kahn, "Assets Worth \$24 Million Frozen as U.S. Goes for More," *New York Times*, 12 October 2001, B5.
3. U.S. Department of State, *Patterns of Global Terrorism—2000* (Washington, D.C.: U.S. Government Printing Office, April 2001).
4. *Ibid.*
5. Lee H. Hamilton, James Schlesinger, and Brent Scowcroft, *Thinking Beyond the Stalemate in U.S.—Iranian Relations 1*, policy review (Washington, D.C.: Atlantic Council of the United States, May 2001) <www.acus.org/> (9 October 2001).

6. For an account of UN sanctions on Sudan, see David Cortright and George A. Lopez, with Richard W. Conroy, Jaeh Dashi-Gibson, and Julia Wagler, *The Sanctions Decade: Assessing UN Strategies in the 1990s* (Boulder, Colo.: Lynne Rienner Publishers, 2000), 121–126.
7. Barton Gellman, "Sudan's Offer to Arrest Militant Fell Through After Saudis Said No," *Washington Post*, 3 October 2001, A1.
8. The report concluded that the proposed aviation sanctions could exacerbate humanitarian hardships. See United Nations, Department of Humanitarian Affairs, *Note from the Department of Humanitarian Affairs Concerning the Possible Impact of the International Flight Ban Decided in Security Council Resolution 1070 (1996)*, New York, 20 February 1997.
9. David Rose, "Spy Blunder: Resentful West Spurned Sudan's Key Terror Files," *The Observer* (London), 30 September 2001, 4.
10. William Douglas, "Weighing the Cost of Coalition: Human Rights Advocates Warn of Concessions," *Newsday*, 30 September 2001, A45.
11. This account draws from Cortright, Lopez, Jaeh Dashi-Gibson, and Richard W. Conroy, "Taming Terrorism: Sanctions Against Libya, Sudan, and Afghanistan," in Cortright and Lopez, *The Sanctions Decade*, 107–121.
12. United Nations, *Transcript of Press Conference by Secretary-General Kofi Annan at Headquarters, 5 April*, SG/SM/6944, New York, 5 April 1999, 3–4.
13. U.S. Department of State, *Patterns of Global Terrorism—1996*, Publication 10535 (Washington, D.C.: U.S. Government Printing Office, 1996).
14. U.S. Department of State, *Patterns of Global Terrorism—2000*.
15. Kenneth Katzman, "Terrorism: Near Eastern Groups and State Sponsors, 2001" (Washington, D.C.: Congressional Research Service report for Congress, 10 September 2001, 12) <www.house.gov/htbin/crsprodget?/rl/RL31119> (9 October 2001).
16. Alan Cowell, "Blair Says He's Seen Proof of bin Laden Role," *New York Times*, 1 October 2001, B4.
17. Joseph Kahn, "Afghanistan Gets Access to Frozen Funds," *New York Times*, 25 January 2002, A10.
18. United Nations General Assembly and Security Council, *The Situation in Afghanistan and Its Implications for International Peace and Security: Report of the Secretary-General, A/55/907-S/2001/384*, New York, 19 April 2001, par. 61.
19. John Diamond, "Powell Sets Terms for a New Regime," *Chicago Tribune*, 26 October 2001, <chicagotribune.com/news/nationworld/chi\_0110250279oct25\_story> (26 October 2001).
20. Steve Erlanger, "Britain Presses U.S. for 'Nation Building' in Afghanistan," *New York Times*, 12 October 2001, B3.
21. David E. Sanger and Jane Perlez, "Bush Plans to Send \$320 Million in Food and Medicine to Afghans," *New York Times*, 5 October 2001, A1.
22. Barnett R. Rubin et al., *Afghanistan: Reconstruction and Peacemaking in a Regional Framework*, KOFF Peacebuilding Reports (Bern, Switzerland: Center for Peacebuilding, June 2001), 33.
23. Joseph Kahn, "U.S. Is Planning an Aid Package for Pakistan Worth Billions," *New York Times*, 27 October 2001, B4.
24. "U.S. Commission on National Security in the Twenty-First Century: After the Attack—A New Urgency" (transcript of the 14 September 2001 General Meeting, Council on Foreign Relations, Washington, D.C., 25 September 2001, 12–13), <www.cfr.org/public/resource.cgi?pub/4049> (9 October 2001).