15. Perspectives on the Kananaskis Priorities: The Financial Dimension of Combating Terrorism

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Immediately after the attacks of September 11, 2001, the search was on for all possible measures to use in the fight against terrorism. These included economic measures alongside diplomatic and military ones. A variety of such measures had been tried in the past, such as trade and investment sanctions, transport restrictions and the denial of official finance from bodies such as the **International Monetary Fund** (IMF) and the **World Bank**. But none of these touched the terrorist themselves and they were not even very effective against states sponsoring terrorism. So they did not seem very promising weapons against al-Qaeda and similar terrorist movements.

But one economic instrument had the potential to reach not only states sponsoring terrorism but even the terrorists themselves. That was the tracing and freezing of terrorist assets, making it impossible for them to finance their activities. This emerged as the favoured economic instrument very soon after September 11, to which the G7 members still give high priority. (I say G7, not G8; Russia could not really take part for reasons that will be made clear shortly.)

Action against terrorist financing was the main item in the first statement of the G7 finance ministers after the attacks, on September 25, and their first meeting, on October 6, when they agreed to an action plan. It has remained a leading subject at their meetings, on February 9 and April 20, as their published statements show.

The G7 Action Plan has several elements;

1. Taking and strengthening legal powers to trace and freeze terrorist assets, in implementation of **United Nations Security Council** resolutions and Conventions;
2. Setting up financial intelligence units to track down terrorist assets and encouraging other countries to do the same;
3. Sharing information as widely as possible on terrorist organizations and their sources of finance and making public action taken against them;
4. Stronger supervision of financial systems, to prevent abuse by terrorists.

The G7 was able to move so fast on this because it was not acting in a vacuum. To help implement this strategy, it built on an institution that was ready to hand. This was the **Financial Action Task Force** (FATF). The FATF was founded at the 1989 G7 Paris Summit of the Arch to fight against the laundering of the proceeds of drug trafficking and other forms of crime. It now has 29 members, mainly from the Organisation for Economic Co-operation and Development (OECD), and has links to other regional bodies with the same aim. During the 1990s, it developed standards for its members, covering the methods to be used in preventing and punishing money laundering, and it conducted reviews of compliance.

By 2000, the G7 decided the FATF should become more visible and spread the fight against money laundering more widely. The FATF drew up and published lists of "non-co-operating jurisdictions," which were too open to money laundering and had neither the will nor the means to control it. These countries risked being placed off-limits by western financial institutions if they did not clean up their act. Some of the FATF's targets were small offshore centres, such as Liechtenstein and the Cayman Islands. But they also included larger countries like Israel, Hungary and even Russia. This explains why all the action against terrorist finance has been taken by the G7, not the G8.

The FATF's decisions were endorsed by G7 leaders at the 2000 Okinawa Summit. The 2001 Genoa Summit updated them, taking Liechtenstein and Cayman Islands off the list, but adding other countries and keeping Russia there. This work was thus ready to hand to be adapted to the fight against terrorism. In October 2001, the FATF decided to widen its remit to include terrorist finance. It rapidly produced a set of special recommendations on terrorist financing. It developed a system of self-assessment, so that countries could test their abilities to trace and freeze terrorist assets and see what further action they needed to take.

After mobilizing the FATF, the G7 finance ministers brought the IMF into the act. At the IMF ministerial meeting in November 2001, it was agreed that all member countries, guided by the G7 Action Plan, should strengthen their powers to trace and freeze terrorist assets, make public any action taken against identified terrorist organization, set up financial intelligence units and improve the sharing of information, if possible by February 2002. The IMF also promised technical assistance to countries that needed help in strengthening their financial systems to resist abuse by terrorists.

The initial results of these actions, by the G7 finance ministers, the FATF and the IMF, were impressive. All the G7 countries tightened up their legislation, enabling them to trace and freeze terrorist funds, including the United States, Canada, the European member states and the European Union collectively. They moved to create financial intelligence units and to share information among them. A total of 200 other countries and jurisdictions had undertaken to co-operate in implementing the G7 Action Plan by February 2002. By that time, about 150 countries had issued orders to freeze terrorist assets and a total of US$100 million had actually been frozen. In April, the G7 issued a consolidated list of the terrorist organizations it had identified and the assets that had been frozen. Early in May, the EU announced the freezing of the assets of a further 18 terrorist organizations and individuals, from all over the world.

However, these results are not really as impressive as they look. Now that they are getting closer attention, the earlier activities of the FATF turn out to have many imperfections. The banking community was not fully committed to the new rules, regarding them as burdensome and ineffective. Last year, before September 11, a compliance review by the FATF showed that the U.S. and Canada were failing to meet most of their standards. The United Kingdom had a better score, but it was still proving difficult to track down the funds stolen from Nigeria by the former President Sani Abacha and placed in London.

The new attention being given to terrorist finance, however, has encouraged G7 governments, and others, to take their responsibilities more seriously in combating money laundering generally. For example, the Canadian government accelerated the adoption of its new *Proceeds of Crime (Money Laundering) Act*, which came into effect November 2001, and made sure that it covered terrorist finance. It is being applied much more rigorously than it would have been before September 11 and has been expanded to cover terrorist finance, with new regulations issued during May. In London, many of Abacha's assets have now been identified and the courts have ruled on the return of large sums to the Nigerian government.

Yet even with this greater attention, tracking down and freezing terrorist funds will remain very difficult. The amounts used, even for an operation as ambitious as the September 11 attacks, are not large. Action against money laundering usually relies on freezing the named accounts of persons or institutions. But often terrorist funds are transferred by unconventional means, such as the *hawala* system, which does not use named accounts.

So action against terrorist finance should be pursued as part of the broader campaign against money laundering — to find, freeze and confiscate the proceeds of drug trafficking and other forms of crime. Crime and the drugs trade are often used as the means to finance terrorism, as we have seen in Northern Ireland, Colombia and Afghanistan itself.

The campaign against terrorist finance, like the other aspects of the fight against terrorism, is only just beginning. After this promising start, it will need constant vigilance and sustained action by the G7, with the widest international support, to deny terrorists the means to finance their activities.

Reference

Wechsler, W. F (2001), "Follow the Money," *Foreign Affairs*, 80(4): 40–57.

Further Reading

Bayne, Nicholas (2001), "The G8's Role in the Fight Against Terrorism." Remarks to the G8 Research Group, Toronto, November 8 <www.g7.utoronto.ca/g7/speakers/baynenov2001.html> (May 2002).

Sussmann, Michael (1999), "The Critical Challenges from International High-Tech and Computer-Related Crime at the Millennium," *Duke Journal of Comparative and International Law*, 9(2, Spring): 451–489 <www.g7.utoronto.ca/g7/scholar/sussmann/duke_article_pdf.pdf> (May 2002).

Discussion Questions

1. The U.S., Canada and England were all found to have failed in successfully implementing the agreed-upon standards to fight terrorism. How important is it that these countries show action and leadership domestically versus internationally, when the majority of terrorist activity and the root of the problem are both considered to fall outside of the Western world?

2. The finance ministers have taken the most immediate and successful action in combating terrorism. Which ministry is the next most important to mobilize against the cause and spread of terrorism, and why?

3. What pieces do you feel are missing from the four elements of the G7 Action Plan in the financial war against terrorism?

4. Is it necessary to have a stable and "terrorism-free" Russia as part of the G8 in order to achieve the Action Plan set forth at the 2001 Genoa Summit?

5. Can the G7/G8 and other international governance bodies successfully target crime and the drug trade, which fund terrorist activities, through strategies similar to the ones they have employed to share financial intelligence and shut down terrorists' assets?

Quiz

1. Which countries were removed from the FATF's "non-cooperating jurisdictions" list at the 2001 Genoa Summit?
   a. Hungary and Iran
   b. Saudi Arabia and Nigeria
   c. Russia and Israel
   d. Cayman Islands and Liechtenstein

2. Which Western powers were found to be failing to meet many of the FATF standards?
   a. Canada and the United States
   b. England and Hungary
   c. Belgium and England
   d. Italy and England

3. What is one of the unconventional methods of fund transfer, often used by terrorist groups?
   a. ubuntu
   b. mircea
   c. hawala
   d. shawlin

4. Which former Nigerian president re-routed stolen funds to secret accounts in the United Kingdom?
   a. Mutumbi Ikeva
   b. Wersna Gnoro
   c. Sani Abacha
   d. Kembi Igali

5. By February 2002, how many countries had issued orders to freeze terrorist assets, and how much money had been frozen?
   a. 200; US$125 million
   b. 175; US$150 million
   c. 70; US$70 million
   d. 150; US$100 million

6. Where and when was the FATF founded?
   a. Genoa 2001
   b. Tokyo 1993
   c. Paris 1999
   d. Denver 1997