



DEPARTMENT OF THE TREASURY
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Thank you Chairman Stevens, Chairman Warner, Chairman Shelby, Chairman Roberts, Chairman Gregg and other members of the Committee, it is a privilege to be here today to discuss Treasury's role in the federal government's counterterrorism efforts. Combating terrorism engages virtually every part of the Department. Our front line is our law enforcement bureaus and offices -- the U.S. Customs Service, U.S. Secret Service, Bureau of Alcohol, Tobacco and Firearms, Internal Revenue Service Criminal Investigation, Federal Law Enforcement Training Center, Financial Crimes Enforcement Network, and the Office of Foreign Assets Control. These bureaus and offices have enforcement and regulatory missions, employ over 33,000 people, and have a combined budget in excess of \$4 billion. With approximately 20,000 special agents and inspectors, Treasury agencies represent almost 40% of federal law enforcement and have offices throughout the United States and around the world.

We protect our borders, the President and other world leaders, and our critical infrastructure. We respond to and investigate terrorist bombings, arsons, and shootings, wherever they occur. We attack terrorist fundraising activities by investigating financial crimes and money laundering. We administer and enforce economic sanctions on foreign terrorist organizations and countries that sponsor terrorism. We also provide training to our federal, state, local, and international partners.

TREASURY'S COUNTERTERRORISM EFFORTS

Events of the past decade, such as the 1993 bombing of the World Trade Center, the 1995 bombing of the Murrah Federal Building in Oklahoma City, and the 1996 truck bombing in Saudi Arabia, serve as reminders that United States facilities and personnel continue to be the target of terrorism. We have seen major advancements in technology and rapid globalization, making our job of combating terrorism more difficult. The men and women of the Treasury Department, working with other agencies, seek to meet this complex and ever-changing threat of terrorism.

Safeguarding America's Borders, Leaders and Critical Infrastructure

As guardians of our borders, our leaders, and our financial institutions, Treasury plays a central part in preventing terrorist attacks on the United States.

The Challenge -- Protecting Our Borders

In December 1999, Customs inspectors apprehended a suspect carrying explosive material and timing devices trying to enter the United States through Port Angeles, Washington. The events that December day are an example of the work the Customs Service does everyday to prevent the importation of military and explosive materiel that can be used for terrorist purposes. In some cases, these items qualify as Weapons of Mass Destruction (WMD). Customs mission also includes preventing and investigating the exportation of WMD materials and technologies, arms, funds and other support to terrorists abroad. For example, Customs has investigated cases involving a New York businessman who tried to ship gas masks to the Japanese cult that attacked Tokyo's subway system with Sarin gas; a Miami gunrunner who tried to ship AK-47s to the Ejercito Liberal Nacional (E.L.N.) terrorist organization in Colombia; and a person who tried to smuggle zirconium to Iraq. Customs is on the frontline of our defense against international terrorism.

Customs has a unique authority to conduct border searches of people and cargo entering and leaving the United States. In this regard, Customs investigates a broad range of crimes linked to terrorism, including contraband smuggling, illegal exports of licensable technologies and arms, violations of international sanctions, and related money laundering. Customs protects our electronic border through its Cyber Smuggling Center, which investigates international crime conducted on or facilitated by the Internet, including trafficking in illegal arms and WMD and money laundering.

Through inspection technology, enhanced training, and investigations, Customs is enhancing its ability to detect WMD and other terrorist-related items entering and leaving the United States. Most ports of entry now have personnel equipped with devices to alert inspectors to the presence of nuclear material. In addition, explosives detection technologies are being incorporated into anti-terrorism mobile x-ray vans for deployment at major airports, and explosives particle detection capability has been added to mail and express courier facilities for examining suspect international parcels. Customs also has created a system of alert levels designed to combine resources and intelligence to respond to incidents like the one at Port Angeles. Along the Northern border, Congress has approved \$20 million for advanced border security systems at Customs ports and stations and funding has been allocated for an additional 48 special agents. These agents will coordinate with federal, state, and local U.S. law enforcement as well as Canadian authorities on terrorism matters. Customs has also increased its participation nationwide in the FBI-sponsored Joint Terrorism Task Forces, bringing its expertise in the areas of import/export smuggling and financial investigations.

Working with the Federal Aviation Administration, the FBI, and the airline industry, Customs uses its border search authority to help protect international air passengers. Customs currently has specialized outbound inspection teams at 11 of the largest airports in the nation. These teams use Customs search authority to examine outbound cargo on passenger aircraft for hazardous materials, concealed or improperly

licensed weapons or munitions, and any other material that could compromise the security or safety of the aircraft.

In the areas of illegal firearms and explosives trafficking, Customs works with the Bureau of Alcohol, Tobacco and Firearms. The laws that ATF enforces generally require permits to import explosives or firearms. Customs and ATF work together to detect illegal firearms and explosives imports and ensure that those that are lawfully imported into the United States seamlessly enter regulated domestic commerce.

The Challenge -- Protecting Our Leaders

The U.S. Secret Service, protects our most visible targets -- the President and first family, the Vice President, former Presidents, visiting foreign heads of state, the White House complex, and foreign embassies in the United States. Under Presidential Decision Directive 62 (PDD-62) and 18 U.S.C. § 3056, the Secret Service is also responsible for coordinating security at designated events, referred to as National Special Security Events (NSSEs).

The Secret Service has the challenge of identifying and neutralizing potential threats by individuals and groups in an increasingly sophisticated, mobile, and violence-prone environment. Political and social changes have created regional tensions in many emerging nations, causing physical threats to political leaders to become more prevalent. Terrorist organizations continue to increase in the sophistication of their tactics and techniques, rendering many traditional protective measures ineffective. In addition to conventional threats, chemical, biological, and radiological weapons have potentially greater destructive capabilities and some are easily transportable.

In response to this heightened concern, the Secret Service seeks to integrate technology and highly trained personnel within its protective mission. Using state-of-the-art countermeasures, the Secret Service executes security operations that deter, minimize, and respond to these threats. It has Counter Assault Teams, a Counter Surveillance Unit, and Counter Sniper assets to detect and prevent, and if necessary respond to, any and all terrorist attacks on the President or Vice President. Readiness is a top priority and the Secret Service manages the Joint Operations Center to ensure a coordinated response to any incident at the White House and holds interagency table top exercises in preparation for terrorist attacks on the White House. To prevent attacks against those targets under Secret Service protection, it has an extensive program to obtain, analyze and disseminate information related to individuals or groups who pose a threat to persons or facilities protected by the Service. It does so in partnership with the National Security Council (NSC) and a variety of federal agencies, including the FBI, the CIA, the National Security Agency (NSA), and the National Imagery and Mapping Agencies (NIMA).

The Challenge -- Protecting Our Critical Infrastructure

Treasury is the lead agency responsible for working with the banking and finance sector of the economy to protect the nation's financial system infrastructure against cyber and other threats under Presidential Decision Directive 63 (PDD-63), "Critical Infrastructure Protection." Treasury and the industry are responsible for a number of tasks, including assessing the vulnerabilities of the sector to cyber and physical attacks, recommending a plan to eliminate significant vulnerabilities, and developing an information sharing system for identifying and preventing major attacks. To do this Treasury and the industry agreed to create and support what is now known as the *Banking and Finance Sector Coordinating Committee on Critical Infrastructure Protection* (the Coordinating Committee), chaired by Sector Coordinator Steve Katz of Merrill Lynch. Treasury's work on this program is directed by the Assistant Secretary for Financial Institutions, who serves as Sector Liaison.

Treasury and the industry have made substantial progress on critical infrastructure protection. The financial services industry was the first to establish a private sector information sharing and analysis center. The center, which was launched in October 1999, is designed to detect and analyze actual or potential cyber attacks, and distribute alerts about, and suggested countermeasures for, such attacks to its members. A cross-section of major commercial banks, investment banks, broker-dealers, insurance companies, investment companies, thrift institutions and industry utilities participate in the center.

In addition, the Secret Service conducts financial crimes and counterfeiting investigations that are designed to ensure the integrity of the critical financial, payment, and telecommunications infrastructures of the United States. Pursuant to PDD-63, the Secret Service has an infrastructure protection program, designed to prevent cyber attacks against critical infrastructure or a protected site or venue.

To meet its PDD-63 responsibilities, the Secret Service created the *Electronic Crimes Special Agent Program (ECSAP)*. These agents are highly trained and are qualified as experts in the preservation and analysis of a wide range of electronic evidence, including computers, telecommunications devices, and other electronic paraphernalia. They also provide expertise in the investigation of network intrusions and database thefts. The Secret Service uses these agents and its core of computer investigative specialists (CIS) to conduct investigations into "cybercrime" and "cyber-terrorism."

To protect our Treasury infrastructure, we have established a Treasury Critical Infrastructure Protection Plan (TCIPP) to meet the goals and objectives of PDD 63. This plan details the roles and responsibilities that must be performed at the Treasury headquarters level and in the bureaus. Major components of this plan include the identification and assessment of both vulnerability and risk. It also addresses vulnerability mitigation/elimination and the need to engage all Treasury employees in CIP awareness and education. All Treasury security disciplines, including information

systems security, personnel security, information security, industrial security, security operations, as well as emergency preparedness, play a role in safeguarding, protecting and assuring the viability of our critical infrastructure. Treasury's CIP programs are administered by the Office of Security under the Deputy Assistant Secretary (Information Systems) and Chief Information Officer.

Using Our Expertise in Explosives, Arsons, and Firearms

Treasury's Bureau of Alcohol, Tobacco and Firearms (ATF) specializes in and investigates incidents relating to explosives, arson and firearms. ATF enforces federal laws relating to firearms, explosives, and arson and it regulates the firearms and explosives industries. ATF has developed a unique expertise in the use and misuse of these commodities and provides leadership and direction in contributing to the Department's counterterrorism efforts. An ATF Agent recovered the serial number on the axle of the rental truck that led to the apprehension and conviction of the terrorists who committed the World Trade Center bombing.

ATF has developed personnel specializing in responding to explosives and arson incidents. ATF's four National Response Teams (NRT) are the only national teams that respond to explosives and arson incidents. Since the inception of NRTs in 1978, these teams of experts have responded to 491 bombing and arson incidents in the United States. ATF has also created the International Response Team that assists worldwide in matters involving major bombing or arson incidents at the request of the State Department. These teams respond within 24 hours. A major component of each NRT and IRT is the Explosives Enforcement Officer. These officers render safe improvised explosives devices, perform underwater recovery of explosives, and make explosive device determinations. ATF is the only agency capable of disrupting a large vehicle bomb through the use of their All-purpose Remote Transport System (ARTS). The ARTS is designed to remotely disrupt car and truck bombs too large to disarm by traditional methods.

ATF also serves as an important information resource in responding to terrorist activities. ATF maintains effective liaison with industry groups and can obtain and refer information rapidly. An example of this is ATF's partnership with the Fertilizer Institute in the "Be Aware for America" campaign. This campaign educates fertilizer dealers in agricultural grade ammonium nitrate about procedures to prevent improper sales and to report suspicious attempted purchases. In addition to conducting inspections of industry members to make sure records are properly maintained and that inventories of explosives and firearms are properly stored, ATF traces firearms and explosives used in crime or recovered at crime scenes. Additionally, ATF has an Arson and Explosives National Repository database that contains information on over 100,000 arson and explosive incidents. This repository maintains over 100,000 records of components used in improvised explosive devices that are available to law enforcement worldwide.

ATF has established a canine training center in Front Royal, Virginia, to train explosives detecting canine teams. In partnership with the Department of State's Anti-

Terrorism office, ATF trains these teams for service in countries around the world. In addition, ATF has trained its own unique cadre of special agent canine handlers whose canine partners can detect trace amounts of explosives that may be hidden or buried.

ATF also employs the only federally trained and certified fire investigators who investigate suspicious fires to determine their cause and origin. ATF also trains State and local accelerant detection canine teams, which are key tools in the investigation at arson scenes. The Front Royal facility is also used for this purpose. ATF's National Laboratories provide state-of-the-art forensic services in the areas of explosives and firearms evidentiary analysis. ATF is in the process of building a Fire Research Center, an innovative partnership among law enforcement, fire services, public safety agencies, academia and the private sector. The Fire Research Center will use the most advanced scientific, technical, educational, and training methods to make ATF and its partners leaders in fire investigation science to serve and protect the public.

Attacking the Financial Underpinnings of Terrorism

Terrorist organizations often engage in illicit activities to raise money for their terrorist activities. By investigating money laundering and other financial crimes and imposing and enforcing economic sanctions, Treasury is attempting to deprive terrorist organizations of their funding.

Money Laundering and Financial Crime

Suspects in financial crimes investigations have traditionally been thought of as white-collar criminals. Today we see many criminals for whom financial crime is just one component in a diversified criminal portfolio. The proceeds of the criminal activities are not only used to support the lifestyle of the suspect, but frequently to finance other types of criminal enterprises, including terrorism. Treasury's expertise in investigating financial crimes and money laundering enable it to attack terrorist financing -- the support system of terrorist activity.

An example of the types of crime being committed to raise money for terrorist organizations is a recent ATF/FBI investigation. In July 2000, ATF and FBI agents arrested 18 people in connection with cigarette smuggling and immigration violations. The current charges, which include providing material support and resources to a designated foreign terrorist organization, are based on the evidence that some of the defendants, supplied money and military-style equipment to the Hizballah organization. In fact, two of the defendants are Lebanon-based Hizballah leaders..

The tie between financial crime and terrorism is not limited to international terrorist organizations. Domestically, many extremist paramilitary and militia groups in the United States that advocate violence against the government also advocate violating -- and often do violate -- the tax laws of the United States. IRS-CI with its expertise in tax crime plays a role in responding to the threat of domestic terrorism from these extremist

groups. In addition, Treasury's Inspector General for Tax Administration (TIGTA) investigates threats to IRS personnel and facilities.

Treasury is also uniquely situated to "follow the money" through money laundering investigations and other support for U.S. counter-terrorist efforts. Customs, IRS-CI, Secret Service and the Bureau of Alcohol, Tobacco and Firearms are charged with investigating money laundering in cases where the underlying criminal act lies within their core-jurisdiction. The Financial Crimes Enforcement Network (FinCEN) is charged with administering the Bank Secrecy Act, which prescribes transaction reporting and record-keeping requirements for financial institutions designed to insulate those institutions from money laundering, and to provide a paper trail for investigators. FinCEN also serves as the central point for collection and analysis of Bank Secrecy Act data, providing case support to law enforcement investigations. This information is valuable to investigations of terrorist fundraising, giving FinCEN the ability to "follow the money" through accessing a variety of databases and assisting investigators in tracking terrorists through their financial transactions and their assets.

To supplement these traditional law enforcement methods, Treasury is establishing a Foreign Terrorist Asset Tracking Center (FTAT) within its Office of Foreign Assets Control (OFAC). The Center will develop government-wide strategies to counter terrorist financing and to incapacitate their financial holdings within the US, and to assist other countries to employ similar strategies. Such strategies will bring to bear the full weight, influence, and authority of the federal government -- regulatory, diplomatic, defense, intelligence, and enforcement communities. The agencies pledged to participate in or work with the Center are Customs, IRS, USSS, FinCEN, FBI, INS, CIA, NSA, as well as the Departments of Justice, State, and Defense. OFAC is now hiring the Center's permanent staff and is working with participating agencies to identify detailees and liaisons.

Economic Sanctions

Treasury is responsible for administering and enforcing economic sanctions against terrorists and terrorist organizations. Since January 1995, OFAC has administered Presidentially-imposed economic sanctions against Middle East terrorist organizations under Executive Order 12947. This effort, the Specially Designated Terrorists ("SDT") program, is used to identify and expose SDTs. It has blocked some terrorist assets within the United States and is believed to have deterred fundraising in the U.S. and impeded terrorists' use of the U.S. financial system. In August 1998, Usama bin Laden and his organization, al-Qaeda, were added by Executive order to the list of foreign terrorists covered by these sanctions. OFAC continues to work closely with Justice, State, the FBI, and other federal agencies in implementing the two Middle East terrorist Executive Orders against identified or potential SDTs.

In April 1996, the Antiterrorism and Effective Death Penalty Act ("Antiterrorism Act") was enacted, in part to prevent persons within the U.S. or under U.S. jurisdiction from providing material support or resources to Foreign Terrorist Organizations

("FTOs") throughout the world. Beginning in October 1997, numerous FTOs have been designated by the Secretary of State in consultation with the Secretary of the Treasury and the Attorney General. Under the Antiterrorism Act and OFAC's implementing regulations, financial institutions subject to U.S. jurisdiction maintain control over all funds in which an FTO has an interest, block financial transactions involving FTO assets, and report those actions to OFAC.

In administering sanctions programs, we strive for maximum coordination. Within Treasury, OFAC coordinates closely with the Office of the Assistant Secretary for International Affairs regarding foreign and international economic policy issues affecting OFAC's implementation of sanctions against terrorist supporting countries. We also coordinate with State and Justice on FTO designations, and work with the financial community, the FBI, Justice, State, and other federal agencies in implementing the prohibitions of the Antiterrorism Act.

The Customs Service, working with OFAC, investigates violations of sanctions programs targeting terrorist supporting countries for criminal prosecution. In addition, OFAC has the authority to levy civil penalties for violations.

In addition to the economic sanctions programs, Section 901(j)(2)(A)(iv) of the Internal Revenue Code denies the foreign tax credit with respect to taxes paid to countries that "the Secretary of State has, pursuant to section 6(j) of the Export Administration Act of 1979, as amended, designated as a foreign country which repeatedly provides support for acts of international terrorism." Last year, State designated Cuba, Iran, Iraq, Libya, North Korea, Sudan and Syria under this provision.

COORDINATION WITH OTHER AGENCIES

We recognize that to effectively fight terrorism we must work across the federal government, as well as with our state, local and international partners. We have and will continue to interact regularly with the Departments of Justice, State, Commerce, Transportation, Defense, and HHS, as well as the Federal Emergency Management Agency (FEMA) and members of the Intelligence Community on counterterrorism matters. Treasury has partnered with Justice, Defense, State, FBI and the CIA in the development of the Five-Year Counterterrorism and Technology and Crime Plan. The Plan is updated annually and serves as a baseline strategy for coordination of national policy and operational capabilities in the fight against terrorism. We coordinate our activities in a number of ways -- through Presidential directives as well as through joint efforts such as task forces and other interactions with our law enforcement partners. In addition, we build relationships through training programs both at home and overseas.

Presidential Directives

There are several Presidential directives that set out agency responsibilities related to counterterrorism efforts. Among these directives are Presidential Decision Directive (PDD) 39, responsibilities for responding to terrorism, PDD-62, security for special events, and PDD-63, responsibilities related to protecting our critical infrastructure. Treasury and its bureaus undertake the responsibilities assigned to them under the Presidential directives and, where lead responsibility is assigned to another agency or department, lend our expertise and assets to support that agency.

We also continue our policy of coordination by appropriate representation to the National Security Council's Counterterrorism and Security Group (CSG) and the National Coordinator for Security, Critical Infrastructure and Counterterrorism. We also participate in the Critical Infrastructure Assurance Office regarding critical infrastructure issues.

Task Forces and Other Interactions

Successful anti-terrorism programs require daily operational coordination. Within the Department, ATF and Customs work closely on investigations of arms trafficking. Similarly, Customs and OFAC coordinate issues relating to the enforcement of sanctions programs. FinCEN and IRS-CI are available to support all of our bureaus with financial background information, which is indispensable in the tracking and understanding of complicated terrorist funding efforts. Additionally, the Secret Service's protection efforts are measurably enhanced by the investigative information and staffing resources available from its Treasury counterparts.

Coordination outside of Treasury is carried out on a routine basis with our federal, state, and local counterparts. Each of our bureaus and offices possess capabilities that are available to augment the counterterrorism response of other departments and agencies. Our enforcement bureaus are partners in the FBI's Joint Terrorism Task Force program. Operationally, Treasury agents assigned to a JTTF work as full-time members. On several occasions they have been designated as case agents on investigations requiring review at the national policy level. As a result of field involvement in this program, Treasury agents have a much clearer understanding of the extent of domestic and international terrorist activity. This understanding enhances Treasury capabilities and enables us to more effectively assess threat levels and to deploy resources to counter potential national security threats.

The Secret Service, Customs and ATF coordinate continuously not only with the FBI, but also with FEMA, Defense, State, and the CIA in responding to terrorist acts. We maintain an active liaison program with the intelligence community and participate in the FBI Counterterrorism Division, the CIA Counterterrorism Center, and the Treasury Threat Advisory Group. All of these relationships are important, integral partnerships in the fight against terrorism.

Building Relationships Through State-of-the-Art Training

The reality of the globalization of crime and terrorism has motivated our bureaus to adopt an aggressive training program to enhance our capabilities and build relationships with agencies at home and abroad. The Federal Law Enforcement Training Center (FLETC) alone trains the law enforcement personnel from more than 70 federal agencies, numerous state and local law enforcement, and more than 50 nations, including high threat areas such as China, Russia, Lithuania, Nigeria, South Africa and Colombia. The benefits derived from the relationships developed through our training efforts have enhanced our ability to investigate and suppress terrorist activity around the world.

CONCLUSION

I hope my testimony today has provided a better understanding of the breadth and depth of Treasury's counterterrorism efforts. I want to thank Congress for its support of our work. We are committed to working with all of our partners to prevent, investigate and prosecute terrorist attacks on the U.S. both at home and abroad. Thank you.