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Mr. Chairman, Representative Pence and Distinguished Members of the Committee:

Thank you for affording me the opportunity to testify before you today on issues relating to the U.S.-Saudi relationship, particularly as the Congress considers the sale of \$20 billion in military hardware to Saudi Arabia. That initiative is appropriately considered in the context of the entire bilateral relationship, and in the context of broader strategic considerations in the region. I have been asked to provide testimony specifically on issues relating to terrorist financing and Saudi support for extremism, and I will limit my remarks accordingly.

The 9/11 Commission concluded that that “Saudi Arabia has been a problematic ally in combating Islamic extremism.” Although much has been done—particularly since May 2003, when Saudi Arabia itself became the target of al-Qaeda attacks—more remains to be done.

Before 9/11, al-Qaeda is believed to have received about \$30 million per year. It did not derive these funds from one specific source. Money was—and is—raised in various parts of the world through Islamic charities and individuals, as well as through legitimate businesses and criminal enterprises.

Financial supporters in the Gulf region, and specifically in Saudi Arabia have historically posed a particular problem. As the 9/11 Commission concluded in its final report: “Al-Qaeda appears to have relied on a core group of financial facilitators who raised money from a variety of donors and other fund-raisers, primarily in the Gulf countries and particularly in Saudi Arabia.”

Three years later, Saudi financing remains a problem. As recently as last week, Stuart Levey, the Undersecretary of the Treasury Department and senior policy official responsible for combating terror financing, remarked: “If I could somehow snap my fingers and cut off the funding from one country, it would be Saudi Arabia.”

And Saudi-based individuals have, in recent years, provided support specifically to Sunni extremists in Iraq. The Iraq Study Group Report stated that “funding for the Sunni insurgency comes from private individuals within Saudi Arabia and the Gulf states.” Some of that money is believed specifically to support opponents of Prime Minister Nuri al-Maliki.

To be clear, to suggest that Saudi-based individuals have funded terrorism is not to suggest that the Saudi Arabian government itself has funded terrorism. Widespread interest in searching for evidence of official Saudi complicity in funding al-Qaeda has tended to obscure “sins of omission.” Saudi-based charities controlling billions of dollars are a good example; for many years there has been little or nothing done to reign them in even though they have benefited in

some cases from the sponsorship of the Saudi government. The failure to follow-through on promised structural or institutional reforms is another good example, as is the failure to prosecute Saudi-based individuals who are believed to have knowingly financed terrorist groups.

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For years, the Saudi government turned a blind eye to the financing of al-Qaeda by prominent Saudi-based religious and business leaders and organizations. Only after al-Qaeda bombed targets within Saudi Arabia in May and November 2003 did the Saudis finally focus on this problem and begin a meaningful dialogue with the United States to combat it.

In some cases, the changes in Saudi counterterrorism policy that began in 2003 — including changes specifically in the financial arena — have been profound. Saudi officials started to address the mindset that enables and condones acts of terrorism. These measures have included steps toward educational reform and limited measures intended to discipline (or “re-educate”) certain extremist Islamic clerics—at least those operating in Saudi Arabia.

Saudi Arabia has taken important actions to disable domestic al-Qaeda cells and has increased its tactical law enforcement and intelligence cooperation with the United States. In recent years, Interior Ministry and other Saudi law enforcement and intelligence officials have regularly killed al-Qaeda members and sympathizers in violent confrontations on Saudi streets.

Saudi Arabia has also improved its legal and regulatory regime. Particularly since the May 2003 Riyadh bombings, Saudi Arabia has announced the enactment or promulgation of new laws and regulations and the creation of new institutional arrangements to combat money laundering and terrorist financing.

For the first time, Saudi Arabia has subjected aspects of its anti-money laundering regime to international scrutiny. According to the 2004 annual report of the Financial Action Task Force, the international anti-money laundering body, Saudi Arabia has put into place “a relatively comprehensive AML/CFT legislative framework” and “meets almost all of the general obligations of the FATF 40 + 8 Recommendations.”

Significantly, in the wake of the 2003 attacks, the Saudi government also took steps to remove donation boxes from mosques and shopping malls. And Saudi Arabia has established a Financial Intelligence Unit to detect, track and monitor suspicious transactions. That entity became operational in September 2005.

However, passing legislation is one thing, and implementation and enforcement are another. Certain steps announced to increase oversight over problematic Saudi-based charities have not been fully implemented.

The Saudi National Entity for Charitable Work Abroad, for example, was first announced in February 2004. It was described as the “sole vehicle” for distributing private donations outside Saudi Arabia. In 2004, Juan Zarate, then the senior Treasury Department official responsible for curtailing terrorist financing and now the Deputy National Security Advisor, told the Congress

that “the Kingdom must move forward to clarify and empower an oversight authority that will administer effective control over the [charity] sector and ensure compliance with obligations under the new regulatory measures.” He called the establishment of the Saudi National Entity for Charitable Work Abroad a “major step forward” and noted, “we’re looking forward to seeing the implementation of that.”

According to a January 2007 Congressional Research Service report, however, this body is still “not operational.”

Similarly, in December 2002, the Saudi government announced the creation of the High Commission for Oversight of Charities. This Commission was reportedly intended to help Saudi charities reform their operations and improve transparency. At the time, and as a part of these efforts, the Saudi government indicated that “all Saudi charities had undergone audits.” According to the same January 2007 Congressional Research Service report, however, “the results of these audits have not been made publicly available.”

Regrettably, Saudi enforcement actions directed against al-Qaeda have largely avoided prominent financiers. There is no evidence of which I am aware that, since 9/11, Saudi Arabia has taken public punitive actions against any individual for financing terror. I believe that there have been no publicly announced arrests, trials, or incarcerations in Saudi Arabia in response to the financing of terrorism from Saudi soil—despite the fact that such arrests and other punitive steps have reportedly taken place.

In remarks to ABC News on September 11, 2007 – a week ago today – Undersecretary Levey suggested that none of the individuals identified by the United States as significant financiers — including some who are Specially Designated Global Terrorists — have been prosecuted by the Saudis. “When the evidence is clear that these individuals have funded terrorist organizations, and knowingly done so,” Levey said, “then that should be prosecuted and treated as real terrorism because it is.”

Saudi Arabia says that it has taken non-public actions against financiers. But actions taken in the shadows may have little consistent or systemic impact on ingrained social or cultural practices that directly or indirectly threaten the security of the United States. It is unacceptable that since September 11, 2001, not a single Saudi donor of funds to terrorist groups of which I am aware has been publicly punished.

Finally, an arguably greater problem than particular financiers is the global propagation of Wahabism, which serves as a pillar of Saudi foreign policy. Wahabism is a brand of Islam that, in some instances, supports militancy by encouraging divisiveness and violent acts against Muslims and non-Muslims alike. Through support for *madrassas*, mosques, cultural centers, hospitals, and other institutions, and the training and export of radical clerics to populate these outposts, Saudi Arabia has spent what could amount to hundreds of millions of dollars around the world. In some circumstances, this spending finances extremism. Unregulated and massive spending constitutes a paramount strategic threat to the United States.

Although the United States is not and should not be at war with any religion or any religious sect, U.S. policy should affirmatively seek to drain the ideological breeding grounds of Islamic extremism, financially and otherwise.

To do so, we will need more demonstrable cooperation from Saudi Arabia. Although I believe that that cooperation has begun, we must continue to demand greater cooperation in combating the global propagation of Islamic extremism, notwithstanding broader imperatives of our counterterrorism cooperation with the Saudis, and notwithstanding our broader regional objectives. Only by so doing can we be assured of winning the “war of ideas” and defeat the ideology that attracts foot soldiers, supporters and potential donors to extremism.