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DIPLOMACY AND THE WAR ON TERRORISM

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BEFORE THE

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DIPLOMACY AND THE WAR ON TERRORISM

TUESDAY, MARCH 18, 2003

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met, pursuant to notice, at 9:15 a.m. in room SD–419, Dirksen Senate Office Building, Hon. Richard G. Lugar (chairman of the committee), presiding.

Present: Senators Lugar, Hagel, Chafee, Feingold, and Bill Nelson.

The CHAIRMAN. Good morning. This hearing of the Senate Foreign Relations Committee is called to order. Today, the committee meets to examine the critical role of diplomacy in the war on terrorism. We do so as diplomatic efforts at the United Nations related to disarming Iraq have come to a conclusion.

During the last several months, the ability of our military to defeat Iraq has never been in question. What has been in doubt are factors related to our diplomatic strength and our standing in the world. Our diplomats have been at the forefront of efforts to gain support in the United Nations Security Council to secure necessary basing and overflight rights to limit anti-American reactions to war in the Arab world, and secure allied participation in the work of reconstructing Iraq after a war.

The September 11 attacks jarred our country out of complacency toward foreign threats, but what is still missing from American political discourse is support for the painstaking work of foreign policy, an indispensable role that diplomacy plays in our strategic efforts to win the larger war on terrorism. American embassies and diplomatic personnel are on the front lines of the war on terrorism. On a daily basis, they are enlisting assistance in foreign countries from Presidents and Prime Ministers all the way down to the local police precincts.

It is a massive undertaking that has brought a major influx of law enforcement, intelligence, and financial experts into embassies to work with their local counterparts. We have garnered the sympathy and cooperation of nations on every continent for our efforts to deny members of al-Qaeda refuge and financial support. The arrest of Khalid Shaikh Mohammed, who masterminded the September 11 attacks, is the most recent example of the success that this hard work is yielding.

Despite the critical role of the State Department, we have not provided it with sufficient funding. We are spending only a little more than 7 cents on foreign affairs for every dollar we spend on defense, and as a percentage of discretionary spending the inter-

national affairs budget stands at 3.4 percent. This is the lowest percentage of discretionary funding devoted to international affairs in recent memory. The figure is 30 percent below the 1985 peak, and 15 percent below the annual average since 1983.

Under President Bush and Secretary of State Powell, foreign affairs spending has received important increases since the September 11, 2001 events, but we dug a very deep hole for ourselves during the mid- and late-1990's, when complacency about the role of our diplomats led foreign affairs spending to be greatly devalued. From 1994 to 1997, the international affairs budget sustained consecutive annual decreases of 3.6 percent, 5.6 percent, 11.4 percent, and 1.5 percent.

This slide occurred even as the State Department was incurring the heavy added costs of establishing new missions in the 15 states of the former Soviet Union. The State Department budget has been starved and has not yet fully recovered and, moreover, this week we are considering a budget resolution in the Senate that reduces the President's request for the international affairs portion of the budget by $1 billion.

The importance of the State Department budget to the fight on terrorism can be seen in Pakistan. After September 11, some 3,000 United States officials on temporary duty entered the country to help track down al-Qaeda terrorists. They included State's own diplomatic security personnel, FBI officers, special forces, and intelligence agents. The embassy staff stretched thin, with only four political officers and two economic officers to support the influx.

This is not an isolated case. The GAO has documented staffing gaps in hardship posts, officers serving without adequate language training, and embassies that do not meet even the most minimal standards of safety.

Secretary of State Powell, good soldier that he is, will always do his best with the money that the President and the Congress give him, but Members of Congress need to inform the American people that we are underfunding our foreign affairs capabilities at a time of great peril.

Teddy Roosevelt prescribed that America should, "speak softly and carry a big stick." In the present age, we are carrying an incredibly big stick, but we must be willing to spend more resources on the ability to speak softly. If a greater commitment to resources can prevent the bombing of one of our embassies, secure alliance participation in expensive peacekeeping efforts, or improve detection of terrorists seeking visas, the investment will have yielded dividends far beyond its cost.

In the long term, it will be diplomatic skills, public diplomacy efforts, and foreign assistance that can help build strong and stable societies that fulfill the aspirations of their citizens and deny terrorists the uncontrolled territory and abject poverty in which they thrive.

The purpose of this hearing is to examine whether the State Department has the resources, both here in Washington and in its embassies overseas, to pursue the kind of broad effort against terrorism that is needed both in the short term and in the long term.

I am delighted to welcome again Marc Grossman, Under Secretary of State for Political Affairs, and Grant Green, the Under

Secretary of State for Management, who will be testifying on the first panel. We will then turn to a second panel, who will focus specifically on the work that is taking place in our embassies. Ambassador-at-Large Cofer Black is State's Coordinator for Counterterrorism. Mr. John Pistole is the Deputy Assistant Director of the Counterintelligence Unit of the FBI, and last we will hear from Juan Zarate, who is the Deputy Assistant Secretary in charge of the Treasury Department's Executive Office for Terrorist Financing and Financial Crime.

We appreciate the enormous expertise that each of our witnesses offers us today, and we look forward to their testimony. I would mention that we may be joined by the distinguished ranking member. I would say for the benefit of all who are following, as I am, the strong recovery of Senator Biden, he was at the White House for the meeting last evening. He is making a strong recovery, is deeply interested in all that we are doing, and we welcome him back at any moment that he comes to our committee hearing.

And I would say parenthetically before I ask the witnesses, we understand the traffic engulfments of the Capitol that could have led to our witnesses failing to appear, and I thank you for your valiant and timely efforts to get ahead of the mob, but our colleagues may not have been so fortunate, and so they will be joining us in due course, except for the stalwart Senator Hagel, who is always prepared, and maybe even spent the night in the Capitol in order to be ready.

[The prepared statement of Senator Biden follows:]

PREPARED STATEMENT OF SENATOR JOSEPH R. BIDEN, JR.

Mr. Chairman, thank you for convening this hearing. On the eve of likely military action in Iraq, we must keep focused on the vital task of combating the al-Qaeda network of terrorists and other terrorists which pose a clear and still present danger.

The effort against terrorism has both a short-term and long-term dimension. The short-term dimension is the campaign against terrorists—to discover and dismantle the al-Qaeda network and their financial support.

The long-term dimension is the campaign against terrorism—to counter the warped ideologies that give rise to terrorists and to prevent the emergence of failed states which could become a safe haven for terrorists.

In these campaigns, we need allies. We may be the world's leading power, but we do not control the world. We cannot arrest aI-Qaeda cells in Hamburg or Madrid without cooperation from our German and Spanish allies. We cannot seize bank accounts in the Middle East from Washington.

It goes without saying, therefore, that American officials assigned to our embassies and consulates around the world play an essential role in fighting terrorism.

From sharing intelligence with foreign police agencies, to tracking down the financial infrastructure of terrorism, to securing dangerous weapons in Russia, thousands of American diplomats work every day to prevent another terrorist attack on our country.

A key question for the committee is whether we are giving our diplomats the tools to do the job. In my view, we are not. The President's budget for international affairs provides a welcome increase to $28.5 billion, but spending for such programs remains well below the peak levels of the Cold War. The global effort against terrorism requires the same level of commitment, if not more, that we devoted to the global effort to contain communism.

Unfortunately, the budget resolution now on the Senate floor reduces the President's international affairs budget by $1 billion. All of the cuts come from the President's important initiative to expand foreign assistance through the Millennium Challenge Account.

At a time when many countries question the commitment of the United States to multilateral cooperation and to combating global poverty, the Congress should not shortchange the pledge made by the President at a UN summit in Mexico last year.

Poverty is not the cause of terrorism; most of the 9/11 hijackers were from the middle class. But around the world, too many countries and people who would turn a blind eye to terrorism—and would give terrorists support and sanctuary—are poor and in despair. We must reach these people before the terrorists do.

Just as we must devote sufficient resources to the war against terrorism, we must do everything possible to deprive the terrorists of the money which sustains their efforts.

A monitoring group established by the UN Security Council reported in December that, while al-Qaeda's financing networks have been disrupted, it "appears to still have access to substantial funding from its previously established investment, non-governmental organization and charitable support network, and deep-pocketed supporters."

This same group reported last September that the roughly $112 million of al-Qaeda assets frozen at that time represented only a "small fraction of the funds and resources [that] experts on terrorism believe to still be available to al-Qaeda and the Taliban." In other words, we have a long way to go.

According to a bipartisan report of a Council on Foreign Relations, our own government's efforts in this area are falling short:

> "after an initially robust attempt to curtail financing for international terrorism, the Bush Administration's current efforts are strategically inadequate to assure the sustained results we need to protect U.S. security."

After that report was issued, I asked the White House for information on specific action in several areas. Nearly five months have passed, and I have yet to receive a response.

Another important question is whether we have agreement with our allies on the objective. There appears to be unity among civilized nations about the threat posed by al-Qaeda. But there may not be full agreement with our allies in Europe and elsewhere about the threat posed by other terrorist groups, or even the reasons that such groups exist.

Where we see things as black and white, our allies often see shades of gray. Do we need to close this perception gap? How can we best do so?

Lastly, the committee should consider whether international institutions are adequate to the task of confronting international terrorism. After September 11 the world mobilized through the UN system and through regional bodies to crack down on terrorism.

In the UN, for example, several special committees established by the Security Council are doing important and credible work in monitoring compliance with UN resolutions passed in the wake of 9/11.

But perhaps we should look beyond these ad hoc arrangements and consider whether the world community should develop new institutions—either within the UN system or elsewhere—to facilitate cooperation on counter-terrorism and help provide nations the means and methods to crack down on terrorist organizations. We are in this struggle for the long term, and must organize both our domestic and international institutions accordingly.

The CHAIRMAN. Under Secretary Grossman, would you testify, and then Under Secretary Green.

STATEMENT OF HON. MARC GROSSMAN, UNDER SECRETARY OF STATE FOR POLITICAL AFFAIRS, DEPARTMENT OF STATE, WASHINGTON, DC

Mr. GROSSMAN. Yes, Senator Lugar, thank you very much.

Mr. Chairman, Senator Hagel, we thank you very much, all of us, for the opportunity to testify today on diplomacy's role in the war against terrorism, and before I do anything else, Mr. Chairman, on behalf of the men and women of the Department of State, let me thank you and the entire committee for your strong support of American diplomacy through the years.

Senator Lugar, I find myself from time to time in a position of saying I could get rid of my testimony because I agreed with yours, and this is one of those cases. We believe, as you do, in the importance, the strength, and the requirement for American diplomacy.

In fact, Mr. Chairman, I read with interest the January 27 piece you put into the Washington Post, which was called "Beating Terror," and in it you outlined five foreign policy campaigns necessary to win this war against terrorism, strengthening U.S. diplomacy, expanding and globalizing the Nunn-Lugar cooperative threat reduction program, promoting free trade, strengthening and building alliances, and reinvigorating the United States' commitment to democracy, the environment, energy, and development.

Mr. Chairman, I would say your goals highlight our priorities as we fight this war from the State Department along with the rest of our colleagues in government against the war on terrorism. Secretary Powell said, when he was here testifying for the President's 2004 international affairs budget on February 6, that "our number one priority is to fight and win the global war on terrorism."

Mr. Chairman, as you have said, this war on terror is a war unlike any other, because we are fighting a network of terrorists who are embedded and work in 60 different countries. The war on terrorism is also a war unlike any other because we need to break the nexus between weapons of mass destruction and terrorism.

To fight the war on terrorism we are engaged in a campaign unlike any other, and here I think President Bush said it best. He said, "We will direct every resource at our command—every means of diplomacy, every tool of intelligence, every instrument of law enforcement, every financial influence, and every necessary weapon of war—to the disruption and defeat of the global terror network." So our response to terrorism, Mr. Chairman, is global, and so, as you said, America's future and America's success depends on the quality and skill of the people at the Department of State.

Secretary Powell has said that he has stopped thinking about the State Department as what he used to call the first line of defense for the United States, and now says that we are on the front line of the offense by pursuing active and purposeful diplomacy.

What does it mean to be on the offense? As you said, Mr. Chairman, our colleagues, the Foreign Service, Civil Service, Foreign Service national employees gain the cooperation of leaders in other countries to support American goals. Our officers work to maximize the support for American initiatives. They coordinate policies. They resolve differences. They work with Finance Ministers and central bankers to cutoff terrorist financing. They are on the front line of the efforts to prevent terrorists from getting into the United States. Our office has worked to build public support for American values and policies. Our officers keep the Department functioning smoothly and, as you noted, Mr. Chairman, our officers are also at work every day keeping us safe.

I took the liberty, Mr. Chairman, of passing out this book, called "Inside a U.S. Embassy," which is a brand new publication of the American Foreign Service Association, and I would recommend it to you. It takes a number of chapters of what people do in an embassy every single day hour by hour, day by day, in promoting America's interests, and I just offer this to you, sir, and to your staff as something that might be of interest.

Through this active and purposeful diplomacy, we built a coalition against terrorism unlike any other. Ambassador Black will

talk more in detail, but we have 90 nations that have arrested or detained 2,700 terrorists and their supporters since September 11.

Seventeen nations contributed nearly 6,000 troops to Operation Enduring Freedom and to the national security assistance force in Kabul. One hundred and sixty one countries have blocked terrorist assets totaling $116 million, and I am confident, Mr. Chairman and other members of this committee, that we will have a coalition to pursue military action if that is required in Iraq, and all of those efforts are made possible by the people at the State Department with the strong support from others in our diplomacy.

Mr. Chairman, there are other examples as well. Our diplomacy in Southeast Asia prompted the exchanges of information that allowed intelligence and law enforcement agencies to break up active terrorist networks in Indonesia. In Operation Enduring Freedom, our diplomacy paved the way for U.S. forces to transit, stage in, and operate in numerous countries in Afghanistan, and in Central Asia effective engagement has secured also new base access agreements and overflight permissions.

Mr. Chairman, as you said, September 11, 2001 changed America and it changed the way the State Department does business. Under the direction of the Secretary and the Deputy Secretary, Under Secretary Green and I and every bureau at the State Department and every one of our missions overseas have organized to contribute to the fight against terrorism. Our missions ensure that counterterrorism objectives are met consistently, and that our operations succeed.

Mr. Chairman, I particularly appreciated the observation that you made in your letter of invitation to this hearing that foreign policy tools contained in the 150 account will make or break our antiterrorism efforts in the long term, and Congress' strong support enables the United States to present and to sustain an effective offensive against terrorism and its root causes, and that is why we support the President's 2004 request.

Mr. Chairman, if you would allow me, I would like to just share a few more examples of the returns on the investment that you make in the State Department, USAID, and other foreign affairs agencies on the counterterrorism front. As I briefly mentioned, hundreds of wanted terrorists have been apprehended by the United States since 11 September, and yourself, sir, you referred to Khalid Shaikh Mohammed.

Under the antiterrorism assistance program, we are providing training and equipment to 56 countries to fight terrorists within and around their borders. The $10 million that Congress authorized in the fiscal year 2002 supplemental budget for enhancing Pakistan's counterterrorism capabilities has, as you said, Mr. Chairman, already helped facilitate success in that country.

Last year, we provided training to over 4,700 foreign security and law enforcement officers from 45 different countries. Our antinarcotics and anticrime programs are also showing success, and very importantly, as you said in your letter of invitation, our public diplomacy efforts are designed to reach out and influence global public opinion, build trust in our policies, and build respect and understanding for American values and principles.

I have also taken the opportunity, Mr. Chairman, to provide for you some examples of that public diplomacy work. In it, you will find some pictures of a program that we call Shared Values, and it was a series of mini-documentaries, pamphlets and other materials showing Muslims leading successful and good lives in the United States. That program we estimate reached 288 million people in South Asia and East Asia.

Mr. Chairman, before I stop, I wanted to highlight one other point we have been making since September 11, and I think it is an important one for this committee, that stopping terrorism, fighting terrorism and promoting human rights and democracy are not on opposite poles. Supporting the growth of democracy and the respect for human rights around the world is one of our greatest weapons against terrorism.

National security strategy in the United States says that America must stand for the non-negotiable demand for human dignity, rule of law, limits on the absolute power of the State, freedom of speech, freedom of worship, equal justice, respect for women, religious and ethnic tolerance, and respect for private property, and all of those things I believe are part of this campaign to beat the global war on terrorism, and since September 11 we have increased our global engagement on building democracy and protecting human rights.

Mr. Chairman, the President's budget for fiscal year 2004 for the State Department for our foreign affairs agencies will provide the dollars we need to stay on the offense in the fight against terrorism. With adequate resources, foreign affairs agencies can devote more attention to addressing fundamental challenges that make countries vulnerable to terrorist networks and to their operations. We will have the money we need to focus greater attention and resources on weak States that can serve as a refuge or a staging ground for terrorist organizations.

And I know, very importantly to this committee, we can do more in these countries and others to boost economic development, improve governance practices, and increase respect for human rights and the rule of law, and that is why the President's request includes the request for $1.3 billion to launch the Millennium Challenge Account [MCA], a new bilateral assistance program for developing countries that rule justly.

The President has also asked for $2 billion in 2004 to support HIV/AIDS care and prevention programs in the hardest-hit countries especially Africa and the Caribbean, with the goal to provide $15 billion in HIV/AIDS funding over the next 5 years and, very importantly, the Middle East partnership initiative, launched in December, has democracy promotion as one of its priorities and links these reforms to economic and education reforms. These are all smart and necessary investments in the fight against terrorism.

Mr. Chairman, we thank you, we thank all the members of the committee for helping the State Department, USAID, and other foreign affairs agencies get the resources we need to do our jobs, to do them well for the sake of the American people and, from your consistent support, we know that you understand the sacrifices, and I would say sometimes the ultimate sacrifice that the men and

women of our diplomatic corps, as well as their families, make every day to protect the United States of America.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Grossman follows:]

PREPARED STATEMENT OF AMBASSADOR MARC GROSSMAN, UNDER SECRETARY OF STATE FOR POLITICAL AFFAIRS

Mr. Chairman, thank you for the opportunity to testify today on diplomacy's role in the war against terrorism. I thank the committee—and you and Senator Biden in particular—for your strong support of U.S. diplomacy.

Mr. Chairman, I read with interest your January 27 Washington Post piece on "Beating Terror." In it, you outlined five foreign policy campaigns necessary to win the war against terrorism: strengthening U.S. diplomacy; expanding and globalizing the Nunn-Lugar Cooperative Threat Reduction Program; promoting free trade; strengthening and building alliances; and reinvigorating the U.S. commitment to democracy, the environment, energy and development.

Mr. Chairman, your goals highlight our priorities as we fight the global war on terrorism.

Secretary Powell said on February 6 when he testified before this Committee in support of the President's FY04 International Affairs budget that, "our number one priority is to fight and win the global war on terrorism."

Mr. Chairman, let me say at the outset *that the war on terrorism is a war unlike any other.* We are fighting a network of terrorists operating in more than 60 countries.

The war on terrorism is also a war unlike any other because we must stop the proliferation or use of weapons of mass destruction, which are potential instruments of terror unlike any other. Nuclear weapons, biological weapons, radiological weapons and chemical weapons in the hands of terror groups or rogue states like Iraq are a challenge to American security.

To fight this enemy, we are engaged in a campaign unlike any other. President Bush has said, "We will direct every resource at our command—every means of diplomacy, every tool of intelligence, every instrument of law enforcement, every financial influence, and every necessary weapon of war—to the disruption and to the defeat of global terror network."

Our response to terrorism is global. And so America's future depends on the quality and skill of the people of the State Department.

Secretary Powell says that he has stopped thinking about the Department as a first line of *defense* for our national interests and now says that we are the first line of offense by pursuing active, purposeful diplomacy.

What does it mean to be on the offense?

Our colleagues—Foreign Service, Civil Service, Foreign Service Nationals—gain cooperation of leaders in other countries to support American goals. Our officers work to maximize support for U.S. initiatives, coordinate policies and resolve differences. Our officers work with Finance Ministries and Central Banks to cut off financial support for terrorists. Our officers are on the front line of the effort to prevent terrorists from getting into the United States. Our officers work to build public support for American values and policies. Our officers keep our Department functioning smoothly, at home and abroad, and our officers keep us safe.

Through this active, purposeful diplomacy, we have built a coalition against terrorism unlike any other. More than 90 nations have arrested or detained over 2,700 terrorists and their supporters since 9/11. 17 nations have contributed nearly 6,000 troops to Operation Enduring Freedom and to the International Security Assistance Force in Kabul. NATO members and partners have played an especially key role. 161 countries have blocked terrorist assets totaling $116 million—$34 million in the U.S. and $82 million abroad.

Here are several examples:

Our diplomacy in Southeast Asia prompted the exchanges of information that allowed intelligence and law enforcement agencies to break up an active terrorist network led by the Indonesia-based Jemaah Islamiya. Arrests have occurred in Singapore, Malaysia, and Indonesia.

In Operating Enduring Freedom, our diplomacy paved the way for U.S. forces to transit, stage in, and operate in numerous countries in Afghanistan and its region.

In Central Asia, effective engagement secured new base-access agreements and overflight permission.

September 11, 2001 changed America. September 11 also changed the way the State Department does business.

Under the direction of the Secretary and Deputy Secretary, every bureau in the Department and all of our Missions overseas have organized to contribute to the fight against terrorism. Our Missions ensure that counterterrorism objectives are met consistently and that our operations succeed.

Mr. Chairman, I appreciate the observation made in your letter of invitation that "the foreign policy tools contained in the 150 account will make or break our anti-terrorism efforts in the long term." Congress's strong support enables the U.S. to present and sustain an effective offense against terrorism and its root causes. That is why we support the President's FY-04 budget of $18.8 billion for the State Department.

Our number one priority is to fight and win the global war on terrorism. The President's budget furthers this goal by providing economic military and democracy assistance to key foreign partners and allies and pursing our program of "Diplomatic Readiness."

Over the last two years, with support from Congress, the State Department has begun to address our human and capital resource needs. The President's FY04 budget requests resources that will allow us to continue to reinforce America's world-class diplomatic force—focusing even more attention on the people, places and tools needed to promote U.S. foreign policy goals.

Mr. Chairman, let me share with you a few more examples of the returns on your investment State Department, USAID and other foreign affairs agencies on the counter terrorism front.

- As I briefly mentioned earlier, hundreds of wanted terrorists have been apprehended by the United States since September 11, and our partners have arrested thousands more. These arrests include Khalid Shaikh Muhammad on March 1.
- Through our Antiterrorism Assistance (ATA) Program, we are providing training and equipment to 56 countries to fight terrorists within and around their borders.
- The $10 million Congress authorized in the FY 2002 supplemental budget for enhancing Pakistan's counterterrorism capabilities has already helped to facilitate successes against some of the most wanted terrorists in the world, including Khalid Shaikh Muhammad.
- Last year, we provided training to over 4700 foreign security and law enforcement officers from 45 different countries.
- Our anti-narcotics and anti-crime programs have also shown success. There is now stronger emphasis on counter-terrorism training in our global network of International Law Enforcement Academies' core and specialized courses. Our drug crop eradication and interdiction programs in Asia, Latin America, and elsewhere, have taken hundreds of tons of illicit drugs out of circulation, helping to choke off an important source of revenue to terrorist networks.
- Our public diplomacy programs reach out to influence global public opinion, build trust in our national policy, and build respect and understanding for American values and principals. The Shared Values Initiative of mini-documentaries, pamphlets and other materials showing Muslims leading successful, secure lives in America reached 288 million people in the Middle East, South Asia, and East Asia.

Mr. Chairman, I want to highlight another point we have been making since September 11: fighting terror and promoting human rights are not opposite poles.

I believe supporting the growth of democracy and the respect of human rights around the world is one of our greatest weapons against terrorism. As the National Security Strategy of the United States says: "America must stand for the nonnegotiable demands of human dignity: the rule of law; limits on the absolute power of the state; free speech; freedom of worship; equal justice; respect for women; religious and ethnic tolerance; and respect for private property."

Since September 11, we have increased our global engagement on building democracy and protecting human rights.

Here is an example of how this all comes together: With your support, in Colombia the United States trained and equipped a counterdrug brigade. This unit is human rights vetted and received U.S. human rights training. There has not been a single credible human rights violation charged to this unit and it is considered the best unit in the Colombian military. In fact, when I visit Colombia, human rights advocates always tell me that what is needed is more such U.S. training, not less, because our training means Colombia's military becomes more professional, effective and respectful of human rights and democracy.

The President's budget for FY 2004 will provide the dollars we need to stay on the offense in the fight against terrorism. With adequate resources, foreign affairs agencies can devote more attention to addressing fundamental challenges that make countries vulnerable to terrorist networks and their operations.

- We will have the dollars we need to focus greater attention and resources on weak states that can serve as refuge and staging grounds for terrorist organizations.
- We can do more in these countries and others to boost economic development, improve governance practices, and increase respect for human rights and the rule of law. The President's budget includes a request for $1.3 billion to launch the Millennium Challenge Account, a new bilateral assistance program for developing countries that rule justly. The President has also asked for $2 billion in FY04 to support HIV/AIDS care and prevention programs in the hardest hit countries, especially Africa and the Caribbean, with a goal to provide $15 billion in HIV/AIDS funding over the next five years. The Middle East Partnership Initiative (MEPI), which was launched in December, has democracy promotion as one of its priorities and links these efforts to economic and education reforms. These are all smart and necessary investments.

We thank you, Mr. Chairman, for helping the State Department, USAID, and other foreign affairs agencies get the resources we need to do our jobs, and do them well, for the sake of the American people. From your consistent support we know that you understand the sacrifices—and sometimes the ultimate sacrifice—that the men and women of our diplomatic corps, as well as their families, make every day to protect America.

The CHAIRMAN. Thank you very much, Under Secretary Grossman.

Under Secretary Green, would you proceed with your testimony?

STATEMENT OF HON. GRANT S. GREEN, JR., UNDER SECRETARY OF STATE FOR MANAGEMENT, DEPARTMENT OF STATE, WASHINGTON, DC

Mr. GREEN. Yes, sir. Mr. Chairman, members of the committee, like Under Secretary Grossman, I am very pleased to participate in this panel and have an opportunity to discuss how the Department of State's management agenda supports the war on terrorism.

As you know, Mr. Chairman, the people of the Department of State have long been familiar with what affected all Americans first-hand on September 11, 2001. They have always worked and lived under what are often difficult and even dangerous circumstances, including the daily threat of terrorism. The August 7, 1998 bombings of the U.S. embassies in Nairobi and Dar es Salaam focused the Department's attention on the threat of terrorism and the need to respond to it as we never have before.

September 11 did not change that focus nor State's management priorities as much as it affirmed their importance. Our agenda is more essential than ever, not just to play an active role in the war on terrorism, but to address the whole range of requirements that will give the United States and the diplomatic infrastructure, our people in the field from all the U.S. Government agencies, need to do their work.

Secretary Powell's management priorities were laid out on day one. They have not changed, and they are pretty simple: people, security, technology, facilities, and the resources that support those four priorities.

At the pinnacle of our efforts are people, recruiting them, training them, and doing the things that enable us to retain them. To repair the large gap created in our personnel structure by almost

a decade of too few hires, we began the Diplomatic Readiness Initiative in 2001. The DRI's 3-year plan calls for bringing on board nearly 1,200 more foreign affairs personnel, and completing it in 2004 is one of Secretary Powell's highest priorities.

At the same time, we are strengthening the training provided through the Foreign Service Institute, counterterrorism, consular training, particularly in the areas of improved visa interviewing skills and border protection, public diplomacy training, as Under Secretary Grossman mentioned, to bolster our ability to explain U.S. policy and improve America's image, and language training, especially the critical language programs such as Arabic, Persian, Farsi, Dari and Pashtu.

One more point on people, Mr. Chairman. I noted with interest your comment to the Secretary at a previous testimony on filling hardship posts. We are currently examining a range of incentives and doing away with disincentives which would encourage people to serve at hardship posts, making sure that we have the staff to man some of our most difficult posts and assignments. We are enforcing the fair share assignment rules, which require all Foreign Service staff to serve a portion of their careers at these hardship posts.

A second priority, Mr. Chairman, and that is security. Our security challenges are to sustain the security readiness as threat levels remain elevated, to strengthen existing programs, and have the flexibility to deal with the increasing threats worldwide. We have had a major worldwide security upgrade program underway since the 1998 embassy bombings, and I believe our efforts are paying off.

As an example, we attribute the minimum damage from the June 2002 attack on the American consulate in Karachi to be the result of improved security awareness, training, and the significant investment in physical and technical security programs, but we have a lot more to do, and we will continue to need your great support.

In the area of technology, we are well on the way to providing the hardware and the software needed to build, as the Secretary puts it, a state-of-the-art State Department. We will be replacing the Department's outmoded telegram system with SMART, a modern, centralized Internet-like system that integrates all of the means through which people exchange information, replacing today's cables, e-mails, Department notices, and memoranda with e-documents.

Technology improvements do not just make work easier for our employees. They relate directly to the war on terrorism through such activities as visa and passport name checks, increased data-sharing with other agencies, border security controls, and services that support American citizens abroad.

Our fourth management priority, facilities. As I briefly mentioned, we are aggressively addressing the longstanding issue of insecure, unsafe, and outdated facilities in which most U.S. Government employees overseas work. We just opened new embassies in Nairobi and Dar es Salaam, replacing those bombed in 1998. They are attractive, they are safe, they are secure, and they are the kind of facilities that we must build for our people everywhere.

In this vein, working with the Office of Management and Budget, we have proposed a capital security cost-sharing program that will allocate the capital cost of new overseas facilities to all U.S. Government agencies. In addition to being a fair way to allocate costs, it will act as a direct incentive to right-sizing.

On the domestic side, we have faced a broad range of challenges related to the war on terrorism. For example, we had to close our central mail facility after the anthrax attack. We stepped up emergency preparedness and enhanced the security of our domestic buildings in the aftermath of that. We have implemented a much more structured framework and a series of standard procedures to ensure a fully coordinated emergency preparedness effort for our Washington headquarters and for our other domestic State Department facilities.

Let me touch briefly on consular affairs, because they play a major role in our war on terrorism. September 11 altered the context in which consular work is done both at home and abroad, and I will state categorically that our first priority remains the safety and the protection of U.S. citizens.

In close cooperation and coordination with the Department of Homeland Security, we have done much. We have restructured the visa process, for example, requiring new clearance procedures for some applicants. We have improved document integrity and fraud prevention. We have enhanced data collection and expanded information-sharing, and we continue to develop and deploy numerous new technologies to give us more effective tools in this area.

Mr. Chairman, the bottom line is that we will continue to do our best to give our people the infrastructure and the tools they need to do their job, and we very much appreciate the support you and the committee have shown for our management initiatives. Mr. Chairman, we thank you for your past support. We look forward to working with you and the committee as we address the many management challenges facing the Department of State, as we continue to conduct diplomacy around the world on behalf of the American people.

Thank you.

[The prepared statement of Mr. Green follows:]

PREPARED STATEMENT OF GRANT S. GREEN, JR., UNDER SECRETARY OF STATE FOR MANAGEMENT

INTRODUCTION

Mr. Chairman and members of the committee, I am pleased to participate in this panel and to have the opportunity to discuss how the Department of State's management agenda supports the War on Terrorism.

The people of the Department of State have long been familiar with what affected all Americans firsthand on September 11, 2001. They have always worked and lived under what are often very difficult and dangerous circumstances, including the daily threat of terrorism. The August 7, 1998 bombings of the U.S. embassies in Nairobi and Dar es Salaam focused the Department's attention on the threat of terrorism and the need to respond to it as never before.

September 11th did not change State's management priorities as much as it reaffirmed their importance. Our agenda is more essential than ever—not simply to play an active role in the War on Terrorism, but to address the whole range of requirements that will give the United States the diplomatic infrastructure our people in the field from all U.S.G. agencies need to do their work.

We have asked the Congress for $6.388 billion for the Administration of the Foreign Affairs portion of the FY 2004 State Department budget submission.

STATE'S MANAGEMENT AGENDA

Secretary Powell's management priorities are:

- People,
- Security,
- Technology,
- Facilities, and
- The resources that support those priorities.

I will discuss what we have accomplished in each of these areas, and what we plan to do over the next several years. I will also address domestic infrastructure and operations, and consular affairs. While not directly related to how we manage the Department of State and U.S. diplomatic posts, consular affairs are critical to the War on Terrorism.

PEOPLE

At the pinnacle of our efforts are our people—recruiting, training, and retaining them. We want to get to a point where our people can take training without seriously jeopardizing their missions or offices; where our men and women don't have to fill two or three positions at once; and where people have a chance to breathe occasionally. We began to do this in 2002 with the Diplomatic Readiness Initiative (DRI).

The DRI's three year plan calls for bringing on board 1158 more foreign affairs personnel so that we can repair the large gap created in our personnel structure and, thus, the strain put on our people by almost a decade of too few hires, an inability to train properly, and hundreds of unmet positions. Completing the DRI in FY 2004 is one of Secretary Powell's highest priorities.

We have just started to get the traction we need to have enough people to respond to priorities like the war on terrorism. Without continued support we will have only applied a band-aid because our responsibilities only continue to expand. For example, we have 40 people in Kabul now that we had to take out of our existing resources.

We made impressive gains in the first year of the hiring initiative. We met all our hiring goals, reformed the Foreign Service hiring process, and increased interest in careers at the Department. We not only hired the 360 new employees under DRI, but we also hired almost 600 additional employees in security, information technology, and consular affairs. This was a huge increase—double the number of junior officers over 2001—and, by increasing our outreach and targeting it effectively, we did it without lowering standards.

At long last we are within striking distance of a Foreign Service that is not only talented and committed but as diverse as we need to be to represent America.

In 2002, we:

- Increased interest in traditionally deficit areas including management officers, information technology specialists, office managers, financial management officers, and consular officers.
- Sent out the new people we hired to meet critical visa requirements, respond to emerging priorities like the war on terrorism, fill critical gaps overseas, and to receive additional training.
- Increased training for new hires and began sending more people to leadership and management training—a direct result of higher staffing levels.

We have to capitalize on that investment in recruitment and realize the full gains from these initial successes by continuing the hiring momentum.

We recently approved for implementation a list of recommendations that will enhance the incentives for employees to bid on difficult to staff posts, covering quality of life issues, allowances and benefits, and promotion and assignments.

We are also changing the organizational culture to instill better leadership and management. We cannot do that if we only have enough people to do the day-to-day work. We have to have the added strength to respond to crises without leaving gaping holes.

We do currently maintain "surge" teams for security, consular, management, and terrorism response assistance. Typically, we provide additional capacity on a short-term basis by pulling experienced people from other places and applying them to that priority situation. Because the last Administration had "underhired" in the 1990s, compared to our expanding mission, those responding to a crisis usually leave important work unattended.

Training and career development are important components in managing and retaining our people. Last year we implemented mandatory leadership training for mid-level officers. This year we are beginning a mandatory Senior Executive Threshold Seminar for officers newly promoted to the Senior Foreign Service and Senior Executive Service.

The Army builds in a cushion to their manpower to allow for training and transit. The Diplomatic Readiness Initiative would begin to give us a small version of that system. We need the kind of mentality that plans for crises, training, and new requirements.

Expanding counterterrorism training and response is an important goal. The Bureaus of Near Eastern Affairs, Consular Affairs, and Diplomatic Security, the Office of the Coordinator for Counterterrorism, and the Foreign Service Institute all contribute to this effort.

We are strengthening consular training, particularly in the areas of improved visa interviewing skills and border protection. Public Diplomacy training is also being expanded to bolster our ability to explain U.S. policy to a foreign audience and to improve America's image abroad.

Language ability is critical. While language skill is not a hiring requirement, we do have an active foreign language recruitment program to identify and recruit Americans with existing foreign language abilities. We rely on training employees in languages as they are needed in order to respond flexibly to changing needs. We are endeavoring to provide even better language training, especially in critical and burgeoning language programs such as Arabic, Persian/Farsi, Dan, and Pashtu. We assess overseas positions yearly to determine which should require language facility. While we do grant some waivers, employees who are assigned to those positions must have—or be able to acquire—the required language skill level before going to post. Language-qualified persons were assigned to 88 percent of the language-designated positions filled in FY 2002.

SECURITY

Our security challenges are to:

- Sustain security readiness as threat levels remain elevated;
- Strengthen existing programs; and
- Have the flexibility to deal with the increasing threat worldwide.

The Worldwide Security Upgrade funding continues to support (a) the security enhancements implemented soon after the 1998 embassy bombings and (b) new initiatives to keep current with measures to counter threats. Both the worldwide demand for security personnel and the need to protect our embassies during demonstrations and hostile acts means contract guard costs will remain a necessary and expensive element of our security program. In Kabul, we have to hire American contract guards to replace the U.S. Marines currently protecting the U.S. embassy. This is because the infrastructure does not exist for hiring loyal guards locally.

This multi-year effort was the most significant overall improvement to our perimeter security systems since the late 1980s. We will continue similar and equally important work on annexes and other buildings not included in the original program and maintain a life cycle maintenance and replacement program to protect the upgrade investments we have made over the past four years.

Our efforts are paying off. We attribute the minimal damage from the June 2002 attack on the American Consulate in Karachi to be the result of improved security awareness, training, and significant investments in physical and technical security programs.

The chemical/biological countermeasures program has begun deployment of 35,000 escape masks to personnel of all U.S.G. agencies who staff our overseas missions. We will also provide training in the use of these masks. Refresher training has been refocused specifically on posts in Near Eastern and South Asian areas to address the threat posed by Iraq; military-grade Chem/Bio suits are being deployed to selected posts in those regions.

As an example of how September 11th has changed circumstances, our FY 2004 budget request includes almost $5 million to respond to a U.S. Olympic Committee request for federal agents to provide security support to the government of Greece for the protection of U.S. athletes at the Olympics. We have not previously offered this level of support for events abroad. We believe that today's threat environment, among other factors, makes this support a prudent and necessary decision.

To improve our capabilities to connect to a variety of interagency databases supporting intelligence and antiterrorism activities and programs, we plan to upgrade the systems and networks that support Diplomatic Security law enforcement and in-

vestigative operations. Currently connectivity is often limited to outdated modem communications that are unacceptable for user access to existing databases.

We have been unable to move forward on establishing a Center for Antiterrorism and Security Training (CAST) because funding has not yet been approved by Congress. Without suitable venues to train our agents and other foreign law enforcement personnel who are our allies in fighting terrorism, preparing those needing skills for combating terrorists becomes challenging.

TECHNOLOGY

We are well on the way to providing the hardware and software needed to build, as the Secretary puts it, a state-of-the-art State Department. Our guiding principle, and the driving motivation behind the E-Government initiative in the President's Management Agenda and the E-Government Act of 2002, is that business practices should drive every information technology (IT) project we undertake. We have reinvigorated our information technology capital planning program by creating an E-Government Program Board, composed of a wide range of senior Department officials, and established an E-Government Program Management Office to support the Board. These moves illustrate our commitment to focus on business practices in managing IT projects.

Technology improvements do not just make work easier for our employees. They relate directly to the War on Terrorism, through such activities as visa and passport name checks, increased data sharing with other agencies, border security controls, and services for American citizens abroad.

We are completing modernization of the Department's global classified and unclassified IT infrastructure through the successful OpenNet Plus and Classified Connectivity Programs this year. We will systematically refresh those systems to preclude IT obsolescence and modernize our software tools to make the best use of this upgraded cyber highway.

We will replace the Department's outmoded telegram system with SMART, the State Messaging and Archive Retrieval Toolset. SMART is a modern, centralized, Internet-like system that integrates all the means through which people exchange information: replacing today's cables, e-mails, Department notices, and memoranda with e-documents. SMART will replace the fragmented processes, systems, and paper and automated documents in use today with a single web-based system.

Protecting our ability to communicate worldwide rapidly and securely is paramount during this terrorism battle. Our Chief Information Officer has increased our efforts to improve our cyber security profile. We have an ambitious plan to complete certification and accreditation on all major applications and general support systems by the end of FY 2004.

The Department is creating an alternate communications site to support continuous, worldwide connectivity during emergencies. Providing critical communications redundancy with rapid cutover capability during a loss of the primary site is important to our managers here in Washington and our employees around the globe.

We have expanded the intelligence community's Secret Internet Protocol Routing Network (SIPRNET) worldwide through our classified network to allow easier interagency information exchange and collaboration.

We are consolidating our sources of information for security and survivability. Because of this, bandwidth demands have doubled in the past year. These requirements will continue to escalate. Fortunately, in keeping with our focus on finding cost effective means to meet our business requirements, we are working with other USG partners to find innovative ways to meet our telecommunications requirements, building in redundancy while reducing the "price per bit."

This degree of antiterrorism effort has required the Department to increase technology efforts on all fronts and thus slowed some of our routine IT business activities.

FACILITIES

More than 30 U.S.G. agencies, including the Department of State, rely on the support platform our 260 diplomatic and consular posts provide.

Secretary Powell has stated that he is proud of the job the Bureau of Overseas Buildings Operations (OBO) is doing in bringing the costs down of our embassy facilities around the world. State is carrying out its construction program in a way that makes maximum use of modern technology, state-of-art construction techniques, and standardization of products. We just opened the new embassies in Nairobi and Dar es Salaam, replacing those bombed in 1998. They are attractive, safe, and secure facilities, the kind that we must build for our people everywhere.

We are aggressively addressing the long-standing issue of insecure, unsafe, and outdated facilities in which most U.S.G. employees overseas work. In FY 2002, OBO obligated nearly $1.8 billion. This performance represents the highest level of obligations in OBO history—84% over the previous high set in FY 2001. We obligated nearly $700 million for 13 new embassy compound (NEC) projects alone, and another $152.6 million in Perimeter/Compound Security Upgrades.

It is critical that the United States sustain this level of effort for more than a decade even to replace the most inadequate facilities on our list.

Our FY 2004 budget request includes $761.4 million for construction of secure embassy compounds in seven countries and $128.3 million for construction of a new embassy building in Germany.

The budget proposes a Capital Security Cost-Sharing Program that would allocate the capital costs of new overseas facilities to all U.S.G. agencies. This program will serve two vital purposes:

- To accelerate the construction of new embassy compounds.
- To encourage U.S.G. agencies to evaluate their overseas positions more carefully.

In doing so, it will further the President's Management Agenda initiative to ensure that the official American presence abroad is rightsized. The surcharge to the cost of stationing an American employee overseas will not undermine vital overseas work, but it will encourage more efficient management of personnel and taxpayer funds.

DOMESTIC INFRASTRUCTURE AND OPERATIONS

Our continuing objectives are to improve administrative services, enhance quality of work and life for employees, advance the use of technology, and leverage information resources. At the same time, we have faced a broad range of challenges related to the War on Terrorism, e.g., closure of our central mail facility because of an anthrax attack, stepping up emergency preparedness and enhancing the security of our domestic buildings, and procuring and moving equipment in short order to set up Embassy Kabul.

We are moving actively to ensure the security of our buildings and people in the United States. We have established the Homeland Security Group (D/HS) in the Office of the Deputy Secretary. The Group serves as the Department's liaison on homeland security issues to other appropriate USG entities such as the Department of Homeland Security and the Homeland Security Council, and coordinates homeland security issues within the Department of State including overseas posts. We have implemented a more structured framework to ensure a coordinated emergency preparedness effort for our Washington headquarters and other domestic State offices. We have established a Domestic Emergency Action Committee to coordinate and consolidate our domestic emergency planning. And, we are working with District of Columbia officials on a design to enhance the perimeter security of the Harry S Truman building.

Vital to improving the quality of work and life for employees is our program for the modern management and renovation of domestic facilities, including the consolidation of office space in Foggy Bottom and multi-year renovation of the Harry S Truman Building. Security elements are a major factor in our domestic infrastructure requirements and the security of our domestic facilities became significantly more visible after September 11th.

CONSULAR AFFAIRS

September 11th altered the context in which consular work is done at home and abroad. Our first priority remains the protection of U.S. citizens. U.S. citizens traveling, studying and working abroad have always been on the front lines of America's struggles with terror, crime and threats to safety.

Terror and political uncertainty abroad require intensified services to Americans overseas using the best available technology. Our improvements over the coming year include:

- On-line registration of U.S. citizens.
- Enhanced crisis management capability.
- Improved information management to allow us to track how many U.S. citizens abroad are victims of terrorism and other serious crimes such as kidnapping, homicide, rape, assault, and child abuse.

- Innovative knowledge management, using modern tools to get user-friendly information and guidance to our consular officers quickly even when they are away from their offices assisting Americans at remote locations.

Our consular work also protects Americans at home in the United States. Continuous improvement of passport and visa programs makes it ever more difficult for terrorists or criminals to operate with forged or altered American passports or visas.

All domestic passport facilities now issue the highly secure photodigitized passport, which incorporates printed digital photos and related security devices. The digitized photo makes photo substitution very difficult to do. Photo substitution was formerly the most prevalent form of passport fraud. However, we know that we cannot be complacent, and we continue to explore ways to enhance passport security. We are also now providing these more secure passports to Americans abroad: last year we transferred all but emergency passport production to the United States. Most overseas Americans appear to understand the security benefits of the new procedures, even though they increase the amount of time that applicants abroad must wait to receive a passport. We recently successfully completed pilot testing of electronic transfer of passport data between two posts and a domestic passport center. This electronic data transfer process will be available at all posts in 2003 and will significantly reduce the wait time for applicants overseas.

We are continuing through FY 2004 a project to scan as quickly as possible into our digital passport application database (PRISM) 32 million passport applications from 1994 to 1999. The scanning of these applications for older but still valid passports will make data and images of valid passport holders available via our intranet to consular offices worldwide. We also plan to transfer passport data and photos electronically to U.S. ports of entry where the information will be used to verify the authenticity of passports and the identity of the passport bearer.

Last year, we completed development of the Consular Lost and Stolen Passport System (CLASP), an electronic database that serves as the central repository for information regarding lost or stolen U.S. passports. All overseas posts and domestic passport agencies have access to CLASP. We are sharing CLASP data with the U.S. Customs Service's Treasury Enforcement Communication System (TECS) for use at ports of entry and anticipate sharing it with the law enforcement community by next year.

We have underway the worldwide deployment of the more secure Lincoln visa, a redesigned Automated Cash Register System, a new Back-Up Namecheck system featuring real-time update of local lookout files from the central database, and a new Nonimmigrant Visa release expanding electronic capture of data elements. Within the next year, we plan to deploy a re-engineered and machine-readable immigrant visa with electronic photo and a totally re-engineered American Citizens Services system.

To ensure that visas are not issued to persons who might pose a security risk, the Department has put in place special clearance requirements for all adult visa applicants who are nationals or permanent residents of countries that are designated as state sponsors of terrorism, or who were born in one of them.

We are actively participating with the Department of Homeland Security and the exchange community in the design and development of the Student and Exchange Visitor Information System (SEVIS), the permanent system that will contribute to our national security as it adds integrity to the student and exchange visa issuing process.

We have instructed all posts to retain visa applications for at least seven years. This replaces the old standard, under which applications were destroyed after a year or two. Interim measures have been taken to provide for paper storage of these applications. We have made changes to consular automated systems to allow consular sections to scan many applications for later retrieval and for easier collaboration with other concerned U.S.G. agencies on special clearance and other procedures. All visa applications dating from at least October 2000 will be retained for at least seven years in a form admissible in U.S. courts.

CONCLUSION

The bottom line is that we will continue to do our very best to give our people the infrastructure and the tools they need to do their job. We very much appreciate the support you have shown for our management initiatives.

Mr. Chairman, I look forward to working with you and the Committee as we address the challenges facing the Department of State and our role in the War on Terrorism. I would be happy to answer any questions you and the other members of the Committee have.

The CHAIRMAN. Thank you very much, Secretary Green. We will try a 7-minute trial run today for our questioning. Let me begin by starting my 7 minutes. I just compliment both of you and the Department on this remarkable book, "Inside a United States Embassy."

I have just briefly been acquainted with the book, but I am fascinated by the contents, and I think that not only members of the committee but all Americans will be deeply interested in this, because clearly the case we are trying to make—both you as officials of our State Department and American diplomacy and Senators who have a deep interest in the success of that diplomacy—are enhanced when a very broad number of Americans have some idea of what you do, what the Department does.

For example, in this book, a consular officer—you have just addressed this situation, Under Secretary Green, in Manila—but likewise there is a picture of an American in Panay City jail in Manila, and a consular official is trying to help this individual get out of jail.

This an example of the nitty gritty affairs that occur sometimes to innocent Americans, and sometimes to Americans who are not so innocent in various countries. We simply take for granted that there is a presence of our country there to try to make certain that the rights and privileges of Americans and their personal safety, those of their families, and those of their businesses and affairs, are taken care of.

Now, the people who are taking care of it are often consular officials, people on the embassy staffs. The book goes on to point out all the services that are offered, the information-gleaning that you have mentioned today, as well as the information-sharing with other governments, the financial expertise, clearly the ceremonial work, which is high profile and which most of us recognize.

But, in fact, as we take a look at Korea—and we have been talking about the Korean Peninsula a lot in this committee, some of you have pointed out that in addition to 37,000 American Armed Forces in South Korea presently, on any one day there are probably well over 100,000 Americans in other capacities, many of them in the Seoul capital area under the same potential guns and fire that we describe with regard to the Armed Forces, and that is not a happenstance.

Americans are active abroad as students, as business people, as tourists, as persons heavily involved in the cultures of other nations, and we take for granted that somebody—the State Department—looks after all of them, and they do, and this book is an excellent business in terms of the detailed work of individual Foreign Service officers.

Now, second, I am pleased with the report you have made with regard to the hardship post issues that we have raised. You could argue, and you have not, that this did not happen on your watch, but nevertheless for several years, as we heard Secretary Powell testify, there were no Foreign Service exams taken by anybody. It is inconceivable in our Armed Forces that for several years there would be no second lieutenants commissioned, no continuity with regard to the service. How in the world we anticipated that things

were going to work in our diplomatic corps with that kind of a gap, I do not know, but nevertheless we are here picking up the pieces.

Now, having said that, it is important we pick them up quickly and you are taking steps to do that, and trying to make sure that not only is the training enhanced for those people, often young people who are there and may not have all the requirements right now, but some of the senior people likewise are pitching in, serving terms in unpleasant places.

They were not chosen, particularly, but nevertheless they are a necessity. Under the security problems that our country has experienced, their presence there is required, and so I appreciate that, and this is something I hope you will offer us more detail on as you have an opportunity to complete our record of where things stand now, because as benchmarks we will continue to want to look at this.

Now, I do not want in this short period of time to get into all of the argument as to budget, but essentially my general view is that the Department at some point, as I sort of totaled up the whole score, asked for about $3 billion more than it appears in the budget debate we are about to have that the Department is likely to get, without there being changes. The Budget Committee would appear to have taken, first of all, the official administration budget that came out of OMB, and that really upgraded things by about $1 billion, and the Budget Committee, it appears to me, has sheared the billion off.

So to retrace the bidding as I see it, the State Department identified about $3 billion. A billion of that disappeared by the time it came out of the administration as a whole, or it went down from three to one. In the budget consideration at least in the Senate, the one has disappeared.

Now, this is significant, and we are about to have hearings again on what to do in funding the Millennium Challenge Account, which you have mentioned in your testimony, as well as the HIV/AIDS account, which you have also mentioned in your testimony. These are accounts which, quite frankly, given the budget situation as I perceive it in the Budget Committee, are very likely to be given pretty short shrift. I do not know where the money comes, except for displacement of other vital things that are occurring out in the field or elsewhere in the State Department, and these are not the only accounts that I think are under some jeopardy.

Now, I mention this because I personally, or this committee, really, may need to try to offer an amendment during this debate. It is not an easy thing to do, because you have a 60-vote requirement as a rule, given the parliamentary procedure, to change this situation, but I would say that I need your help. We are going to need some testimony very rapidly, if this deletion on the Senate side is to be remedied.

Now, I suspect—and this is really reaching ahead, but I am told, reliably, that there will be a supplemental appropriations bill coming along in the event hostilities occur in Iraq. I suppose in a parliamentary way it is possible for me or for other Senators to offer amendments during the supplemental appropriations which ostensibly are to support military action, the type of thing our Department of Defense may require. But the case that we are trying to

make today is clearly that the money required for diplomacy throughout this period and for reconstruction of Iraq afterwards is extremely important in terms of our national security and our overall success.

So in one form or another it appears to me that we are going to need to identify funds fairly rapidly, or various programs are rapidly going by the wayside in the fiscal year that commences October 1. This is no news, I am sure, to either one of you, and so I do not really have a question, precisely. I have a plea, and that is, help us. That is one purpose of having this timely hearing this morning. It comes really as we get into both the budget defense in a formal sense and conceivably a supplemental appropriation debate that may follow shortly.

Do either of you have a quick comment? If not, I understand, but if you do, please testify.

Mr. GROSSMAN. Mr. Chairman, thank you very much. Just so we get the record straight, I appreciate what you say about the book. So that credit goes where credit belongs, this book was put out by the American Foreign Service Association, our professional association. We, just as you did, thought it was an excellent contribution, and we are trying to do as much as we can to publicize it, but I want you to know that it is their book. They got a lot of people to contribute to it, and I really congratulate them for the same reasons that you mentioned.

The CHAIRMAN. I hope all listeners at this hearing have seen the book and will want to read it.

Mr. GROSSMAN. That is exactly right. As you say, it is excellent, and I appreciate you mentioning it.

If I might just say also, on the question of changes in diplomacy, Mr. Chairman, you all have helped us over the last couple of years and before, kind of think about new ways of doing business, and Under Secretary Green talked about the people and the security and the technology, but there is also a philosophical change that has to take place at the State Department and that is, moving from an organization that thought its job was to go out and report things and send them back to other people, to the job that is listed in this book, where people are doing active diplomacy on behalf of Americans every single day, and so we are also making that transition from what I would call the more passive institution of the past to a more active institution as it is today.

The two points that you raise on the budget. We are here to support the President's budget. That is our job. That is what we believe in. But I would say to the points that you raise specifically, sir, first, I think the Millennium Challenge Account—and the reason I raised it in my testimony—I think the Millennium Challenge Account is one of the most overlooked and yet most important initiatives to come over the last couple of years.

The President's speech in Monterrey, Mexico, is worth rereading, because being able to increase the foreign affairs budget of the United States and tie it to performance in countries I think is a very big idea, and so that is why we came to the Congress with the President's request, and second, again to connect the issues of HIV/AIDS to the questions of terrorism, because if HIV/AIDS tears up countries and weakens them, and weakens their institutions,

and makes it impossible for people to have economies, those people will be, or could be a haven for terrorism.

So just as I said that human rights and terrorism are not two parts of a pole, that all of the things we are trying to do are part of an answer to the global war on terrorism, and I appreciate your comments, Mr. Chairman.

The CHAIRMAN. Well, thank you very much. I think the committee knows that on Wednesday we are hopeful of having a markup of the HIV/AIDS legislation, and Senators on both sides of the aisle have worked very hard to fashion a bill that might have strong support in this committee and hopefully on the floor of the Senate. It is something that the President and Members of the Senate in both parties have been advocating. This is why the urgency with regard to the funding of it, which is sort of fundamental, and the other debate that we are having are rather a poignant experience for the moment.

Senator Feingold.

Senator FEINGOLD. Thank you, Mr. Chairman, and I want to thank you and Senator Biden for holding this important hearing, and thank all the witnesses for being here today.

As America stands on the cusp of war in Iraq, it is especially important to continue devoting our attention here to the fight against terrorism, a fight that should be our very first foreign policy priority. We cannot hope to win that fight without the commitment of others working in a broad coalition to deny terrorists safe havens and access to financing.

The fact is that today, even as American military and economic might stand unchallenged around the world, we need the rest of the world more than ever before, and we desperately need what has been called by some our soft power, the compelling quality of our national values, the appeal of our ideals, our capacity for moral suasion. Our soft power was once unrivaled. If we watch it diminish without taking action, I think we have failed in our duty to the American people. To harness all of this power not only to defeat terrorists but also to move toward a vision of a better future and a more just, prosperous, and peaceful world, we will also need a strong and capable and innovative diplomatic service.

Much of the hard work of the campaign against terrorism falls on the shoulders of the men and women of the State Department. They must build the partnerships, foster the trust, and coordinate the cooperation that is so crucial to the fight against terrorism. I have had the honor of personally witnessing this kind of incredible work, especially in Africa over the past 10 years, and I am so impressed with the people that serve us in these various posts. We are asking a great deal of them.

This, Mr. Chairman, is an excellent opportunity to review the question of whether or not they have all of the tools that they need to succeed. I would like to ask the witnesses first a question concerning some of the work we did on the Africa subcommittee in the last Congress.

Last year, the Subcommittee on African Affairs held a series of hearings examining weak States in the region, and trying to draw out the different ways that State weakness presents opportunities for international criminal activity, including terrorism. One of the

primary conclusions I drew from the hearings was that long-term, sustained engagement is essential to make headway in places that have minimal control over their borders and also, of course, over transactions that may occur within those borders.

Could you please describe for the committee the kinds of strategies that the Department is pursuing to increase the stability and capacity of weak States, and I mean this in general, not just Africa, but that is the place we study the most, obviously, under that committee.

Secretary Grossman.

Mr. GROSSMAN. Yes, Senator, thanks very much, and first let me thank you very much for your comments that you made about the men and women who are serving abroad and serving at home, Foreign Service, Civil Service, and our very important Foreign Service national employees as well.

I would also just wish to say that I believe, as you do, that we need, now, the most effective international coalition we can possibly get to pursue this war on terrorism, and I know that that is Secretary Powell's belief and the President's belief, and we will pursue those policies as well.

In terms of what we are doing, as you say, not just in Africa but around the world, in terms of dealing with States that have these challenges, one is—again I go back to the answer I gave to Senator Lugar, is the Millennium Challenge Account. I think the Millennium Challenge Account would have a huge impact on countries in Africa, some countries in Latin America, and countries in Asia.

The second thing I would say, Senator, is that we have worked very hard with the Congress to promote the kind of trade, and free trade that is necessary so that people in those countries can have jobs, so I am very supportive, for example, of the African Growth and Opportunities Act [AGOA], and if you take a look at the kinds of anecdotal evidence about how people have taken advantage of AGOA and created jobs, and created new communities and are exporting to the United States.

I would say also the Andean Trade Preferences Act is exactly the same category. If we expect people to do things that are good for them and good for their communities, then we are going to need to import more from those countries.

The other thing I would say, Senator, is that when you look at that what we are now carrying as the war on terrorism our assistance to frontline States, many of them, some of them in Africa, you can see—and I will be glad to give this to the committee—across a whole range of issues from child survival, development assistance, CSF, FMF, fighting terrorism, helping people in their peacekeeping operations, international development assistance, all across the board, I think we are trying to run a consolidated and serious policy to help countries meet the challenges that you say, particularly in Africa.

We have got a level of resources in the 2004 request of about $1.6 billion and, as I say, it is an across-the-board effort to try to make these countries successful.

Senator FEINGOLD. Let me just follow on that for a minute, because I certainly respect what you say about trade and opportunities for trade with countries that are able to do that, and also the

Millennium Challenge Account has great potential, but the countries we looked at at our hearings, the Somalias and Liberias, the Democratic Republic of Congo, frankly, these are countries that are not in great shape to benefit from these kinds of initiatives at this point because they have much greater preliminary problems, issues of border control, rule of law, financial control.

What I am really getting at here is not the countries that are ready to do well under AGOA, or perhaps even to get the Millennium Account money, but countries that are in much more difficult straits, countries that we have referred to as "failed or weak States." I wonder if you could address what is being done in those countries, because I do think those are the ones that are open to greatest potential for terrorist activity and international criminal activity.

Mr. GROSSMAN. Yes, sir. First let me say that with the Millennium Challenge Account of course, there is a maximum gross national product income on Millennium Challenge Accounts. The Millennium Challenge Account is actually directed to the poorest countries, and maybe all countries will not be able to meet their requirements, but the idea that money from the MCA would somehow flow to countries that need to meet the kinds of requirements that you have laid out, border controls, better governance, more justice in their countries, I think actually there is a connection to be made there, and so I think the MCA for me is part of that effort.

Senator FEINGOLD. Let me ask you, are you saying that Somalia or Liberia in their current condition would have the possibility of being eligible under MCA?

Mr. GROSSMAN. No. It is a combination of their gross national products, their income levels, and also what they are doing to try to change their society, so I hope it would at least be an incentive.

Senator FEINGOLD. Well, I would suggest—and I know my time is up—I stand to be corrected. I would think these countries have other severe governance and other problems that would probably make them not very logical candidates for that help, so in future discussions I want to certainly get at the value of MCA and the value of AGOA and trade, but I think there are more fundamental problems of chaotic conditions in some of these countries. We need to have a real strategy, or we are going to end up with more and more venues for terrorist activity to be perpetrated not only in Africa but other places in the world, but I do appreciate your testimony today.

Mr. GROSSMAN. Thank you, sir.

[The prepared statement of Senator Feingold follows:]

PREPARED STATEMENT SENATOR RUSSELL D. FEINGOLD

I want to thank Chairman Lugar and Senator Biden for holding this important hearing, and to thank all of the witnesses for being here today.

As America stands on the threshold of a war in Iraq, it is especially important to continue devoting our attention here to the fight against terrorism—a fight that should be our very first foreign policy priority. We cannot hope to win that fight without the commitment of others, working in a broad coalition to deny terrorists safe havens and access to financing. The fact is that today, even as American military and economic might stand unchallenged around the globe, we need the rest of the world more than ever before. And we desperately need what has been called our "soft power"—the compelling quality of our national values, the appeal of our ideals, our capacity for moral suasion. Our soft power was once unrivaled. If we watch it

diminish without taking action, we will have failed in our duty to the American people.

And to harness all of this power—not only to defeat terrorists, but also to move toward a vision of a better future and a more just, prosperous, and peaceful world—we also need a strong and capable and innovative diplomatic service. Much of the hard work of the campaign against terrorism falls on the shoulders of the men and women of the State Department. They must build the partnerships, foster the trust, and coordinate the cooperation that is so crucial to the fight against terrorism. We are asking a great deal of them, and this is an excellent opportunity to review the question of whether or not they have all of the tools that they need to succeed.

The CHAIRMAN. Senator Hagel.

Senator HAGEL. Mr. Chairman, thank you.

Gentlemen, welcome, and we are grateful for your efforts, your leadership, your good work, and please convey that to your colleagues as you return to the State Department. We appreciate especially your work at this complicated, dangerous time.

Under Secretary Green, as you laid out in your testimony this morning, some of the advances and significant achievements that have been made over the last couple of years in our embassies as you laid them out in five different areas, beginning with people, with our war on terrorism, additional government representatives that have moved into our embassies around the world, FBI, CIA, Homeland Security, Commerce, other departments, what kind of pressure is that putting on our resources, physical pressure on our embassies, people pressures, logistics support pressures, if any?

Mr. GREEN. Thank you, Senator Hagel. As you know, and as Under Secretary Grossman mentioned, our role overseas has changed dramatically. More than two-thirds, now, of U.S. direct hire personnel overseas are non-State people and we, as you know, go through a process of approving or disapproving additions to our overseas posts. We recognize that with the changes, the war on drugs, the health issues, economic issues, terrorism, that there will be demands on our overseas posts that are much different than what historically has happened. We attempt to accommodate those.

There are occasions when an overseas post physically cannot accommodate those people, and the result is that we will not let them come. It also gets to the whole issue of right-sizing, not downsizing but right-sizing and, as the GAO has indicated in their recent report, we need to take a look at all of our overseas embassies to see what is right. There may be some shifts that need to be made among posts. There may need to be some that are downsized, and there may need to be some that need to be increased in size.

Agencies who reside at our embassies and on our compounds do pay a certain administrative fee for being there, and that is done through a combined joint process at our posts called ICASs, and they have a council that agrees or disagrees with increasing the number of people and contributing toward their upkeep.

The other thing that has just been proposed by us and at least accepted in concept by OMB was the cost-sharing I mentioned, and that is, as we build new embassies we are going to have to go to the tenants and ask them to contribute to the construction and the operations and subsequently to the operations and maintenance of those posts.

It serves two purposes. One is that it is fair, but second, it makes other departments and agencies who may not consider the budget

implications of having people overseas, it will focus their attention on that, so when you build a new embassy and a desk in an unclassified area is $22,000 and a classified area is about $34,000, hopefully it will make that Department or that agency think about the cost, not to mention the cost of maintaining a person overseas, which can be anywhere from $350,000 to $600,000 a year. It will make them think twice about how many people do I really need.

Senator HAGEL. Thank you. Obviously you have thought through this, and you have gotten to part of the core of my question as to why, because as you suggest, to develop ongoing relationships in these countries to fight terrorism, it is unfair to load the State Department budget up with all of this burden, and so any assistance you need from me—I cannot speak for any other members of this committee, but I certainly will help you and the Secretary in every way if you have a snag with that, because I can see more and more of your resources being drained away to other agencies, and we all are focused on the same objective, of course, but it is not fair to ask you to pick it all up. Thank you, Mr. Secretary.

Secretary Grossman, as it appears we are going to war in Iraq in a matter of hours, if, in fact, we do go to war in Iraq with what appears to be a very limited coalition of other troops on the ground—right now I count the British and the Australians, and maybe there are others, or will be others, but what effect do you believe that a war without a United Nations resolution, without the legitimacy of the Security Council, might have on our efforts to continue to coordinate antiterrorism efforts within Muslim and Arab countries? Will it make any difference? Will they be less likely to cooperate, more likely to cooperate? I would be interested in your reflection on that.

Mr. GROSSMAN. Thank you, Senator Hagel.

First, obviously, if the President decides—really it is now up to Saddam Hussein. If Saddam Hussein does not meet the requirement of getting out of Iraq in 48 hours, I actually believe, sir, that although we may have a limited number of people with us on the ground, there will, Senator Hagel, be quite a large number of people who will consider themselves part of this coalition, who will give overflight rights, or basing rights, or other support, so I do not think that we are going to be alone in this, and I hope that the committee and the American people will also recognize that a large number of people are going to stand up and be for this, and I think that is a plus, sir.

Second, although obviously we worked hard and we would have liked to have had a second U.N. Security Council resolution because it would have been politically useful, I think the legality here and legitimacy of our action really is beyond question, and that is that after 11 or 12 years of having Saddam Hussein ignore these resolutions, I think the United States has a right to act and I believe that, as people look at our case, especially after Resolution 1441, they will agree with that as well.

Sir, I believe that success is going to be the most important determining factor here, and I believe that the men and women in uniform, if they have to go into combat, will be successful, they will be successful quickly, and I believe that that success will actually bring us more cooperation rather than less cooperation over time.

I do not see, and I do not fear—perhaps Ambassador Black will have a different view, but I do not fear a falling-off of cooperation either in the Arab States, other Muslim States, or around the world, because I believe we will be successful and we will show that we can operate successfully against terrorism, and people ought to be a part of that team.

Senator HAGEL. Thank you.

The CHAIRMAN. Thank you very much. Senator Hagel.

Senator Chafee.

Senator CHAFEE. Thank you very much, Mr. Chairman. I am interested in the integration of the new homeland security law into the work that you do, and from what I understand, it is contemplated that the homeland security will encourage more coordination between the work the embassies do and domestic protection, and that the law authorizes Secretary Ridge to assign employees of Homeland Security to embassies and consulates, and directs Secretary Ridge and Secretary Powell to come up with some kind of a memorandum of understanding [MOU] in that direction. How is that proceeding?

Mr. GREEN. Thank you, Senator Chafee. We have since the announcement of the Homeland Security Act been deeply involved as the Department began to stand itself up, deeply involved in the coordination of that effort. We established an office reporting directly to the Deputy Secretary that facilitated and ensured that kind of coordination.

We are now beginning to transition to a more regularized process so that our Department coordinates and will continue to coordinate with the Department of Homeland Security the way we coordinate with the Department of Defense or any other Department.

The bureaus within the State Department, counterterrorism, diplomatic security, and consular affairs, which are the three that have the most interface with the Department of Homeland Security are on a constant and regular basis contacting their counterparts in that Department.

The MOU that you mentioned is in the process of being worked and coordinated between the two Departments. As you know, the Secretary of Homeland Security does have oversight responsibility over consular officers and visa adjudications through the Secretary of State, and that will be part of the MOU that is being worked as we speak.

Senator CHAFEE. Thank you very much. That is all the questions I have.

The CHAIRMAN. Senator Hagel, do you have any further questions of our witnesses?

Senator HAGEL. With the second panel, Mr. Chairman. I would wait and direct my questions to Ambassador Black.

The CHAIRMAN. Very well. We thank both of you for your timely appearance today and for the great support you have given the Department, and likewise the efforts of our committee. We look forward to working closely with you.

Mr. GREEN. Thank you for your support, sir.

Mr. GROSSMAN. Thank you, Mr. Chairman.

The CHAIRMAN. The Chair now calls our second panel forward, and that panel will be composed of Hon. J. Cofer Black, Coordi-

nator for Counterterrorism, Department of State, Washington, DC; Mr. John Pistole, Deputy Director of the Counterintelligence Unit, Federal Bureau of Investigation, Washington, DC; and Juan C. Zarate, Deputy Assistant Secretary, Executive Office for Terrorist Financing and Financial Crimes, Department of the Treasury in Washington, DC. Gentlemen, we welcome you.

Let me just make a short announcement for Senators and for all who are witnessing the hearing. A rollcall vote of the Senate will occur at 12 noon. It would appear, however, we will have ample time for the full testimony of our witnesses and questioning by Senators of the witnesses, but I mention that timeframe because it will be on the minds of some as we approach the noon hour.

I will ask you to testify in the order I introduced you, and that would be first of all, Mr. Black. All of your full statements will be included in the record, so you need not ask for permission to do that, and please proceed and summarize as you wish. Mr. Black.

STATEMENT OF HON. J. COFER BLACK, COORDINATOR FOR COUNTERTERRORISM, DEPARTMENT OF STATE, WASHINGTON, DC

Ambassador BLACK. Mr. Chairman, Senator Biden, committee members, I appreciate your invitation to testify on the State Department's role in coordinating the non-military war against terrorism overseas. I also want to express my thanks to you and members of the committee for recognizing the very crucial role our embassies play in combating terrorism.

Mr. Chairman, I am also honored to be here with Mr. John Pistole from the FBI and Mr. Juan Zarate from the Treasury Department. While I endeavor to avoid covering the same ground as Under Secretaries Grossman and Green in the previous panel, one cannot overemphasize the importance of our diplomatic efforts in the global war on terrorism. Terrorists and their organizations cannot be defeated through force of arms alone, as Secretary Powell has stated. Diplomacy constitutes this Nation's first line of defense, and also one of the most potent offensive weapons in the war on terrorism. Diplomacy is the instrument of power that builds the political will and strengthens international cooperation. Diplomacy helps us to take the war to the terrorists, to cutoff the resources they need and depend upon to survive.

I want to make clear at the outset of my remarks that the State Department, our embassies and consulates abroad certainly are not alone in carrying out this important work. Many other Federal agencies, particularly the ones represented by those seated next to me, for example, have critical missions in this regard. However, as the lead foreign affairs agency, the Department of State through my office serves as a statutorily appointed coordinator and overall clearinghouse for the wide span of counterterrorism activities conducted overseas by the U.S. Government.

As you might imagine, the job of coordinating such a large interagency and international effort is a great challenge. It is a challenge because of the growth of counterterrorism initiatives and programs since 9/11. It is a challenge because of the evolving terrorist threat and the shifting international environment that, for example, is being effected today by Iraq's continued intransigence to dis-

arm, and its support of and potential future support for, enhanced support for international terrorism. Finally, there is the challenge of undertaking these expanded responsibilities in the face of limited resources.

In all of these efforts, our embassies and consulates play a critical role. Let me briefly describe our ongoing efforts in this context. Since 9/11, we have methodically taken the battle against terrorism to the international front lines. Our embassies and consulates are serving us well.

Over my career in international affairs, and at times being a part of that diplomatic front line, I have developed much admiration and respect for the men and women who serve at our missions overseas. In the face of especially grave threats today, they continue to serve with great professionalism and bravery. Indeed, they are the backbone to our overseas counterterrorism efforts. It is this diplomatic readiness, to use Secretary Powell's phrase, that is vital to our ability to fight terrorism.

It is an important function of my office and staff to support this frontline effort. Since assuming the coordinator's job 3 months ago, I have traveled to Russia, China, Japan, Israel, Jordan, Saudi Arabia, the U.K. and the triborder region of South America. In doing so, I can say unequivocally that our chiefs of mission and the country teams are invaluable resources. They are both leading and supporting our efforts to promote and achieve our counterterrorism agenda in their respective host countries and regions.

Our embassies also help to facilitate efforts to cutoff support to terrorists through supporting our counterterrorist programs. Just a few days ago, my staff joined an interagency team that went to Manila to successfully assist the Government of the Philippines in adopting the financial controls vital to denying terrorists access to funding and, in doing so, brought the Philippines into compliance with international standards.

My staff in similar Washington-based interagency teams, joining our country teams overseas, are helping many other frontline States in this and in other ways. Our embassies and consulates also provide critical information on terrorist organizations. Such information serves as the foundation of our imposing legal and administrative sanctions against such organizations. The Secretary of State formally has designated 36 foreign terrorist organizations. Among other consequences, U.S. persons are prohibited from knowingly providing any designated organization with financial and other forms of material support.

We have also designated more than 250 terrorist individuals and entities under Executive Order 13324 on terrorist financing and other applicable U.N. Security Council resolutions. This has resulted in the worldwide seizure of more than $120 million.

Regarding training, U.S. embassies and consulates are also working with us to train and equip frontline States to fight terrorists within and around their borders. Our antiterrorism assistance, usually referred to as the ATA program, is providing training to 56 countries through 180 courses during fiscal year 2003, and plans to step up its training efforts in fiscal year 2004. We are working with 37 countries through our Terrorist Interdiction Program, called TIP, to evaluate, establish, and improve the border-moni-

toring capabilities. These and other programs are described in further detail in the written statement accompanying this testimony.

To diminish the underlying conditions that terrorists exploit, we are coordinating our assistance programs to complement our counterterrorism interests. Our public affairs programs actively disseminate information that accurately portray our policies and promote our democratic values. Our embassies play a vital role in this respect as well, advising us on our international assistance programs and actively fostering greater understanding of the United States through a wide spectrum of public affairs and exchange programs. While these are successes, you have asked me to comment on the obstacles we face and ways in which they have been or can be overcome.

Quite frankly, one of the largest challenges is connecting the resources in a timely and effective manner, to our operational and program needs. While we are deeply grateful for the support of the Congress that was provided to our counterterrorism programs, delays in the enactment of appropriations have repercussions on our operations. I would defer to the Department's financial specialists on proposing a solution. However, clearly, there are problems that arise from having only a half-year to utilize funds that were originally intended to be expended over a full year period.

The administration is also reviewing the requirement in current law regarding the designations of terrorist organizations and individuals every 2 years. The designations of foreign terrorist organizations, or FTOs, expires after 2 years unless renewed. This year, 29 groups are up for redesignation, taking valuable staff resources away from pressing counterterrorism work. We, therefore, are preparing draft legislation to amend the FTO statute and make it less administratively onerous.

Overseas, we face a number of obstacles. We have scored some notable recent successes, including the March 1 arrest by Pakistani authorities and others of Khalid Shaikh Mohammed, a ranking al-Qaeda leader, through close cooperation and coordination with the Pakistani authorities. However, al-Qaeda and other terrorist groups continue to pose a grave threat to the United States and our allies. Your continued support for our capacity-building programs will help. While the dividends of such investment may not be completely apparent, we must think of our global war on terrorism as a long-term fight, as was the case in the cold war.

Research and development: we must also continue our counterterrorism R&D efforts. I would like to especially mention the work of our interagency Technical Support Working Group, led by my office, that is developing new technologies to protect us against terrorist attacks.

I have with me, as an example, a product of direct relevance to the Congress. This is the "Quick 2000" mask. This is one of the masks distributed to Members and staff. The Technical Support Working Group was instrumental in guiding its development.

Another product of this R&D group is a specially designed card that will alert the wearer to the presence of radioactive materials. This unit essentially, Mr. Chairman, takes the needs of the frontline warriors in counterterrorism, is in contact with private sector companies, and is able to quickly, rapidly prototype and provide

products into the hands of our frontline responders. As an example, this card replaces an item that was very heavy, very bulky, and it will be made available even to the private sector customers for $3 each.

Let me conclude by saying that the key to fighting terrorism is a sustained effort that can be achieved only through sustained resources. It is not just al-Qaeda that threatens our citizens and interests, but other terrorist organizations and supporters, including the State sponsors of terrorism. To defeat this threat requires our full attention, both here in Washington and abroad, and your continued support to our embassies and interagency community involved in fighting terrorism is absolutely vital, Mr. Chairman.

Thank you for allowing me to present my testimony. I look forward to your questions at any time.

[The prepared statement of Ambassador Black follows:]

PREPARED STATEMENT OF AMBASSADOR J. COFER BLACK, COORDINATOR FOR COUNTERTERRORISM, DEPARTMENT OF STATE

Mr. Chairman, Senator Biden, Committee Members:

I appreciate your invitation to testify on the State Department's role in coordinating the non-military war against terrorism overseas. I also want to express thanks to you and members of the committee for recognizing the crucial role our embassies play in combating terrorism.

Mr. Chairman, while I will endeavor to avoid covering the same ground as Under Secretaries Grossman and Green in the previous panel, one cannot overemphasize the importance of our diplomatic efforts in the Global War on Terrorism. Terrorists and their organizations cannot be defeated through force of arms alone. As Secretary Powell has stated, diplomacy constitutes this nation's first line of defense and also one of our most potent offensive weapons in the war on terrorism.

Diplomacy is the instrument of power that builds political will and strengthens international cooperation. Through diplomatic exchanges we promote counterterrorism cooperation with friendly nations that serves our mutual interests. We build capacity that bolsters the capabilities of our allies. Diplomacy helps us take the war to the terrorists, to cut off the resources they need and depend upon to survive.

I want to make clear at the outset of my remarks that the State Department and our embassies and consulates abroad certainly are not alone in carrying out this important mission. The Departments of Justice, Treasury, Homeland Security, Defense, CIA and many other federal agencies have critical missions in this regard. However, as the lead foreign affairs agency, the Department of State—through my office—serves as the statutorily appointed coordinator and overall clearinghouse for the wide span of counterterrorism activities conducted overseas by the United States Government.

As you might imagine, the job of coordinating such a large interagency—and international—effort is a great challenge. It is a challenge because of the growth of counterterrorism initiatives and programs since 9/11. It is a challenge because of the evolving terrorist threat and the shifting international environment that, for example, is being affected today by Iraq's continued intransigence to disarm and its support of and potential future support for international terrorism. Finally, there is the challenge of undertaking these expanded responsibilities in the face of limited resources.

In all of these efforts, our embassies and consulates play a critical role. Let me briefly describe our ongoing efforts in this context.

EMBASSY ACTIVITIES

Since 9/11, we have methodically taken the battle against terrorism to the international front lines. Our ambassadors and the staff members of our embassies and consulates, drawn not just from State but also from other federal agencies, are serving us well. Over my career in international affairs and now being a part of that diplomatic front line, I have much admiration and respect for the men and women who serve at our missions overseas. In the face of especially grave threats today, they continue to serve with great professionalism and bravery. Indeed, they are the

backbone to our overseas counterterrorist efforts. It is this "diplomatic readiness," to use Secretary Powell's phrase, that is vital to our ability to fight terrorism.

Our embassies are our direct conduits to the governments of other nations. They facilitate our efforts to disrupt terrorist networks and to apprehend terrorist individuals. The ambassador, his or her deputy, and other members of the country team, including representatives from other agencies, are all instrumental in developing and maintaining good working relations with the host country and pursuing our counterterrorism objectives.

It is an important function of my office and staff to support this front line effort. Since assuming the Coordinator's job three months ago, I have traveled to Russia, China, Japan, Israel, Jordan, Saudi Arabia, and the Tri-Border region of South America. In doing so, I can say unequivocally that our Chiefs of Mission and their country teams are invaluable resources. They are both leading and supporting our efforts to promote and achieve our counterterrorism agenda in their respective host countries and regions.

Our embassies also help to facilitate efforts to cut off support to terrorists through supporting our CT programs. Just a few days ago, my staff joined an interagency team that went to Manila to successfully assist the Government of the Philippines in adopting financial controls vital to denying terrorists access to funding and in so doing brought the Philippines into compliance with international standards. My staff and similar Washington-based interagency teams, joining our country teams overseas, are helping many other front-line states to evaluate their financial systems, identify vulnerabilities, and develop counterterrorism finance training programs.

Our embassies and consulates also provide critical information on terrorist organizations. Such information serves as the basis for our imposing legal and administrative sanctions against such organizations. The Secretary of State currently has designated 36 foreign terrorist organizations. Among other consequences of such designations, U.S. persons are prohibited from knowingly providing any designated organization with financial and other forms of material support. Working with the Departments of Treasury and Justice, and with other countries, the State Department has also designated more than 250 individuals and entities linked to terrorism under Executive Order 13324 and under applicable UN Security Council Resolutions, resulting in the worldwide seizure of more than $120 million.

TRAINING

U.S. embassies and consulates also are working with us to train and equip front-line states to fight terrorists within and around their borders. Our Antiterrorism Assistance (ATA) program is providing training to 56 countries through 180 courses during FY 2003 and hopes to step up its training efforts in FY 2004. We are working with 37 countries through our Terrorist Interdiction Program (TIP) to evaluate, establish and improve border-monitoring capabilities.

These and other programs are described in further detail in an accompanying written statement to this testimony.

To diminish the underlying conditions that terrorists exploit, we are coordinating our assistance programs to dovetail them with our counterterrorism interests. My staff recently met with AID officials to discuss ways to deepen this coordination. Our public affairs programs actively disseminate information overseas that accurately portrays our policies and promotes our democratic values. Our embassies play a vital role here as well, advising us on our international assistance programs and actively fostering greater understanding of the United States through a wide spectrum of public affairs and exchange programs.

While these are successes, you have also asked me to comment on the obstacles we face and ways in which they have been or can be overcome.

OBSTACLES

Quite frankly, one of the biggest challenges is connecting the resources to our operational and program needs in a timely and effective manner. While we are deeply grateful for the support that the Congress has provided to our counterterrorism programs, delays in the enactment of appropriations have repercussions on our operations. I would defer to the Department's budget specialists on proposing a solution. However, clearly, there are difficulties that arise from having only a half-year to utilize funds for programs that were originally intended to expend such funding over a full year period.

The Administration is also reviewing the requirement in current law regarding designations of terrorist organizations and individuals every two years. Under a law first enacted in 1996, the designation of a Foreign Terrorist Organization (FTO) ex-

pires after two years unless renewed, even if there is little or no change in the activities of these designated groups. This year, 29 groups are up for redesignation. The task of drafting new administrative records every two years to support a determination to redesignate FTOs is labor intensive and unnecessary in most cases. Resources needed for redesignations could be better used for other important counterterrorism duties, including monitoring and designating new groups as appropriate. We are preparing draft legislation to amend the FTO statute and make it less administratively onerous.

Overseas, we face a number of obstacles. We have scored some notable recent successes, including the March 1 arrest by Pakistani authorities of Khalid Shaikh Mohammed, a ranking al-Qaida leader, through close cooperation and coordination with Pakistani authorities. However, al-Qaida and other terrorist networks continue to pose a grave threat to the United States and our allies. There are no easy solutions. In addition to our ongoing real-time operations, we must continue to provide frontline countries the training and assistance needed to support their counterterrorism efforts. Your continued support for our capacity-building programs will help. While the dividends of such investment may not be immediately apparent, we must think of our global war on terrorism as a long-term fight that may take years or, indeed, decades, as was the case with the Cold War.

RESEARCH & DEVELOPMENT

We must also continue our counterterrorism R&D efforts. On this, I'd like to especially mention the work of the interagency Technical Support Working Group (TSWG), led by my office, that is developing new technologies to protect us against terrorist attacks. I am holding up two TSWG products of direct relevance to this Congress. The "Quick 2000" mask is the one distributed to Members and staff. The TSWG guided its development. Another product of this R&D group is a specially designed card that will alert the wearer to the presence of radioactive materials.

Mr. Chairman, let me conclude by saying that the key to fighting terrorism is sustained effort. That can be achieved only through sustained resources. It is not just al-Qaida that threatens our citizens and interests but other terrorist organizations and their supporters, including state sponsors of terrorism. To defeat this threat requires our full attention both here in Washington and abroad. To win, your continued support to our embassies and the interagency community involved in fighting terrorism is vital.

Thank you for the opportunity to testify and I would be glad to answer any questions.

STATE DEPARTMENT COUNTERTERRORISM PROGRAMS

Terrorist Finance Programs. This is a core function of S/CT. We seek to interrupt and deny the flow of funds going to terrorists and their operations and to strengthen the financial and regulatory sectors of vulnerable coalition partners against manipulation and penetration by the financiers of terror.

The groundwork for our counterterrorism finance offensive was actually laid many years before 9/11, with provisions that the State Department proposed and the Congress enacted as part of the Antiterrorism and Effective Death Penalty Act of 1996. The Act authorizes the Secretary of State, in consultation with the Attorney General and the Secretary of Treasury, to designate Foreign Terrorist Organizations (FTOs). Among other provisions, the Act prohibits U.S. persons and persons subject to the jurisdiction of the United States from knowingly providing material support or resources to an FTO, or attempt or conspire to do so. Among other consequences of a designation, any financial institution that becomes aware that it has possession of or control over funds of a designated FTO must retain possession of or control over the funds and report the funds to the Treasury Department's Office of the Foreign Assets Control (OFAC). Currently 36 groups are designated.

Following September 11, the President signed Executive Order 13224, which requires U.S. persons to freeze the assets of individuals and entities designated under this E.O. for their support of terrorism. There are currently over 250 individuals and entities designated under E.O. 13224. The White House also established an interagency mechanism to coordinate terrorist financing policy among USG agencies. Each embassy has identified a Terrorism Finance Coordination Officer to lead the effort to work with the host governments to detect, disrupt and deter terrorist financing. Internationally, the UN has also stepped up its own efforts in the area of fighting terrorist financing in a major way following September 11, requiring countries to freeze the assets of those included in its consolidated list of entities and individuals with ties to al-Qaida and the Taliban. This list continues to expand as

countries join us in submitting new names of individuals and entities linked to al-Qaida to the UN. So far, USG and coalition freezing actions have netted over $120 million in assets of persons or entities with ties to terrorist networks, and in many cases to al-Qaida.

We are working with the Financial Action Task Force (FATF)—a 31-member organization that sets international standards to combat money laundering and more recently to combat terrorist financing. Last month the FATF elaborated on two of its earlier recommendations on terrorist financing to make the use of cross-border wire transfers and alternative remittance systems (such as hawalas) more transparent, and less subject to exploitation by terrorist groups. On the bilateral front, interagency teams led by the State Department are traveling to states critical to our counterterrorism efforts to evaluate their financial systems, identify vulnerabilities, and develop and implement comprehensive counterterrorism financing training and technical assistance programs.

CT Finance Capacity Building programs are coordinated by S/CT and administered through State/INL (The Bureau for International Narcotics and Law Enforcement Affairs) and counterpart entities at the Departments of Justice, Treasury, and Homeland Security. These programs are aimed at providing front-line states with technical assistance in drafting anti-terrorist financing legislation, and training for bank regulators, investigators, and prosecutors to identify and combat financial crime, particularly terrorist financing. (For FY 2004, the budget request includes $3.5 million.)

Antiterrorism Training Assistance (ATA). This program was among the first specific counterterrorism programs funded at State, first authorized in late 1983. It continues to serve as the primary provider of U.S. Government antiterrorism training and equipment to the law enforcement agencies of friendly countries needing assistance in the war against terrorism. S/CT provides policy guidance and funding to the Bureau of Diplomatic Security Office of Antiterrorism Assistance, which implements the program.

The program provides a wide range of courses to strengthen the capacities of recipient countries. The training includes traditional courses such as hostage negotiations, bomb detection and airport security. In recent years, ATA has developed new courses for countering terrorism financing and defeating cyber-terrorism. It also has provided a series of seven seminars to help other countries strengthen their counterterrorism legislation. The Department works of course with the US embassy officers, especially the Regional Security Officers, in developing the training package to meet the recipient country's needs. In FY 2003, we are scheduling 180 courses for 56 countries.

(For FY 2004, the Department is requesting $106.4 million to meet the program's growing requirements in the NADR account of the Foreign Appropriations Bill. Of this amount, $19.4 million is specifically requested for programs in Afghanistan, Pakistan and Indonesia.)

CT R&D. The State Department, through S/CT, co-chairs the inter-agency Technical Support Working Group (TSWG) that rapidly develops and prototypes counterterrorism technologies to provide protections against terrorist attacks. For example, the "Quick 2000" masks that have been distributed to members of Congress and staff were evaluated, modified and improved based on a testing protocol developed by the TSWG.

This has been a very successful and important program. S/CT provides policy oversight, managerial direction and helps provide core funding. The Defense Department executes the program, and provides technical oversight for the program and contributes the larger share of the funding. Recently, the State Department reached agreement with the new Department of Homeland Security to facilitate DHS participation in the TSWG and to contribute funding.

S/CT has been able to leverage the relatively small State Department contribution to develop matching contributions and joint research with international partners in Britain, Canada and Israel. (FY 2004 request: $1.8 million.)

Terrorist Interdiction Program (TIP). TIP aims at bolstering the border security of countries at a high risk of terrorist transit. Through this program, priority countries are provided a sophisticated database system and related support that identifies and tracks suspected terrorists as they enter and exit these countries. The program uses a sophisticated data base system with high-speed connections to airports or border crossing points. The program provides computer hardware, database software and training and is currently being deployed in five countries and is scheduled for deployment in twelve more countries this calendar year. Arrests and detentions have occurred in all five countries where the system has been deployed.

(FY 2004 request: $11 million for installations in up to 12 new countries and continued work and maintenance on previous installations.)

CT Senior Policy Workshops. These workshops aim at improving the capability of participating countries to effectively respond to Weapons of Mass Destruction and other forms of terrorist attack. The objective is to increase senior host nation officials' awareness of the complexities of preventing and effectively mitigating a major terrorist attack. Ten workshops are planned for FY 04, with three in Greece to help preparations for the 2004 Olympics.

While the focus of these workshops is to effectively respond to WMD terrorist incidents overseas, some are customized to address host government needs based on their perceived threat. For example, workshops were used in the Caspian Sea as the first phase of the Training and Assistance offered to Azerbaijan, Georgia, and Turkey to further facilitate the success of the Baku-Tbilisi-Ceyhan Gas and Oil Pipeline in responding to energy threats. In partnership with the Department of Energy, we are currently conducting Workshops in Central Asia (Kazakhstan) in response to their energy security threats and to effectively respond to nuclear materials discovered following the break-up of the Soviet Union.

(FY 2004 request: $2.5 million in NADR funds to conduct 10 Workshops.)

Foreign Emergency Support Team (FEST). As the lead Federal agency to respond to an international terrorist-related crisis, the Department of State heads the FEST. The FEST provides a specially trained and equipped interagency team to assist the U.S. ambassador and a host government in dealing with a terrorist incident. The team can provide advice, assistance and assessments for the embassy on a variety of terrorism-related issues. The composition of the FEST varies, depending on the nature of the incident (such as a hostage situation, an embassy bombing, or a chemical, biological, radiological, or nuclear (CBRN) incident). The team is led by a senior State Department officer and includes additional State Department personnel, such as operations officers, communications experts, and diplomatic security agents.

A dedicated aircraft, which is specially configured and carries up to 55 persons, is operated by the Department of Defense and is on a four-hour standby. Smaller teams can be deployed by other means as required.

(No program increases are requested in the FY 04 request.)

Exercises, TOPOFF. The Department of State plans and coordinates the international dimension of the domestic (U.S.) Top Officials exercise (TOPOFF). This series of exercises was designed to test and improve the nation's domestic readiness for responding to terrorist incidents involving Chemical, Biological, Radiological, and Nuclear (CBRN) agents or devices. The current TOPOFF exercise, TOPOFF 2, is cosponsored by the Department of States and the Department of Homeland Security. It is a series of events that started in the spring of 2002 and culminates with the full-scale exercise in May 2003. TOPOFF 2 involves active participation by the Government of Canada in all aspects of the exercise.

S/CT also takes part in two or three Theater Commander's Counterterrorism exercises each year. These full-scale exercises require a year of preparation and normally include representatives from the various agencies that participate in the FEST. The exercises ensure continued inter-operability and provide an opportunity to improve capabilities. S/CT leads the interagency effort and participates in all the planning activities. Most of the scenarios are complex and include such serious threats as chemical, biological, nuclear and cyber terrorism.

(No program increases are requested in the FY 04 request.)

Rewards for Justice Program. The State Department's Rewards for Justice program is an important tool for helping deter terrorist attacks and apprehend suspects. In general, this program offers rewards of up to $5 million for information leading to an arrest or conviction of any individual for conspiring, aiding, abetting or committing an act of international terrorism against U.S. persons or property or the prevention, frustration or favorable resolution thereof. With respect to Usama bin Laden and other key al-Qaida leaders, however, the Secretary has authorized a reward of up to $25 million.

(The FY 04 budget does not include program increases but there is an $11 million carryover from a previous Supplemental that can be used for the rewards program for terrorism, war criminal and war criminal cases.

The CHAIRMAN. Thank you very much, Mr. Black.

Mr. Pistole.

STATEMENT OF JOHN S. PISTOLE, DEPUTY ASSISTANT DIRECTOR OF THE COUNTERTERRORISM DIVISION, FEDERAL BUREAU OF INVESTIGATION, WASHINGTON, DC

Mr. PISTOLE. Mr. Chairman, thank you for the opportunity to be here, Senator Hagel, and recognize Ambassador Black and Mr. Zarate here on this panel. I appreciate the opportunity to be here. I would also like to recognize Mr. Roderick Beverly, who is the Special Agent in Charge of our Office of International Operations, with me today. He has oversight for our International Legal Attaché (Legat) program, which I will touch on just briefly.

I would like to comment for a moment, if I may, Mr. Chairman, on the war on terrorism component of this diplomacy and war on terrorism focusing on the FBI's efforts in concert with the Department of State and other agencies. As you know, the FBI is a wholly different agency than it was prior to 9/11, refocused, and re-engineered to address our top priority, that of preventing the next terrorist act.

Under the leadership of Attorney General Ashcroft and Director Mueller we have re-engineered the way we do business to ensure that our 56 field officers and nearly 29,000 employees all have as their top focus and priority the prevention of the next terrorist attack against U.S. interests abroad, and more specifically, here in the United States.

Thanks to the support of your committee and the entire Congress, for the passage of, for example, the Patriot Act and other tools, we now have the tools necessary for us to do the job that we need to do in protecting the American people and protecting the national security of the United States. Obviously, there are no guarantees in this business, in counterterrorism. We fully expect that al-Qaeda or other extremists will try to strike at the United States, especially with the onset of hostilities with Iraq, and we anticipate various means and methods of those possible attacks, but we in the FBI, with our associates at the Department of State, stand ready. We have, again, thousands of people working long hours, days, nights, weekends to ensure that everything humanly possible is being done to prevent future terrorist acts here.

Senator Feingold mentioned the importance of keeping our focus on counterterrorism even in the advent of hostilities with Iraq. We agree with the assessment that al-Qaeda, and others, still represent the most significant threat to the United States in terms of possible attacks. To that end we have stood up a Iraqi Task Force command post within our Strategic Information and Operations Center (SIOC) at FBI headquarters, to address all issues attendant to the possible hostilities with Iraq. This task force is comprised of subject matter experts from our Iraqi side of the Counterterrorism Division, and is being enhanced and augmented by nearly 200 agents and analysts from our Criminal Investigative Division.

If I could, Mr. Chairman, I would just like to touch very briefly on some of the top priorities right now. The first is to identify al-Qaeda or other sleeper cells here in the United States, similar to the 19 hijackers. We are doing everything we possibly can to achieve that goal within the confines of the Constitution.

Our second priority is preventing State sponsors of terrorists from committing acts here, either through their own means or

through surrogates or sympathizers, who may want to assist State sponsors.

A third priority is identifying those lone offenders, those extremists who may act on their own or who are sympathetic in ways to either the Iraqi community, the Iraqi cause, or to the other extremists, such as some of the Sunni extremists, and al-Qaeda.

Our fourth priority is to identify those individuals here in the United States, who are providing support to terrorists either through fundraising or recruiting other individuals for possible terrorist acts against the United States.

Those are the priorities that we are focused on, and it is primarily through our Legal Attaché program—we have 45 Legat offices overseas—that we accomplish the collection, exploitation, and dissemination of information and intelligence to the law enforcement community and to the intelligence community from overseas back into the FBI.

We currently have approximately 200 FBI employees assigned to 45 Legal Attaché offices around the world. That is thanks to State Department support and your support. We are increasing that by an additional five offices this year and an additional five offices in fiscal year 2004, which will bring us up close to 240 FBI employees physically located in embassies around the world. It gives not only the presence of the FBI from the intelligence perspective, but also the law enforcement perspective, which we find so vital in working with foreign intelligence services and law enforcement agencies.

We have undertaken a number of initiatives after 9/11 to ensure that we are providing the best possible preventive service to the U.S. people, to the people and to the community. A couple of things I would like to highlight. One is our Terrorist Financing Operations Section within the Counterterrorism Division, which is employed in cutting edge technology and tools, primarily with the CIA's Counterterrorism Center, in identifying and disrupting financing of terrorist activity around the world, and working with the Treasury Department. There are a number of successes that we would not necessarily go through in this open committee, but there have been significant successes achieved in that regard.

In terms of FBI participation in State Department programs, some of those have been mentioned. Under Secretaries Green and Grossman have mentioned a couple of those, one being the Antiterrorism Training Assistance program, I believe in 56 countries. The FBI participated in nearly two-thirds of those training sessions, with over 4,700 Foreign Service officers and law enforcement officers receiving training.

Ambassador Black mentioned the Technical Support Working Group which the FBI is a strong proponent of, thanks to State Department leadership, and obviously the Foreign Emergency Support Team, the FEST, which deploys in the event of overseas terrorist activity, most notably with the East Africa bombings from 4½ years ago, and, of course, congressionally mandated field training exercises such as Top Off which we participated in just a couple of years ago.

Currently we are pre4paring for Top Off 2, the next top official training exercise, which will be a key exercise to practice crisis management and emergency response capabilities. It is a challenge

to find the necessary resources, when we are doing all we can to prevent the next terrorist attack, to participate in these training exercises, but that is something that we in the FBI, are fully committed to.

And then, of course, the Rewards for Justice program, which pays, as you know, Mr. Chairman, up to $5 million for information leading to the apprehension of designated individuals, and up to $25 million for a select few, which we have been able to deploy just recently, as has been mentioned, with the apprehension of Khalid Shaikh Mohammed.

We also participate, through State Department leadership, in the International Law Enforcement Academies, most notably in Budapest, Hungary. I had the privilege, in 1995, of teaching at the first two sessions of the ILEA there. It has been a tremendous success in terms of trying to teach the rule of law and policing, if you will, in former Soviet bloc countries, primarily. It has been a tremendous success in that we have seen the emphasis on traditional organized crime and white collar crime transfer to counterterrorism activity, so we appreciate the State Department's leadership and support in that regard.

And of course we have created a number of Joint Terrorism Task Forces in the FBI. We had 35 prior to 9/11. Now, all 56 of our field offices have Joint Terrorism Task Forces augmented by 10 additional task forces in our larger Resident Agencies around the country. We also have our National Joint Terrorist Task Force [NJTTF] at FBI headquarters, which the State Department is a key component of, assessing, evaluating and disseminating information as it relates to State Department issues.

In terms of the broader perspective, we are partners with the State Department in assessing and evaluating the nearly 4,000 threats that have been received against the United States post 9/11. The State Department plays a key role, as appropriate, in dealing with those threats to determine the credibility of each and every one. Almost all of these threats have little or no credibility, but, obviously there is no room for error in this business, so we have to assess and validate the credibility of each of those threats, which State has played a key role in.

We have created an analysis branch within the FBI Counterterrorism Division, which provides the analysis that, frankly, the FBI has lacked previously. We have had great analysts, but we have not been good at disseminating the information. We have done a terrific job of collecting information over the years, but not a terrific job of disseminating that to the intelligence community and other law enforcement agencies who have a need to know that information, and in concert with the State Department, again through the NJTTF and other avenues, we have been able to enhance and augment our efforts in that regard.

We have also established a new Office of Intelligence, headed by an Executive Assistant Director, still to be named, that will provide core training and enhancements to the FBI's analytic capability.

We are also establishing reports officers in each of our 56 field offices. We are also looking at placing reports officers in some of the Legal Attaché offices. We have created the Terrorism Reports and Requirements section in the Counterterrorism Division, where

the reports officers have now published over 550 intelligence reports to the community, of FBI source information and other sensitive information that previously was close-held in the FBI.

We have done a number of other things which I will not go into, they are in my written statement, but which I would be glad to respond to. I will just touch on a couple of other things. We are strong proponents of the Terrorism Threat Integration Center which was recently announced and created, as being a focal point for the analysis of threat information. A fusion cell, if you will, of intelligence from the FBI, from the CIA, from the Department of Homeland Security and all those agencies attendant to that will allow one-stop shopping, for the fight on terrorism.

We have a number of other initiatives ongoing, as everybody is aware. With the rise in the threat level last night we have undertaken a number of steps to be more visible in terms of the fight on terrorism, and to ensure that we are doing everything possible to protect the American people.

In closing, while it might be outside my purview to comment on another Department's budget or their efforts, I would like to say that the FBI appreciates, Mr. Chairman, your support and the committee's support for State Department initiatives as a means of being on the cutting edge of fighting counterterrorism worldwide. It is because of the State Department's efforts and initiatives around the world that the FBI is able to make critical linkages of both foreign intelligence services and law enforcement agencies that frankly we would not have the means to do, and so I appreciate your support for that, and also as a fellow Hoosier I appreciate the opportunity to be before you today, sir.

Thank you.

[The prepared statement of Mr. Pistole follows:]

PREPARED STATEMENT OF JOHN S. PISTOLE, DEPUTY ASSISTANT DIRECTOR, COUNTERTERRORISM DIVISION, FEDERAL BUREAU OF INVESTIGATION

Good morning Chairman Lugar, Senator Biden, and other distinguished Members of the Committee. I would like to express my gratitude to the Committee for your thoughtful consideration of this weighty topic, as well as for the opportunity to testify today. I am honored to be included in this distinguished panel of executives from the Department of State (DOS) and the Department of the Treasury. I am accompanied today by Roderick L. Beverly, the Special Agent in Charge of the FBI's Office of International Operations.

The FBI's Office of International Operations oversees our Legal Attaché (Legat) program, which represents a vital component in our counterterrorism efforts. It is primarily through the Legat program that we coordinate investigative efforts and share information with our international law enforcement and intelligence partners.

With the assistance of Congress and the DOS, the FBI has established 45 Legat offices. A Legat presence throughout the world has enhanced the FBI's ability to bring investigative resources to bear quickly in the aftermath of terrorist acts. For instance, in response to the events of September 11, 2001, Legat offices facilitated the rapid deployment of approximately 700 FBI personnel overseas. Legats were also able to react immediately and lend assistance in the October 2002 shooting of U.S. AID Officer Laurence Foley in Amman; the bombing earlier this year of a disco in Bali; and the recent bombing of the airport at Davo City in the Philippines where 21 people were killed, including one American.

Through a Memorandum of Understanding (MOU) with the DOS, FBI Legats are part of the embassy community. The MOU acknowledges the Ambassador as Chief of Mission. In addition to investigative and host country liaison responsibilities, Legats work with the Administrative Officer of the embassy regarding their needs within the embassy itself. They respond to requests from other DOS employees, provide regular briefings to the Ambassador and/or Deputy Chief of Mission, and participate in all other in house activities, such as emergency action meetings and

weekly country team meetings. As a result of the FBI's efforts to identify and dismantle terrorist networks, the Legats work in close coordination with Regional Security Officers and other embassy staff to prevent future terrorist incidents from occurring both overseas and in the U.S. From fiscal year (FY) 2001 to FY 2002, the number of leads (investigative requests) covered by Legats increased from 41,211 to 53,105 (a 29% increase).

The FBI's 45 Legats are staffed by 126 Special Agents and 74 support personnel. By the end of this fiscal year, it is proposed that the staffing level increase to 145 Special Agents and 83 support personnel as a result of new offices in: Abu Dhabi, United Arab Emirates (U.A.E.); Kuala Lumpur, Malaysia; Sanaa, Yemen; Tbilisi, Georgia; and Tunis, Tunisia. In addition, there will be three sub-offices created in: Bonn (Berlin, Germany); Milan (Rome, Italy) and Toronto (Ottawa, Canada). Six existing Legat Offices will also receive additional personnel. Those offices are: Amman, Jordan; Cairo, Egypt; Islamabad, Pakistan; Manila, Philippines; Ottawa, Canada; and, Riyadh, Saudi Arabia. Of the additional $44.7 million that the FBI was allotted for its Counterterrorism mission overseas, approximately $23.7 million was earmarked for Legat expansion.

I would like to share a few specific examples which demonstrate how FBI Legats are facilitating efforts to address international terrorism. The FBI's Criminal Justice Information Services Division (CJIS), located in Clarksburg, West Virginia, has responsibility for the oversight of the Integrated Automated Fingerprint Identification System (IAFIS). A recent priority CJIS effort was facilitated by the ability to leverage professional relationships developed by Legats with Pakistani law enforcement personnel. CJIS sent numerous teams to Pakistan for the purpose of providing equipment and training relating to the computerized capture of fingerprints. This method consists of using inkless portable fingerprinting stations that can be used onsite during an investigation. Subject fingerprints are loaded directly into the system where they are analyzed and classified for future reference and comparison with existing databases. CJIS personnel have trained Pakistani law enforcement personnel in the use of this equipment as well as providing them with equipment.

The FBI Laboratory also has been engaged with Legats to ensure that numerous international law enforcement partners are aware of the availability of the FBI's Combined DNA Index System (CODIS), for assisting in the identification through DNA data of terrorists subjects and other criminal suspects.

The FBI, through the assistance and coordination of the DOS, has made progress in disrupting the flow of funds being used to finance terrorists and their operations. The FBI Counterterrorism Division's Terrorist Financing Operations Section (TFOS), has worked hand in hand with the DOS, and other agencies, to identify countries that are critical to the FBI's counterterrorism efforts and to provide crucial terrorist financing training and investigative assistance. This includes providing assistance in drafting antiterrorism financing legislation and training for the banking industry, local prosecutors and criminal investigators. The DOS has facilitated access to foreign financial information for TFOS as the FBI tracks terrorist financing worldwide. The DOS has also rendered assistance by facilitating the assignment of terrorist finance investigators to international terrorist finance task forces and by coordinating the FBI's participation in major international conferences on terrorist financing.

The FBI utilizes the DOS's Antiterrorism Training Assistance Program to provide specialized counterterrorism training courses on topics such as hostage negotiations, crime scene processing, major case investigations, cyber crime and terrorist financing, in countries involved in the war against terrorism. The FBI is also a participant in other DOS programs, including: the inter-agency Technical Support Work Group (TSWG), which develops and prototypes counterterrorism technologies to provide protections against terrorist attacks; the Foreign Emergency Support Team (FEST), which responds to international terrorist-related crisis incidents and supports the U.S. ambassador and host government in dealing with incidents; and, the Top Officials exercise (TOPOFF 2) which tests the nation's domestic readiness for responding to a terrorist incident involving chemical, biological, radiological and nuclear agents or devices. In addition, the FBI supports the DOS's Rewards for Justice Program, which offers rewards of up to $5 million for information leading to an arrest or conviction of any person for conspiring, aiding, abetting or committing an act of international terrorism against U.S. persons or property.

Working in conjunction with DOS foreign assistance expertise and authorities in this way helps the FBI build relationships with other countries' law enforcement agencies to contain criminal threats. For example, the FBI is the lead agency for the International Law Enforcement Academy (ILEA) in Budapest, Hungary. The four ILEAs around the world have greatly strengthened instruction on law enforce-

ment approaches to fighting terrorism since the attacks against our country on September 11, 2001.

The FBI and the DOS are coordinating, better than ever, the information we both posses regarding known and suspected terrorists. The FBI is sharing information we maintain in our National Crime Information Center (NCIC) index, and the Violent Gang Terrorist Organization File (VGTOF), with the State Department's TIPOFF system. The DOS is also a full participant in the Counterterrorism Division's National Joint Terrorism Task Force (NJTTF) at FBIHQ.

Last month, Director Mueller testified before the Senate Select Committee on Intelligence that the Al-Qaeda network will remain for the foreseeable future the most immediate and serious threat facing this country. While this remains true, the recent arrest of Khalid Shaikh Mohammed, or KSM, and the arrest just this past Saturday of Yassir al-Jaziri, represent significant blows to the leadership of the Al-Qaeda network. Our Pakistani partners were instrumental in these successes and I would like to thank them and congratulate them. I assure you that any and all resources of the FBI are being brought to bear to exploit the intelligence information obtained as a result of these arrests.

Despite the arrests of Khalid Shaikh Mohammed and Yassir al-Jaziri, Al-Qaeda and other terrorist networks are adept at defending their organizations from US and international law enforcement efforts. As these terrorist organizations evolve and change their tactics, we, too, must evolve. Accordingly, the past 18 months have brought momentous changes to the FBI, including the incorporation of an enhanced intelligence function that will better enable us to defend against the terrorist threat.

I would now like to briefly discuss, from a broader perspective, efforts and initiatives to identify and dismantle terrorist networks over the past 18 months. The FBI Legat Program and our partnerships with agencies such as the DOS and the Department of the Treasury have played an integral role in these efforts. More than 200 suspected terrorists have been charged with crimes, half of whom have been convicted. The rest are awaiting trial. Moreover, our efforts have damaged terrorist networks and disrupted terrorist plots across the country. In the past month alone, the FBI has arrested 36 international and 14 domestic suspected terrorists.

The FBI has reorganized to effectively meet the challenges of the nation's war on terrorism. For one, the FBI has augmented our counterterrorism resources and is making organizational enhancements to focus our counterterrorism priorities. I would like to review some of those changes with the Committee, beginning with the FBI's analytical program.

Last year, we began the process of focusing on the analysis program by creating an Analysis Branch within the Counterterrorism Division (CTD). This new Analysis Branch was assigned the mission of producing strategic assessments of the terrorism threat to the United States. To date, the Analysis Branch has produced nearly 30 in-depth analytical assessments.

Through FY 2004, the FBI's proposed increase in analysts will result in quadruple the number than we had prior to September 11, 2001. The FY 2004 proposal represents a 156% increase in funding for analysts in comparison to the FY 2002 budget. Recognizing that we could not get to where we needed to be overnight, the CIA detailed 25 of their analysts to the FBI to provide an immediate infusion of expertise into our program while our hiring initiative is underway.

We have also implemented a number of initiatives aimed at enhancing training for our analytical workforce; which included creating the College of Analytical Studies. The FBI, in conjunction with the CIA, has begun training our new intelligence analysts at the College of Analytical Studies. By the end of this year, we expect more than 200 analysts to have completed the six-week training course.

These improvements to our analytic program had to be made quickly to address our immediate needs. The FBI has also taken steps to ensure the ability to collect and analyze intelligence for the long term. The centerpiece of this effort is the establishment of an Executive Assistant Director for Intelligence (EAD/I) who will have direct authority and responsibility for the FBI's national intelligence program. Specifically, the EAD/I will be responsible foremost for our counterterrorism mission. The EAD/I will oversee the intelligence programs for our counterintelligence, criminal, and cyber divisions.

The EAD/I will also ensure that we are sharing information with our Federal, State, local and international partners. Furthermore, intelligence units staffed with Reports Officers will be established in every field office and will function under the authority of the EAD/I. The Reports Officers will be responsible for identifying, extracting, and collecting intelligence from FBI investigations and sharing that information throughout the FBI and to other national and international law enforcement and intelligence entities.

The FBI has also reorganized its system for threat warnings by establishing a number of specialized counterterrorism units. I would like to outline for the Committee a number of these specialized units. CT Watch, a 24-hour Counterterrorism Watch Center, was created to serve as the FBI's focal point for all incoming terrorist threats. The Communications Analysis Section was established to analyze terrorist electronic and telephone communications and identify terrorist associations and networks. The Document Exploitation Unit was initiated to identify and disseminate intelligence gleaned from millions of pages of documents or computers seized overseas by intelligence agencies. The Special Technologies and Applications Section was formed to provide technical support for field office investigations requiring specialized computer technology expertise and support. And finally, the previously mentioned TFOS was established; TFOS is devoted entirely to the financial aspects of terrorism investigations and liaison with the financial services industry, both at home and abroad. All of these recently created, specialized counterterrorism units have streamlined the FBI's resources to more effectively target terrorism threats.

If we are to defeat terrorists and their supporters, a wide range of organizations must work together. The FBI is committed to the closest possible cooperation with the Intelligence Community, other Federal government agencies, international partners, and our essential partners at the State and local level. Toward that end, the FBI has developed numerous information sharing and operational coordination initiatives. We have expanded the number of Joint Terrorism Task Forces (JTTFs) from 35, two years ago, to 66 today. The JTTFs partner FBI personnel with hundreds of investigators from various Federal, State, and local agencies in field offices across the country and are important force multipliers aiding our fight against terrorism. In addition, over a 90-day period beginning this month, we will provide 500 JTTF agents and State, and local law enforcement personnel with specialized counterterrorism training. By the end of FY 2003, basic counterterrorism training will be provided to an estimated 14,000 Federal, State, and local law enforcement officers. Beginning in FY 2004, the FBI proposes to provide this training to 27,000 Federal, State and local law enforcement officers per year.

In July 2002, we established the National JTTF (NJTTF) at FBI Headquarters, staffed by representatives from 30 federal, state, and local agencies. The NJTTF acts as a "point of fusion" for terrorism information by coordinating the flow of information between Headquarters and the other JTTFs located across the country and between the agencies represented on the NJTTF and other government agencies. The DOS is an integral partner in this endeavor and is a full participant in the National JTTF.

The Office of Law Enforcement Coordination (OLEC) was created to enhance the ability of the FBI to forge cooperation and substantive relationships with all of our State and local law enforcement counterparts. The OLEC, which is run by a former Chief of Police, also has liaison responsibilities with the White House Homeland Security Council.

The FBI Intelligence Bulletin ("The Bulletin") is disseminated weekly to more than 17,000 law enforcement agencies and to 60 Federal agencies. The Bulletin provides information about terrorism issues and threats to patrol officers and other local law enforcement personnel. The recipients of The Bulletin have direct daily contacts with the general public. These contacts could result in the discovery of critical information regarding counterterrorism issues and threats.

With regard to outreach, the FBI is making unprecedented efforts to communicate effectively with the intelligence, law enforcement, government, and public sector communities. To prevent terrorists from acquiring weapons of mass destruction (WMD), we are coordinating with suppliers and manufacturers of WMD materials in an effort to facilitate their voluntarily reporting of any suspicious purchases or inquiries. In addition to enhancing our relationships with agencies related to WMD, we have established working relationships with a host of non-traditional agencies, including the Army Corps of Engineers and Bureau of Land Reclamation. We have also expanded our relationship with such groups as the Transportation Security Administration (TSA) and the U.S. Coast Guard (USCG).

To augment local field office investigative capabilities, Flying Squads were established to provide for specialized personnel to respond to fast-breaking situations and provide a surge capacity in support of FBI Rapid Deployment Teams.

Before closing, I would like to briefly discuss the fusion of intelligence information for analysis. The FBI strongly supports the President's initiative to establish a Terrorist Threat Information Center (TTIC) that will merge and analyze terrorist-related information collected domestically and abroad. The TTIC will provide all-source, integrated analysis to the FBI, CIA, Department of Homeland Security (DHS), and other Federal agencies (including the DOS), which, in turn, can quickly share the analysis with State and local law enforcement. The two-way flow of infor-

mation between Federal and local law enforcement is necessary to sharpen both the collection and analysis of threat-related information. The FBI JTTFs will provide an effective channel to share the TTIC's analytical products with our partners in State and local law enforcement. The FBI is committed to working with the DHS to push information and analysis out of the TTIC to other Federal agencies, and to State and local officials.

Let me conclude by saying that the nature of the threats facing the U.S. homeland continues to evolve and so does the FBI. We have made significant strides toward enhancing our operations, both domestically and overseas, through valuable partnerships such as the one we enjoy with the DOS. Let me again express my gratitude to you, Mr. Chairman, and the Committee for your invitation and I look forward to responding to any questions.

The CHAIRMAN. Thank you. Well, I appreciate both of those last two things you said, without giving the order of preference, but thank you for the good interdepartmental cooperation. This is so critical, and I just interject this. As all of you recall in hearings in this committee and Intelligence and elsewhere after 9/11 the degree of firewall situations was really very, very sad to see, and it is difficult for cultures to intermingle, for people to find each other in our government, but I congratulate you on doing that, and likewise speaking cheerfully about it as something that ought to be done.

Well, now another important Department of our government, Mr. Zarate.

STATEMENT OF JUAN C. ZARATE, DEPUTY ASSISTANT SECRETARY, EXECUTIVE OFFICE FOR TERRORIST FINANCING AND FINANCIAL CRIMES, DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Mr. ZARATE. Mr. Chairman and Senator Hagel, thank you for having me today to testify along with Ambassador Black and Mr. Pistole about the international efforts the Treasury Department is taking in close coordination with the State Department and sister departments and agencies to combat terrorist financing.

Since September 11, the U.S. Government has led a global campaign to identify, disrupt, and dismantle the sources and means of funding for al-Qaeda and the other terrorist groups that threaten the United States. As you know, Mr. Chairman, the money used to fuel terrorism flows not just in dollars but in yen, euros, and pounds. Thus, our campaign to starve terrorist groups of funding and to bankrupt their operations will continue to rely on our ability to work with our partners abroad to achieve collective success.

I would like to emphasize, sir, at the outset the importance of vigorous interagency cooperation in attacking terrorist financing, as well as to thank my distinguished colleagues from the State Department and the FBI and other agencies and departments in our Federal Government for their work with us on this campaign. In particular, I have been very well served by our embassies abroad in approximately 20 missions since September 11 to deal with the issue of terrorist financing, and the work abroad has been fine and consistent.

Mr. Chairman, terrorism in the 21st century is a global enterprise. Al-Qaeda and other terrorist groups have learned to use the ease and freedom of the international financial system, both formal and informal, to support their international network and ambitions. To disrupt the various ways that terrorist groups raise and

move funds, we have developed a multipronged U.S. Government strategy to attack terrorist networks that demands constant international and diplomatic engagement. Specific elements of our international engagement are worth highlighting.

Our most public weapon in the financial war on terrorism has been the public designation of terrorist-related entities and the blocking of their assets. To date, we have blocked more than $120 million worldwide, based on our ability to internationalize these domestic efforts.

Not only have we been able to cutoff channels that serve to move funds for terrorism, we have impelled an international process to confront the common threat of terrorism. By working with our allies, in close concert with the State Department, to implement an international mechanism for designation and freezing, we have made it much harder for terrorists to hide their money in the world's banks and to move it through the financial channels. We have also sent a common signal to the bankers of terror: there will be no refuge from the gaze of the international community.

Our international strategy has achieved success beyond designations and blocking actions. We and our allies have vigorously engaged multilateral institutions such as the Financial Action Task Force on Money Laundering and the U.N. Counterterrorism Committee in an effort to examine the measures the international community is taking to regulate and monitor financial mechanisms abused by terrorist groups.

In particular, we have achieved great success and focused the world's attention on the abuse of charities by terrorist groups as well as the terrorist use of informal systems of transferring money, often known as hawalah, to fund terrorism.

Mr. Chairman, we have also committed ourselves to promulgating and establishing international standards that serve to protect the integrity of all aspects of the international financial system. One critical way we have accomplished this is through the Financial Action Task Force [FATF], which developed the eight special recommendations on terrorist financing due to the leadership of the United States, which require all member nations to adopt a counterterrorist financing regime. In addition, the Treasury Department will continue its close collaboration with the World Bank, the IMF, and the UNCTC to ensure that countries are assessed based on the standards set by the FATF.

Mr. Chairman, we have had enormous success of late in moving countries to change their relevant laws and regulations in the area of anti-money laundering and counterterrorist financing. Thanks in large part to the authority granted to the Secretary of the Treasury by Congress in section 311 of the USA Patriot Act, countries have been fearful of the economic effect of designation as a primary money laundering concern.

As a result, countries like Nigeria and the Philippines have taken action, thanks to our leadership and interagency cooperation, to avoid the stigma of designation from the United States. A country like Ukraine has moved quickly, in addition, to pass laws that would remove it from having this designation and having that stigma on their international financial system.

This power under the Patriot Act, in combination with the threat of international rebuke, is an effective tool in molding international behavior to comply with international financial standards. One area in which we have worked extremely closely and well with the Department of State and the Department of Justice has been in providing our international partners with the tools necessary to combat terrorist financing. In the ILEAs, in specific bilateral missions, in multilateral settings, we have worked very closely to provide capacity-building measures for our partners.

Mr. Chairman, though the U.S. Government has led the world in focusing attention on the problem of terrorist financing, there is still much work to be done. My colleagues have mentioned certain elements. Allow me to do so.

There are several specific challenges that lie ahead of us, in particular in the international regime. Foremost, as indicated by Senator Feingold, we must maintain political and diplomatic pressure on our partners abroad and the international institutions in which we engage to continue to focus on the problems associated with terrorist financing.

The further the world's memory of September 11 recedes, the harder it is to maintain a sense of urgency internationally to act against terrorism. We must ensure that we are constantly communicating the importance of this issue to our partners, and that our own resolve, in particular abroad and in the embassies, is not seen as wavering.

We must continue to broaden and deepen our efforts worldwide with respect to our overall strategy. From improving the way the international community blocks assets, to ensuring that charitable giving is not corrupted by terrorists, we need to be vigilant and ensure that all countries are taking the necessary steps to deter, detect, and disrupt terrorist financing.

We will and must continue to address fundamental areas of concerns with our partners. In the long run, our success in combating terrorist financing will depend upon the ability of other countries to police their own financial and charitable sectors, and we must continue to assist them in developing these capabilities.

Mr. Chairman, as you know, we are engaged in a long and unconventional struggle that requires us to work tirelessly abroad to choke off the channels of funding to terrorist groups and to raise the standards in the international financial system. I, too, appreciate this committee's support for the State Department and thank the State Department for their unyielding support in our overarching efforts. Ours is certainly a long-term mission to save lives by denying the terrorists the funds they need to train, to plan, to travel, to hide, and to attack. By denying these terrorists dollars and yen, we are depriving them of bullets and bombs.

I thank you, Mr. Chairman, for your support, and I would be very happy to answer any questions you or Senator Hagel may have.

[The prepared statement of Mr. Zarate follows:]

PREPARED STATEMENT OF JUAN C. ZARATE, DEPUTY ASSISTANT SECRETARY, EXECUTIVE OFFICE, TERRORIST FINANCING AND FINANCIAL CRIME, U.S. DEPARTMENT OF THE TREASURY

Chairman Lugar, Senator Biden, and distinguished members of the Senate Committee on Foreign Relations, thank you for inviting me to testify today about the international efforts the Treasury Department has taken, in close coordination with the State Department and our other sister departments and agencies, to attack the financial networks and systems that support and facilitate international terrorism.

Since September 11, we have led a global campaign to identify, disrupt, and dismantle the sources and means of funding for al-Qaida and other terrorist groups. As President Bush stated on September 24, 2001, "If you do business with terrorists, if you support or sponsor them, you will not do business with the United States of America." We therefore have attacked the financial infrastructure of terrorist groups and held accountable those who bankroll terror.

The money used to fuel terrorism flows not just in dollars but in yen, euros, and pounds. The U.S. government has led an international effort to focus the world's attention on the threat of terrorist financing, and we have realized significant success. Certainly, the Treasury and the U.S. government have devoted extensive resources and expertise to fulfill this mandate, but this campaign has always been an international endeavor and has relied on the cooperation of our international partners to successfully achieve our goals.

International cooperation is critical for our overall success, especially when addressing the short and long-term threats of terrorist financing throughout the world. We cannot bomb bank accounts, and we therefore rely on international cooperation in all our efforts. We have shown quite clearly that our counter-terrorism mission is best served when we work collectively with our partners. Thus, our campaign to starve terrorist groups of funding and to bankrupt their operations will continue to rely on our ability to work with our partners abroad to achieve collective success.

I would like to emphasize at the outset the importance of vigorous interagency consultation and cooperation in attacking terrorist financing, as well as to thank the State Department, the Justice Department, and other agencies and departments in our federal government for their work with us on this campaign. From our experience before and after September 11th, we know that terrorist financing is a complicated and multi-dimensional problem that both domestically and internationally implicates a range of legal, regulatory, financial, intelligence and law enforcement interests. Consequently, no successful attack on the financial underpinnings of terrorism may be advanced without coordinated interagency strategies on the use of legal, regulatory, private sector, law enforcement, diplomatic and intelligence-gathering tools required to combat this problem.

In this respect, the State Department has provided the Treasury Department with enormous support in our collective international efforts. In the multiple missions I and others from the Treasury Department have taken abroad and with a series of Treasury initiatives that have required international coordination, we have been well served by our Embassies abroad and by the State Department more generally.

Before I address the specific diplomatic and international efforts we have undertaken to advance the fight against terrorist financing, allow me to share with you the overarching efforts and strategy of the U.S. government in attacking this problem.

I. STRATEGY TO COMBAT TERRORIST FINANCING

Terrorism in the 21st century is a global enterprise consisting of both simple and sophisticated financial mechanisms. Al Qaida and other terrorist groups have learned to use the ease and freedom of the international financial system—both formal and informal—to support their international network and ambitions. The war against terrorist financing, therefore, is an immense undertaking because it requires us to preserve the openness and efficiency of our modern financial system, with the free flow of capital and information, while ensuring that it is not abused by terrorists and their financiers.

We know that terrorist groups tap into a wide range of sources for their financial support, including State sponsors, wealthy donors, charity and relief organizations, front companies, and common criminal activity, and that they use formal and informal ways of moving money such as informal value transfer systems and trade-based schemes. To address and disrupt the various ways that terrorist groups raise and move funds, we have developed a seven-part U.S. government strategy to attack terrorist networks and to prevent both the short and long-term effects of terrorist financing:

1. Targeted intelligence gathering.
2. Freezing of terrorist-related assets.
3. Law enforcement actions.
4. Diplomatic efforts and outreach.
5. Smarter regulatory scrutiny and International Standard Setting.
6. Outreach to the private sectors.
7. Capacity building for other governments and the financial sector.

The objective of our strategy is simple—to prevent acts of terrorism in the short and long term by identifying and disrupting terrorist operations and the financial networks that support those operations. Because of the international and multi-faceted nature of terrorist networks, this is an integrated, inter-agency strategy requiring international cooperation.

II. INTERNATIONAL AND DIPLOMATIC EFFORTS

Treasury is in a unique position to work with the international financial sector—both government and private. Treasury officials have traveled abroad extensively to engage our partners in various ministries and central banks, as well as financial professionals in private industry trade associations and institutions, on the issue of terrorist financing. We are in daily contact with foreign financial officials and are engaged in bilateral and multilateral discussions regarding international cooperation and action against terrorist activities and financing. We are promoting technical assistance and training abroad to ensure that our partners have the requisite capacity to regulate vulnerable industries, enforce laws and share financial information.

The U.S. government has engaged in numerous international fora, including the G7, G8, G20, the Financial Action Task Force (FATF), the Egmont Group, and the international financial institutions to combat terrorist financing in a global, systematic way. We have worked with these international bodies and regional organizations such as APEC, the OSCE, and the Manila Framework Group to further coordinate international efforts to stop the financing of terrorism and to ensure that countries take concrete actions. In general, the United States has led the initiative to make the battle against terrorist financing a priority for the world, through bilateral and multilateral engagements as well as constant diplomatic pressure.

A. Blocking Assets and Cutting Off Worldwide Channels of Terrorist Funding

Our most public weapon in the financial war on terrorism has been the public designation of terrorist-related entities and the blocking of their assets pursuant to the President's September 23, 2001 Executive Order and the authority to designate terrorist organizations as Foreign Terrorist Organizations. To date, we, through the good work of the Office of Foreign Assets Control (OFAC), the State Department, and the inter-agency community, have blocked more than $125 million worldwide based on our ability to internationalize these domestic efforts. Not only have we been able to cut off channels that served to move funds for terrorism, we have impelled an international process to confront the common threat of terrorism, regardless of the source of terrorist funds or the particular agenda of any terrorist group.

The United States has worked diligently with the UN Security Council to adopt international resolutions reflecting the goals of our domestic executive orders and providing the mechanism for UN member states to freeze terrorist-related assets. These UN Security Council resolutions form the legal basis for freezing terrorist assets on a global basis. We have worked with our allies in the UN to pursue bilateral and multilateral designations of terrorist-related parties where possible and appropriate. We have achieved some notable successes in this area to date:

U.S.-Saudi Joint Designations—On March 11, 2002, the United States participated in its first joint designation of a terrorist supporter. The United States and Saudi Arabia jointly designated the Somalia and Bosnia-Herzegovina offices of Al Haramain, a Saudi-based NGO. These two organizations are linked to al Qaida and their names were forwarded to the Sanctions Committee for inclusion under the UNSCR 1333/1390 list. On September 9, 2002, the United States and Saudi Arabia jointly referred to the Sanctions Committee Wa'el Hamza Julaidan, an associate of Usama bin Laden and a supporter of al Qaida.

G7 Joint Designation—On April 19, 2002, the United States, along with the other G7 members, jointly designated nine individuals and one organization. Most of these groups were European-based al Qaida organizers and financiers of terrorism. Because of their al Qaida links, all ten of these names were forwarded to the UN Sanctions Committee for inclusion under the UNSCR 1333/1390 list.

U.S.-Italy Joint Designation—On August 29, 2002, the United States and Italy jointly designated 11 individuals and 14 entities. All of the individuals were linked to the Salafist Group for Call and Combat designated in the original U.S. Annex to E.O. 13224. The 14 entities are part of the Nada/Nasreddin financial network, who are two terrorist financiers designated on earlier E.O. 13224 lists.

U.S.-Central Asia Joint Designation—On September 6, 2002, the United States, Afghanistan, Kyrgyzstan, and China jointly referred to the Sanctions Committee the Eastern Turkistan Islamic Movement, an al Qaida-linked organization which operates in these and other countries in Central Asia.

Designation of Jemaa Islamiyya—On October 23, 2002, the United States designated the Southeast Asian terrorist group, Jemaa Islamiyya, suspected by many in the media of perpetrating the deadly attacks on a nightclub in Bali on October 12th. In the subsequent request of the United Nations to also designate this group for its ties to the al Qaida organization, the U.S. joined Australia, Indonesia, Singapore, and 46 other countries, including all the members of ASEAN and the EU, in requesting Jemaa Islamiyya's designation. This represents the most widespread show of support of any terrorist designation to date.

Three Chechen Groups—On February 28, 2003 the United States designated three Chechnya-based terrorists groups responsible for the Moscow theater siege. In the subsequent request of the United Nations to also designate these groups for their ties to the al Qaida organization, the U.S. was joined by UN Security Council members France, Russia, China, the UK, Spain, and Germany in requesting their designation.

These global actions to designate and freeze the assets of terrorist-related groups have only been effective because we have been able to use the international mechanisms in place to effect a global shut down of terrorist financial infrastructures. For example, the international designation of the al Barakaat network in November 2001, which was a money remitting business used by Usama bin Laden to funnel money to associated terror groups, proved effective because the international community acted in unison. The recent designation of the worldwide network of Benevolence International Foundation, a Chicago-based charity that was supporting al Qaida, is another example of the international community taking common action to cut off the flow of funds to al Qaida. By working with our allies to implement an international mechanism for designation and freezing, we have made it much harder for terrorists to hide their money in the world's banks or send it abroad through formal financial channels. We have also sent a common signal to the bankers of terror. There will be no refuge from the gaze of the international community.

B. Regulation of Charities and Alternative Remittance Systems

Our international strategy has achieved success beyond designations and blocking actions. We and our allies have vigorously engaged multilateral institutions such as the IMF, the World Bank, the UN, and the Financial Action Task Force (FATF) in an effort to examine the measures the international community is taking to regulate and monitor those financial mechanisms being abused by terrorist groups.

Prior to September 11, 2001, the international community lacked focus on the specific means that terrorist groups were using to raise and move money. One example of this is al Qaida's perverted use of charities and non-profit organizations to raise money, move persons and materiel, and provide logistical support for their international operations. Nothing could be more reprehensible than the terrorists' use of images of widows and orphans to raise money for the killing of innocent lives. The international community has responded by blocking the assets of suspect charities, closing down and taking law enforcement action against others, and setting standards to protect charitable institutions from being abused as vehicles for terrorist financing. Through the 31-member Financial Action Task Force (FATF), the international community set forth the first international best practices to protect charities against potential terrorist abuse. The establishment of those standards has been followed by actions by several jurisdictions, including Gulf States, to monitor how their charitable organizations operate, especially in conflict zones.

The funding of suspect organizations can originate from both legitimate donations and illegal sources within our own borders. Because these organizations also support humanitarian and relief efforts, the commingling of legitimate and illegitimate funds makes it difficult to follow the money trail. The Internal Revenue Service-Criminal Investigation (IRS-CI) has worked with the inter-agency community abroad and continues to coordinate these efforts with its Tax Exempt/Government Entities Division, whose primary responsibility is administering the tax laws associated with charitable organizations, to specifically address issues involving terrorism fund-raising by these suspect organizations.

Our strategy has also begun to make progress in countering the prevalent use of informal systems of transferring money, often known as hawala, throughout the world, including South Asia, the Gulf, Europe, and North America, to fund terrorism. This previously largely unregulated financial practice has been abused by terrorist financiers and other criminals to move and launder large amounts of money quickly and surreptitiously. Along with the world community, we have worked to broaden regulatory structures for informal money service businesses, such as hawalas, and enforce regulations against those refusing to register. In May of 2002, I led an inter-agency delegation to the United Arab Emirates for the first international conference on this issue. As a result of this conference, nearly forty countries committed to regulate this sector through registration or licensing. Countries like the UAE, Pakistan, and others have responded by regulating this sector for the first time, which is proving important for information gathering and sharing and ensuring financial transparency within the informal financial sector. The FATF and other international bodies have further developed standards that are specific to this sector and will continue to work with countries to ensure that this sector is well regulated and overseen.

Overall, the concentration on these issues in the international arena is due in large part to the consistent work of the U.S. government to place pressure on the international community, in all relevant fora. We will continue to do so.

C. International Standard Setting

All of these efforts are part of a strategy to set global standards that will plug gaps in the formal and informal financial sectors to prevent, or at least minimize, the potential of abuse by terrorist groups and their supporters. As President Bush has stated on several occasions, the war against terrorism will be a long-term effort that will require us to think creatively and to ensure that our modern systems are not being used against us. With respect to terrorist financing, we have committed ourselves to promulgating and establishing international standards that serve to protect the integrity of all aspects of the international financial system.

One critical way we have accomplished this is through the FATF, which has served since 1989 as the preeminent anti-money laundering multilateral organization in the world. The United States has played a leading role in the development of this organization as the primary forum for advancing international standards to combat terrorist financing. On October 31, 2001, at the United States' initiative, the FATF issued Eight Special Recommendations on Terrorist Financing, requiring all member nations to adopt a counter-terrorist financing regime. These Eight Special Recommendations have become the benchmark for counter-terrorist financing regimes and have led to several countries modifying and passing new laws to protect their financial systems from abuse by terrorists. The Eight Special Recommendations commit states to undertake the following measures against terrorist financing:

1. Ratify the UN International Convention for the Suppression of the Financing of Terrorism and implement relevant UN Resolutions against terrorist financing;

2. Criminalize the financing of terrorism, terrorist acts and terrorist organizations;

3. Freeze and confiscate terrorist assets;

4. Require financial institutions to report suspicious transactions linked to terrorism;

5. Provide the widest possible assistance to other countries' laws enforcement and regulatory authorities for terrorist financing investigations;

6. Impose anti-money laundering requirements on alternative remittance systems;

7. Require financial institutions to include accurate and meaningful originator information in money transfers; and

8. Ensure that non-profit organizations cannot be misused to finance terrorism.

The FATF has further elaborated on these Eight Special Recommendations, including devising a worldwide standard for the information required to travel in cross-border wire transfers and developing best practices for the regulation of charities. Together with the Departments of State and Justice, Treasury will continue to work with the FATF to build on its successful record in persuading jurisdictions to adopt anti-money laundering and anti-terrorist financing regimes to strengthen global protection against terrorist finance.

In addition, the Treasury Department will continue its close collaboration with the World Bank, the IMF, and the UN CTC to ensure that (a) countries are assessed based on the standards set by the FATF and (b) countries can be identified to receive priority technical assistance in order for them to come into compliance with the Eight Special Recommendations on Terrorist Financing. We will also continue to work with all relevant regional bodies to promote the common international standards being developed on all relevant financial matters.

We have had enormous success of late in moving countries to change their relevant laws and regulations in the area of anti-money laundering and counter-terrorist financing. Thanks in large part to the authority granted to the Secretary of the Treasury by Congress in Section 311 of the USA PATRIOT Act, countries have been fearful of the economic effects of designation as a "primary money laundering concern." As a result, countries like Nigeria and the Philippines have taken action to avoid the stigma of this designation by the United States, and the Ukraine moved quickly to pass laws that would remove this designation from their country's financial system. This power under the PATRIOT Act, in combination with the threat of international rebuke, is an effective tool in molding international behavior to comply with international financial standards.

D. International Information Sharing and Law Enforcement Cooperation

Information sharing is critical to fighting terrorism, and a critical element in our efforts to identify and dismantle terrorist financing is the ability to access quickly terrorist-related information received from our international partners. We have seen in recent days, with the capture of important al Qaida leaders and operatives, the enormous impact and success resulting from close international cooperation in the law enforcement and intelligence communities. The U.S. government has forged ties around the world that are important in continuing to ferret out global terrorist networks. For example, soon after September 11th, a Caribbean ally provided critical financial information through its Financial Intelligence Unit (FIU) to the Financial Crimes Enforcement Network (FinCEN) that allowed the revelation of a financial network that supported terrorist groups and stretched around the world.

In order to improve the flow of information, in particular financial information related to terrorist financing, we have worked to establish and expand international information-sharing channels. Through FinCEN, we have directed the attention of the Egmont Group towards terrorist financing. The Egmont Group represents 69 FIUs from various countries around the world, and FinCEN is the FIU for the United States. The FIU in each nation receives financial information (such as SARs) from financial institutions pursuant to each government's particular anti-money laundering laws, analyzes and processes these disclosures, and disseminates the information domestically to appropriate government authorities and internationally to other FIUs in support of national and international law enforcement operations.

Since September 11th, the Egmont Group has taken steps to leverage its information collection and sharing capabilities to support the United States in its global war on terrorism. On October 31, 2001, FinCEN hosted a special Egmont Group meeting that focused on the FIUs' role in the fight against terrorism. The FIUs agreed to: (i) work to eliminate impediments to information exchange; (ii) make terrorist financing a form of suspicious activity to be reported by all financial sectors to their respective FIUs; (iii) undertake joint studies of particular money laundering vulnerabilities, especially when they may have some bearing on counterterrorism, such as hawala; and (iv) create sanitized cases for training purposes.

Approximately ten additional candidate FIUs currently are being considered for admission to the Egmont Group at its next annual plenary meeting. Egmont has conducted and will continue to host training sessions to improve the analytical capabilities of FIU staff around the world. FinCEN is heavily engaged in these efforts and recently participated in the international training session held Oaxaca, Mexico, co-hosted with the UN.

IRS-CI contributes to international information sharing, law enforcement cooperation, and the overall strategy to combat terrorist financing through its Law Enforcement Attachés located in key international financial centers throughout the world. These attachés support ongoing terrorist financing investigations and aggressively develop liaisons with their foreign counterparts to facilitate the flow of information in this area.

In addition, we have worked closely with the Departments of Justice and State to establish new means of investigating terrorist financing cases. For example, the United States and Switzerland entered into a memorandum of understanding on September 4, 2002, that allows federal agents from each country to work hand-in-hand with their counterparts on related terrorist financing investigations. This cooperative international working arrangement is a novel way of ensuring close coordi-

nation and information sharing. We will continue to work on establishing these types of open channels of communication internationally to uncover terrorist networks.

In addition, we developed the Counter-Terrorist Financing Public Awareness and Rewards Campaign in coordination with the State Department, which we announced together on November 13, 2002. This partnership with the State Department's "Rewards for Justice Program" is a campaign to offer $5 million for information on funding networks that support terrorist activities, including underground financial systems, illicit charities, and corrupt financial service providers. In addition, this program is intended to raise public awareness and understanding of how terrorist financing occurs. The State Department has been a strong supporter and advocate of this Campaign, and the Embassies are serving as an important medium for this information.

E. Capacity Building

Providing our international partners with the legal, regulatory, and enforcement capabilities to combat and prevent terrorist financing is an integral part of our overarching strategy. Along with the State and Justice Departments, we have engaged in several capacity-building initiatives with other governments and the private sector to defeat terrorist financing activity. For example, we have provided several countries in the Gulf with training related to trade-based money laundering, which is a scheme used by smugglers and perhaps terrorist financiers to move money intended for criminal purposes through commerce. Our international partners have welcomed this type of training, and we plan to provide it to other countries that are susceptible to this practice throughout the world. Treasury has in addition utilized IRS-CI's financial investigation expertise in conducting assessments of various foreign governments' law enforcement capabilities, developing courses, and furnishing instructors for training in financial investigative techniques. Moreover, Treasury has and will continue to contribute to the inter-agency law enforcement training programs at the various International Law Enforcement Academies (ILEA) around the world, including the recently established ILEA in Costa Rica.

In addition, Treasury is co-chairing a FATF Working Group on Terrorist Financing, which, among other issues, is charged with identifying technical assistance needs of various governments around the world. This Working Group is collaborating with donor states, the International Monetary Fund, the World Bank, and the UN Counter-Terrorism Committee in helping to identify jurisdictions in need of technical assistance. Bilaterally, members of my office, the Office of Foreign Assets Control (OFAC), and FinCEN, among other Treasury components in close cooperation with the Departments of State and Justice, have worked directly with foreign governments to increase their capabilities to freeze terrorist-related assets and to process and analyze financial information. We have also participated, along with the Treasury's Office of Technical Assistance, in several inter-agency assessments of technical assistance needs with respect to combating terrorist financing in various countries of strategic interest to the United States.

These efforts will gain strength as we enlist the further cooperation of other international donors. We have certainly seen recently a greater commitment from various countries to provide needed training and technical assistance to countries that have demonstrated a clear need and desire for assistance.

III. CHALLENGES AHEAD

Though the U.S. government has led the world in focusing attention on the problem of terrorist financing, there is still much work to be done. There are several specific challenges that lie before us that we must continue to address in the international context.

Foremost, we must maintain political and diplomatic pressure on our partners abroad and the international institutions in which we engage to continue to focus on the problems associated with terrorist financing. The further the world's memory of September 11th recedes, the harder it is to maintain a sense of urgency internationally to act against terrorism. We must ensure that we are constantly communicating the importance of this issue to our partners and that our own resolve, in particular abroad, is not seen as wavering.

We must continue to broaden and deepen our efforts worldwide. From improving the way the international community blocks assets to ensuring that charitable giving is not corrupted by terrorists, we need to be vigilant and ensure that all countries are taking the necessary steps to deter, detect, and disrupt terrorist financing. This is particularly the case in areas of the financial system that are especially vulnerable to abuse by terrorist groups, such as alternative remittance systems and charities in crisis locations.

In this endeavor, we will and must continue to address fundamental areas of concern with our partners. Since September 11th, the United States and the EU have campaigned jointly to designate terrorist entities and their financial backers in order to freeze their assets. For example, nearly every terrorist individual and entity designated by the United States also has been designated by the EU or some of its member states. Moreover, the United States and the EU have established a fluid, informal mechanism for sharing information on terrorists and their supporters.

Recent terrorist finance developments at the EU member-state level also are positive. Last September, we co-chaired with Spain an important meeting of the FATF to discuss international standards and measures being taken in the war against terrorist financing. In August, Italy joined the United States in submitting to the UN 1267 Sanctions Committee the names of 25 individuals and entities linked to al Qaida. The Dutch Government recently froze the assets of the "New Peoples Army" and its leader Jose Sison, both known to be responsible for the killing of American citizens in the Philippines. France, Belgium, The Netherlands and Germany have all submitted names in recent months to the UN 1267 list.

Nevertheless, differences remain that must be addressed. We have pressed the EU to join us in labeling Hamas and Hizballah as terrorist organizations. Thus far, most European countries have avoided this issue, on grounds of a supposed distinction between the "charitable" or "political" wing of Hamas and Hizballah and the militant/terrorist wing. The United States has rejected the notion that "firewalls" separate political or charitable activity from the terrorist activities of Hamas and Hizballah, and we urge our European counterparts to do the same. Not only is money fungible across all programs and activities of these terrorist organizations, but no evidence has been brought forward to establish the existence of any such "firewalls." Nor is there any reason to suppose that terrorists within either organization respect such niceties.

We are beginning to see some progress. Recently, for example, Denmark and Germany took concrete enforcement actions against the Al Aqsa Foundation—a fundraiser for Hamas. In addition, the EU recently designated the al-Aqsa Martyrs Brigade, a Hamas-related group that has taken responsibility for a number of suicide bombings in Israel. These are important developments and movements in the right direction, but we have a long way yet to go. We also need to continue to press the EU on improving and streamlining the methods in which they designate parties under the Clearinghouse process.

Our EU counterparts know that the United States is pressing for resolution on these critical issues, which we believe will enhance the EU's ability to combat terrorist financing. We welcome the generally good cooperation of the EU in the financial war on terrorism to date, and we will continue to push for progress on these remaining issues.

In other regions of the world, we face challenges of capacity building to develop more transparent and accountable financial sectors and to establish greater oversight of the charitable sector. In the long run, our success in combating terrorist financing will depend upon the ability of other countries to police their own financial and charitable sectors, and we must assist them in developing these capabilities. We will continue to work through the FATF, the IMF, the World Bank, the UN CTC, various regional organizations and with other donor countries to coordinate the delivery of technical assistance to those countries with the political will but lacking the necessary means to combat terrorist financing.

IV. CONCLUSION

I was interested to note Senator Biden's recent speech in which he stated that "[o]ur new war is not a Cold War but a Borderless War." Indeed, we are engaged in a long, unconventional struggle that requires us to use all of the U.S. government's assets. In this mission, we must work tirelessly abroad to choke off the channels of funding to terrorist groups and to raise the standards in the international financial system. As part of this war, the battle against terrorist financing is a long-term campaign for the Treasury Department and the entire U.S. government. As I have said before, ours is a long-term mission to save lives by denying the terrorists the funds they need to train, to plan, to travel, to hide, and to attack. By denying these terrorists dollars and yen, , we are depriving them of bullets and bombs. I thank you for your support. I will be happy to answer any questions you may have.

The CHAIRMAN. Well, thank you very much, Mr. Zarate.

Once again, we will have another round of questioning with 7-minute limits, and Senator Hagel and I are the only two survivors

on this side of the panel. We will try to do the best we can on behalf of all our colleagues.

Let me just say again what a difference this is to have three agencies of our government all complementing each other not only in your rhetoric, but likewise in your deeds, in the work that is being done on the ground, recognizing that a part of our mission today is to think through the State Department's budget, its housing of all of the agencies, its ability, really, to function in the field, sometimes under very arduous circumstances, which all of you face with your colleagues wherever they are. So the same hardship post situations we are talking about with regard to the State Department are equally true for the FBI, for Treasury, for others, and we appreciate those Americans who are there.

Now, let me just pick up on this by saying the $120 million that has been blocked, mentioned by both Mr. Black and Mr. Zarate, is an important figure, and I want to try to get a better dimension of both how that came about and what else we are seeking out there. I just take as a point of personal experience, picking up on this cooperation element, that I visited our American Embassy in Germany.

My former colleague in the Senate, Dan Coats, is our Ambassador to Germany now. Ambassador Coats pulled together, there in the embassy, officials from our intelligence agencies, from the FBI, from the other agencies of government, all of whom were prepared really to tell me how they were working with German friends who were in similar responsibilities. It was a remarkable demonstration of cooperation, and went straight to the problems both of trying to find out about al-Qaeda cells or cell members who had been operating in Germany, some of them prior to 9/11, some of them after then, and the money problems.

Here is an international situation. The German economy is very complex, and the banking system is likewise. We had hearings here both behind closed doors, and a few in front, with regard to stopping the money flow, and this is a delicate business. Very rapidly, Americans came into the hearings and would say, now, careful there, you are getting into bank accounts, you are getting in to privacy issues. The flow of money does not just happen, separating terrorist money from other money, from people's regular checking accounts or from commercial transactions.

It is almost like the problem of the wiretapping issues that occurred back in the Carter administration before the Intelligence Committee. How does the FBI segregate these calls, or expunge all of the information which is irrelevant, or on the same lines, through a court order that is specifically drawn for the protection of civil liberties? This type of thing began.

Now, the Germans have the same problem. So do the French, and so does everybody else who is working with us, and yet the cooperation of all of these countries is of the essence. If there are weak links along there, they are rapidly taken advantage of by those who want to transfer money, quite apart from this hawalah exercise that became a new term and a new source of education for all of us with respect to how money is actually transferred when it does not go through regular means.

I am just curious, as you expressed I think very well, Mr. Zarate, as the 9/11 situation pales, so conceivably could the enthusiasm, not in our banking system, or with Treasury, but with others with whom we cooperate. As a matter of fact, in our current diplomacy vis-à-vis Iraq sometimes I have the impression, as I visit with diplomats from other countries, that they want a good relationship with the United States and therefore they are inclined to be cooperative, but they do not see the terrorist situation in quite the same way that we see it.

Now, we have complained that after all, we were hit. The Brandenburg Gate and the Eiffel Tower were not taken out by an aircraft. Maybe their attitude would be different. But they would reply, I think rather weakly, that we do not anticipate that we are the target, you are the target, and I am trying to bring to the surface how we get cooperation, and how does it remain? And $120 million is a lot of money. Many estimates of the amount of money that is flowing, either through the bogus charities or through a liberal interpretation of what a charity may be, or just another old fashioned method, demonstrate that the size is greater than this by some multiple.

So describe to me, what is the nature of the cooperation? What more do we need? In terms of diplomacy, what do we need to say to a country that may make them more amenable to having the common fight? Likewise, how do you overcome the civil liberties challenges, legitimate questions raised by Americans on privacy issues?

Mr. ZARATE. Thank you, Mr. Chairman. If I could first answer your question with respect to the amount of frozen assets, our most recent estimate of the worldwide assets frozen related to al-Qaeda and other terrorist groups is actually $125 million, so it is actually a little bit over $120 million.

Those funds—and it is important to remember this—are the funds that have been captured at the moment that the blocking orders were put in place by the domestic regime, either pursuant to the U.N. process or pursuant to a domestic process, so that number I think is a little deceiving, because its significance is that it signals a cutting-off of channels that had existed prior to the blocking.

The CHAIRMAN. I see, an initial freeze en bloc.

Mr. ZARATE. Exactly, so there is a freezing that actually happens, and those are the amounts that were in the accounts or in process of being transferred at the time the orders were in place.

With respect to cooperation, we are finding cooperation is unwavering on this, in part because we have kept it at the top of our agenda. One of the key issues, and I think it may be unique to the area of terrorist financing, is that not only do countries feel a sense of threat, perhaps not as directly as the United States, but they do feel a sense of threat with respect to terrorism. And they also feel, and they know that the corrupting effects on their financial system, their domestic financial system, is extremely threatening to the way their economy works. So with respect to measures taken to combat terrorist financing, increasing international standards, we are looking at a commitment worldwide to effectuate those efforts.

With respect to the civil liberties issue, the issue of blocking of assets has been challenged in court. The United States has pre-

vailed to date with respect to all of the challenges, in particular the domestic entities that have been blocked, in particular the Holy Land for Relief and Development, which was a Hamas fundraiser. Those challenges have been upheld in court, and we do not see a problem with that.

The process domestically is extremely intensive with respect to the review of whose assets, or which entities' assets will be blocked. There is a very intricate interagency process controlled at the highest levels of the administration because of the sensitivity of the very issues you have pointed out.

Internationally, there is a U.N. process in place to designate entities, and that as well is scrubbed by the international community through the U.N. Sanctions Committee.

The CHAIRMAN. Let me just say, I understand the blockage. Now, what is likely to happen to the money? After the money is blocked, it sits there. What sort of legal disposition occurs?

Mr. ZARATE. Unlike in a situation where you have a seizure or a forfeiture, the blocking actually sits there and theoretically can sit there ad infinitum. But what you have in the case of the terrorist programs, and you see this in the case of the various country programs administered by the Office of Foreign Assets Control, is that you have a blocking regime in place in the hopes that the regime you are blocking, or the entity you are blocking can be reformed and the money can be returned.

We saw this very clearly in the case of Afghanistan. Once the Afghan interim authority was put in place, all of the reserves which had been blocked, the central bank reserves from Afghanistan which had been blocked were unblocked and returned to the Afghan central authority for their use and for their credits, so that, in essence, is the model.

With respect to individual terrorists and entities, those remain blocked.

The CHAIRMAN. Yes. They would not be reforming, I suspect. I mean, you may get reform in a State situation.

Mr. ZARATE. In certain instances you could have individuals who disassociate themselves from the organization that formed part of the terrorist network, and we have seen delistings for those reasons, and unblocking of very minimal amounts for that reason, but otherwise I think you are right, Mr. Chairman.

The CHAIRMAN. Senator Hagel.

Senator HAGEL. Mr. Chairman, thank you.

Gentlemen, thank you for appearing today. I would add to the Treasury and the FBI our thanks, as has been mentioned by the chairman and others here, and we are all grateful for what you are doing for this country, and please give your colleagues our thanks as well.

Mr. Pistole you have, in your testimony, noted, and I quote, "last month Director Mueller testified before the Senate Select Committee on Intelligence that the al-Qaeda network will remain for the foreseeable future the most immediate and serious threat facing this country." I was at that hearing, and I happento agree with Director Mueller's assessment.

For each of the three of you, I would appreciate your thoughts on this question, and it is this. As we have, over the last 18

months, defined more and more the threat, where the threat is coming from, identifying the more sophisticated terrorist networks in the world, who harbors those networks, who supports them, who finances them, do you see any intentional or unintentional grouping of these sophisticated networks in some new league, or multi-terrorist network that would help support their overall efforts, each of their overall efforts as terrorism?

We understand that each is driven by different dynamics toward different governments, peoples, groups, countries, but is one of the consequences of what we are doing—and by the way, I am not rendering an opinion one way or the other, whether it is good or bad, but one of the consequences of our intense focus on terrorism now, as the Director has stated, as you have noted in response to the chairman's questions about other nations working closely with us, certainly Ambassador Black has testified to this effect, is there evidence of that going on, may go on, and if there is, does that work to our benefit or not? So gentlemen, take any part of that, and I appreciate hearing from the three of you. Thank you.

Mr. PISTOLE. Thank you, Senator Hagel. I will approach it from the domestic perspective. We have seen little indication in the United States of, for example, Sunni extremists such as al-Qaeda establishing relationships with other terrorist groups such as Hezbollah, Hamas, some of the international groups such as Jemaah Islamiyah or the Abu Sayyef group, Indonesia and the Philippines respectively. Ambassador Black can touch on some of those associations more specifically as it relates to overseas.

We have also seen little indication of, for example, domestic terrorist groups such as some of the Aryan Nations, the white extremists, some of those groups, having any association with the foreign, if you will, groups such as the Sunni extremists, such as al-Qaeda, and in only one instance was there even a speculation of that, which we were able to discount through investigation, so we have, if you will, stovepipes of terrorist activity, groups that have their own goals, motives, and accomplishments which they strive for in large part independent of the other groups.

The concern we have now is with the probable hostilities with Iraq, what Iraqi either intelligence officers or other individuals sympathetic to the Hussein regime may try to do in terms of enlisting these other groups either as sympathetic to the Muslim cause or to the cause of the underdog, if you will, against the superpower of the United States.

We have some intelligence which I will not go into in this hearing, but about some of these sympathizers and some of these other individuals and groups who have indicated an interest in taking terrorist acts against the United States in the event of hostilities. We believe we have excellent coverage of those individuals and entities around the United States and are very well positioned, in fact best positioned in the history of the FBI to determine whether any such individuals are moving from the talking stage of, here is what we may do in the event of hostilities, to a national operations stage, and we believe that there is limited, our assessment is that there is limited activity in that regard, but there is still significant activity from a fundraising and recruitment perspective, so that is it in a nutshell from a domestic perspective.

Senator HAGEL. Thank you. Ambassador Black.

Ambassador BLACK. Yes, Senator, I think it is important we should remind ourselves of programmatically the success that the U.S. Government and FBI, American intelligence, Treasury Department, working with their foreign colleagues and counterparts, have had in this global war on terrorism. I think we should be mindful of the fact that the President, the administration's strategy has put tremendous pressure on these primary terrorist groups, and this should not be underestimated.

Al-Qaeda is not the organization now that it was before. It is under stress organizationally. Its leadership spends more time trying to figure out how to keep from getting caught than they do trying to launch operations, yet at the same time we have to be mindful that there is the certainty that terrorists will attempt to launch multiple attacks against their enemy, which is us and our allies.

This international cooperation has resulted in a reduction in al-Qaeda's organizational capability from which to strike. Their resource base is lower than it was when we started, and I suspect history will say by this time it was greatly depleted, still dangerous, still vicious. But I think the administration's strategy in this case is working handsomely.

Things are not going well for the terrorists, and things certainly are not going well for al-Qaeda, witness the successes that American intelligence and the FBI have had on their own with their foreign counterparts. These people are going into extreme maneuverability to try and remain viable and also to be in a position to conduct attacks.

Their options are limited. They can reach out to other terrorist organizations over the long term to sustain them. They can hijack issues that they are not normally associated with, local issues around the globe, whether it has to do with Islanders' rights in the Pacific or other similar type things. They also will attempt to make themselves more attractive to local groups that are looking for resources.

At the same time, Senator, it is very important to appreciate that the U.S. Government is doing everything it possibly can not only inside the United States but around the world to put extreme pressure on these people to capture them, to render them to law enforcement, to identify their connections, to cutoff the sources of their funding. I, for one, who have been in this game for quite a few years, must say that I can tell you in all honesty that we are making tremendous progress.

The concern, of course, is that you do not know what you do not know, and people that do counterterrorism, like the gentlemen seated next to me, always have to be mindful of the fact that there could be a catastrophe, but I would say at the same time that the United States' counterterrorism effort is increasingly effective. It shows no sign of stopping. The pressure on al-Qaeda and our enemies is intense, and they will be extremely challenged to survive, much less remain in place or, to a lesser extent, even grow and increase their capabilities.

Senator HAGEL. Mr. Chairman, if I might, I would like to get Mr. Zarate's comment, but may I ask a quick question of Ambassador Black?

Sir, you are saying you see no evidence from your vantage point of seeing these terrorist groups forging a new overall multilateral terrorist league or network?

Ambassador BLACK. I do not see it in terms of the classically established terrorist groups. I do not see Hezbollah embracing al-Qaeda. In fact, I should sense it may be something of the opposite. They have competing agendas, but I do think that where agendas are sympathetic or compatible, such as perhaps with localized terrorist groups in Asia that have a commonality with an al-Qaeda. You certainly see actions on that part to keep those contacts alive.

Senator HAGEL. Thank you. Mr. Zarate.

Mr. ZARATE. Thank you, Senator Hagel. I would like to echo Ambassador Black's comments. I think first and foremost we need to assure the American public that our actions have certainly disrupted terrorist operations and, on the financial front, certainly deterred fundraising that had been occurring prior to 9/11. The blocking of assets, the arrest of key financiers, other efforts by governments abroad has been extremely important to our efforts.

I think the great danger with al-Qaeda, and Ambassador Black mentioned this, is their ability to reach into particular regions and to touch the allegiances of certain groups. We have certainly seen that in Somalia and Chechnya, in Southeast Asia, in Iraq, with Ansar al-Islam, so that is the real danger, and with respect to financing, the problem lies in the fact that funding mechanisms and fundraising and the channels by which money can move are fairly fungible, so they can be used not just by al-Qaeda but by other groups. But I cannot say before you today, sir, that we are seeing the types of links that you are talking about.

Senator HAGEL. Thank you.

The CHAIRMAN. Thank you very much, Senator Hagel. I have three questions, and this will conclude my questioning. Senator Hagel may have additional questions.

Let me say that a common complaint used to be, and I hope it is past, by consular officials that intelligence and enforcement agencies inside the embassies did not share information very readily with them, that the communication line between the State Department people and the others was deficient.

Now, I have already cited an example from my own experience with Ambassador Coats in Germany, where clearly everybody was around the table, obviously all of us talking and visiting. I presume the Ambassador does this routinely every day. That was true of our embassy in Russia—I visited there not too long ago—and in Great Britain, and I suspect it is true elsewhere.

But to what extent do you still get these complaints, those of you who are, say, in the FBI and the Treasury, that you are doing good work but on the other hand we are not altogether sure what you are doing, from the Ambassador, or from the Chargé, or from others who have responsibility and who are housed in the same place, or have you successfully mitigated these complaints in such a way that there is a general feeling throughout all of our consular service of the kind of cooperation we have seen here today? Do you have a thought, Mr. Zarate?

Mr. ZARATE. Absolutely, Mr. Chairman. I, too, have been abroad and seen the country teams working extremely well together in Eu-

rope, in the gulf, and in other parts of the world. The country teams are working extremely well together in terms of sharing information. We identified this as an issue early on in the process, right after 9/11, and what we did in close coordination with the State Department was to create what are called terrorist financing coordinators in all of the embassies around the world.

These are coordinators that bring together all of the elements within an embassy team that have any equities at all to do with terrorist financing, so you have the Legat, you have any former Treasury bureaus, customs attachés, you have the econ counselor and others who are involved in these issues, so there is constant sharing of information, and I think though there may be occasional mishaps with respect to the sharing of information, I think we have created a system by which information, at least from the terrorist financing perspective, is being shared quite well.

The CHAIRMAN. Very well. Do you have further comment, Mr. Pistole?

Mr. PISTOLE. Mr. Chairman, I think post-9/11 there has been a new synergy and a new emphasis, and realization of the absolute need to cooperate, share information that perhaps was not present prior to 9/11. The only indications of problems, and I like to look at it as, there are no problems, only opportunities to demonstrate character, but the only opportunities to demonstrate character that we have encouraged are primarily personality-driven between two strong personalities at different agencies.

The CHAIRMAN. Let me ask, I am just curious at this point, given the blockage of funds, how do you estimate that al-Qaeda funds itself? We have had reports in the press of illegal diamonds mined in Sierra Leone and sold by Liberia, and somehow those assets converted to whatever al-Qaeda needed. That is simply one dramatic example that has bobbed up in the press which might leave all the account-blocking behind in some other type of trade, but what is your estimate of how the financing still goes on and how extensive it is?

You, Mr. Zarate, have estimated it probably is down to a dull roar in comparison to the past, but can you quantify or give us any idea of what is going on?

Mr. ZARATE. Mr. Chairman, it is very difficult to find a universe of dollars or foreign currency that are being used for terrorist financing. That being said, I think that al-Qaeda and other groups are still using traditional means and formal financial means to move money and to raise money.

Certainly donors are still active to a certain extent. Certainly charities throughout the world are susceptible to abuse and still continue to be a problem, as I mentioned in my oral testimony, and we do suspect that unconventional means of moving money, for example, trade-based money laundering may be a way that terrorist financiers are moving money in particular regions of the world, perhaps southwest Asia and the gulf. So those are things that we are still looking at very vigilantly, and as I mentioned in my testimony, it is important to deal with these issues not only in a short-term basis in terms of blocking and disrupting movements of funds, but also to deal with the long-term efforts of creating systems and mechanisms in countries so that they themselves, countries, can

deal with this issue from a regulatory law enforcement and general enforcement perspective.

The CHAIRMAN. Mr. Black, from your long-term experience in this situation, do you have anything additional to offer on the finances of al-Qaeda?

Ambassador BLACK. Yes, Mr. Chairman. Probably al-Qaeda's greatest infusion of resources took place when he was in Khartoum and he ran a construction company, built roads, and purchased——

The CHAIRMAN. This is Osama bin Laden?

Ambassador BLACK. Osama bin Laden, the leader of the al-Qaeda organization, whose ability to conduct legitimate commercial activity has ended. The United States and her allies have certainly interfered with that, and so you are essentially talking about the movement of funds that could be used as well as the collection of funds that are contributed by select charities or individuals. Financially, he is under stress, and the United States and the Department of the Treasury and the State Department, the FBI, and intelligence and our allies are looking at ways to stop all sources of resources, financial resources, including the hawalahs, including charities, and the whole like, so that is to the good.

The bad, Mr. Chairman, is unfortunately many of these terrorist organizations are essentially inexpensive, so whereas we I think are meeting with some considerable success in interdicting the flow of funds, a little bit still with these people goes a long way, so we have a ways left to go on that.

The CHAIRMAN. Just on that point, though, clearly it would appear that training camps such as the ones that al-Qaeda used to have in Afghanistan are fairly extensive operations. Likewise I have read reports from time to time of offers by al-Qaeda to buy, if not fissile material, at least elements that might lead to weapons of mass destruction. This probably involves money as opposed to in-kind transactions. It is a very expensive business.

If what you are testifying is that we are down, now, to sort of the bare essentials of inexpensive living off the land, or in-kind trades of cloth and food and so forth, that is a different situation, obviously, than that which we have observed before.

Can any of you give any flavor of where the al-Qaeda situation is? In other words, is there enough money to conduct at least in some places sophisticated operations that can be threatening to us, or is the privation fairly persuasive for them?

Ambassador BLACK. No, sir. They certainly are extremely dangerous, and they have the capability to strike. That is very important to appreciate. However, they are not the organization they were, and the trend is downward. Their ability to move funds has become more problematical for them. They are moving away from more classical means of transmitting funds, relying more upon personal relationships and hawalahs. The organizational entity that was al-Qaeda seems to be changing into something that is less formal, less precise, and much slower.

The CHAIRMAN. Mr. Pistole, do you have something to add?

Mr. PISTOLE. Yes, Mr. Chairman. If I could just add, from the domestic perspective we have identified a number of individuals engaged in traditional crime such as drug trafficking, counterfeiting, traditional white collar crimes, different frauds, to facilitate ter-

rorist activity, we do not believe here in the United States but overseas.

And without specifically identifying which groups they are associated with, there have been some recently publicized indictments and pleas and convictions about individuals engaged in those traditional crimes, the extent of which we are challenged in tracing those funds to actual terrorist activity overseas, but we know they go to terrorist organizations, and as Mr. Zarate mentioned earlier, $1 that we can take away from a terrorist organization is just that many fewer bombs and bullets they can buy.

The CHAIRMAN. I am curious. We had open testimony when the joint intelligence committees met in a number of hearings in the last calendar year discussing the tragedy of 9/11. Testimony came from the Director of NSA about the overwhelming numbers of messages, the explosion of cell phones, cables, other devices all over the world in which people communicate with each other in volumes well beyond the capacity of NSA to encompass some days, quite apart from engaging in this term that arose from the hearings, "data mining." You try to parse through all of this debris and find the nugget that you might put in front of a policymaker like yourselves.

Now, I am curious—at least as operatives, as you are both in the field and here in Washington—are you getting better support, say from NSA or from others, in terms of information that is useful in a timely way? Because clearly that is the whole point of the exercise, that those who are collecting messages and tips and names and what-have-you, and hopefully have translators to get the language right and so forth, are getting to you. Are you getting support? Can you give any idea of how this has moved quantitatively or qualitatively in your Departments? Mr. Zarate.

Mr. ZARATE. Mr. Chairman, I think I can say for the entire Department of the Treasury that we have received enormous support from the intelligence community after September 11. Once the President declared war on terrorism and made one of the principal prongs of that war combating terrorist financing, there was a renewed commitment to using assets in the field to collect relevant intelligence, and we have worked very closely with the intelligence community to use that information.

I would just like to note as well that we have been doing our best to sift through and to find the wheat in this chaff in terms of the financial information that we are responsible for, the Bank Secrecy Act information, the CTRs and SARs which banks file with the Financial Crimes Enforcement Network are extremely valuable to law enforcement, and we are doing our best to find ways to mine through that information and to provide the best service to our law enforcement partners.

The CHAIRMAN. Mr. Black.

Ambassador BLACK. Mr. Chairman, as a consumer of intelligence now, I must say that we are very pleased with the product that we are getting. It is timely, it is quick, the relationships among the principals I think are very close, very mutually supporting and as, I think, a symbol. Mr. Chairman, perhaps what you are looking for is representing the Department of State on the Senior Steering

Group, which is a senior group that looks over the terrorist threat integration center. I represent the Department of State.

So we are in on the ground floor with Mr. Pistole and others, Winston Wiley from the CIA and others, so that we are plugged into this new integration center in a very productive way. I think the trend has been very, very positive. We are very pleased, and we are humbled at how hard people in the FBI and the intelligence communities work around the clock on our behalf.

The CHAIRMAN. Well, Mr. Black, let me just say, because for the sake of the hearing we ought to recognize you have been a major producer of intelligence and other responsibilities.

Ambassador BLACK. That is why I am sort of glorying in this change of jobs here, Mr. Chairman. This is much better.

The CHAIRMAN. Exactly, your humility as a consumer of all of this, but likewise your praise of those who are out in the field who are well-known to you and we appreciate that.

Ambassador BLACK. Thank you.

The CHAIRMAN. Mr. Pistole.

Mr. PISTOLE. Yes, Mr. Chairman. Specifically concerning the NSA, post-9/11 we had an exchange of personnel, FBI representatives to Fort Meade and NSA representatives to FBI headquarters, where I receive a daily briefing from an NSA representative on pertinent traffic that they have intercepted that is germane to our war on terrorism as it pertains to the United States.

Our major issue there is just getting additional people read in on certain classified projects that will give them the access and then be able to provide that information in a useful way, for example, to our Joint Terrorism Task Forces around the country, to take it from the top secret classification down to something usable at the JTTF level, then make that actionable. We are working with NSA on that and have made some significant inroads in that area, terrific cooperation.

The CHAIRMAN. Thank you.

My final question regards the support that your activities receive from the embassies. Now, this relates not just to human support in terms of good feeling and cooperation. Are our embassies equipped in a technical sense, communicationwise, for example, or electronically, or in a state-of-the-art that might be found in many international American businesses as they work in countries side by side?

I ask this question because in the past the answer had been clearly no. The embassies were not so equipped. Now, you have, thank goodness, cooperation of a number of American business people who have sometimes availed our own governmental officials of their services. This has led, I think, each one of us who have visited a number of embassies to really grave questions as we face the terrorism problem of why are we not up to speed?

Here is a nation that did not invent everything, but has a great number of entrepreneurs. As all of you know in the intelligence field, the informal advisory group that came to the fore, many entrepreneurs who have intellectual property issues have a real problem. How do you share this in the public good, given that this is your livelihood, which you have done so in patriotic service, remarkably.

Now, having availed themselves of the information, getting it fixed out there with the hardware in these embassies is another task altogether. It is expensive, it is not well understood. Can you help our understanding a bit today as to what we ought to be doing, and how it would help the mission that you are talking about, quite apart from the cooperation of the support? It just seems to me that it is still of the essence, if we are serious in the war against terrorism, that those who are on the outposts, whatever department they are in, have at least the benefit of the expertise and the equipment that has been found here in the States.

Mr. Black, would you lead off on that?

Ambassador BLACK. Yes, thank you, Mr. Chairman. I think it is important to reflect upon the statements of the Secretary, as well as Under Secretary Grossman, who clearly have emphasized one key point which is very, very important, I think, in appreciating what the State Department is doing for us all today, and that is diplomatic action, and the emphasis is on action.

It is not a diplomatic service that relies upon or exists exclusively, if not even primarily, on simply reporting back home, giving reports of what is going on. This is action facilitating the global war on terrorism. We can judge ourselves on how well we do in terms of how effectively we can enable and empower our law enforcement and Treasury, our financial experts and our intelligence question capability to develop that information that is so key in the global war on terrorism.

We are the opposite of how the Department of State started when it was founded, where I recall someone told me a couple of years after the State Department was founded that there was a Foreign Service officer in a country in Africa, and the Department said, if we have not heard from him in 6 months, we are going to have to write him a letter.

This is the other end of the spectrum. I mean, here things are happening so fast you do need technological support to keep up with it all, not only for your own purposes, but also to integrate effectively with American law enforcement, with intelligence. Some of our embassies are very, very good, and the ones that your committee and other committees have supported and funded are a blessing, are a safe haven, are a safe and effective place to work. Not all our embassies are like that. I think they can be upgraded. It is the old phrase, "speed costs, how fast do we want to go."

In this global war on terrorism, I know you appreciate this, Mr. Chairman, many other agencies of this Federal Government get a lot of attention on their frontline role in counterterrorism, but it all starts, and the first among equals is the Department of State, and if it does its job, the rest go ahead and may they get the glory, but if we do not do our job, if we do not do it as effectively as we can, they will struggle, and their labor will be inefficient.

The CHAIRMAN. You have to at least provide the telephones and something else beyond that.

Ambassador BLACK. As long as they share.

The CHAIRMAN. Mr. Zarate.

Mr. ZARATE. Mr. Chairman, I do not feel that I am qualified to talk about the technological needs of the various embassies abroad. I will note, though, that as Ambassador Black has mentioned, the

flow of information is incredibly critical to our efforts, and we have certainly increased our communications with posts abroad both in unclassified and classified ways and found it to be very effective and very useful in terms of our overall efforts. But with respect to your specific question, I am not qualified to answer that.

The CHAIRMAN. Mr. Pistole, do you have any more information?

Mr. PISTOLE. Well, Mr. Chairman, the FBI, as you may be aware, has always been IT-challenged in a lot of respects. The old adage since I came in 20 years ago was, "the FBI, we get yesterday's technology at tomorrow's prices," and unfortunately we have not been in a position to be a real player in the intelligence community through the top secret linkages that we have needed up until Director Mueller come on with the Bureau.

He brought in some key people in critical positions where, given the funding, with your support, we are in the process of installing and linking all of our Legats and all of our field officers with the intelligence community in a way that hopefully, by the end of the year, we will be where we should be, but we are not there yet.

The CHAIRMAN. Mr. Black, the President obviously nominates ambassadors. Those ambassadors, after proper clearance and what-have-you, come to this committee. We have hearings for each one of these persons, and they are all able Americans. It just strikes me, however, as we are discussing this today, if I were one of these people that was appointed and was heading out there, I might want to have a degree of training and expertise and consultation with each of your departments, starting with the State Department.

Obviously, there are many roles an ambassador must play that do not get into technical IT or sharing with regard to stopping money laundering, terrorism, what-have-you, but increasingly these are roles that ambassadors have to play, have to be prepared to do. It is a chief executive role in which, regardless of how broad our experience may have been in private business, or maybe even in some public endeavors, you need to be a quick study, but you have to have something to study, somebody who will be the tutor.

I am wondering to what extent has the State Department been active in thinking through the curricula that an effective ambassador, who is to be chief executive of sorts of the embassy that is the umbrella for everybody—because we are talking about cooperation of the whole family here—what kind of training such persons now receive, and what improvements should we make on that?

Ambassador BLACK. As the Secretary has enunciated, ours is an action diplomacy where results are expected. When new ambassadors come in, all of their qualifications are looked at, but essentially we have developed an intensive training program for ambassadors keyed to their personal experience. I have gone through this myself, where you can sort of have a menu and choose what you like. Most ambassadors have the luxury and interest to pursue this full-time and take all the courses involved.

We also make personal appointments, and get briefed in depth and in detail by law enforcement, the intelligence community briefings on their countries——

The CHAIRMAN. How much time does this take? I mean, if ambassadors are coming in from scratch, how many weeks and so forth would he or she spend in this?

Ambassador BLACK. Well, it would take generally about 3 weeks. It could be a little bit shorter, or it could be longer, depending what their needs are and the complexities involved, and obviously in the most sophisticated case, if you take a very complex country that has very complex technological issues, resources issues, places of great geographical position, it takes a longer time.

I think our ambassadors are given a very solid grounding in their responsibilities and their leadership role in interacting with other members of the community, because the ambassador, as the chief of mission, as the President's personal representative and the leader of the country team, is basically the conductor of the U.S. Government's activities not only in counterterrorism but in every other facet. He is the knowledgeable and he is probably the most important person in terms of a country in terms of deconflicting the interests of the various agencies to make sure the overall U.S. Government's interests are pursued.

The CHAIRMAN. I am just curious, Mr. Zarate, if an official of the United States Treasury was to go overseas and at least have an office in the embassy compound and so forth, does that official receive any special training with regard to the country to which he or she is going to serve? In other words, are people prepared for the cultural situation and the institutional differences from others? How do they go about getting ready for that?

Mr. ZARATE. Treasury has a number of attachés abroad and certainly with respect to the attachés in certain posts there is a regional expertise that the individual usually has attendant to their respective duty. I know that they work extremely closely with the State Department not only before but also on the ground once they arrive to ensure that they are up to speed with the full gamut of diplomatic and political issues they need to be aware of.

One thing I would like to mention, Mr. Chairman, the State Department has done a very good job of recently is pulling in Treasury Department officials to lecture to new diplomats at the Foreign Service Institute. I have a number of my colleagues with me today who have actually lectured to the incoming classes, so to speak, of the State Department, and they are made aware of our ongoing efforts, ongoing efforts more specifically in certain countries and more generally about what the Treasury Department does, so that has been very effective.

The CHAIRMAN. Mr. Pistole, I suppose with the FBI agents or personnel, they would need to know something about the legal systems of various countries, evidence requirements and other aspects. What kind of training could you describe that they receive?

Mr. PISTOLE. Yes, Mr. Chairman. Each of our legal attachés and assistant legal attachés go through a mandatory training back here in Washington at FBI headquarters both to the sensibilities of the particular culture and the other agencies, and the interrelatedness of the agencies in that embassy.

It ranges from, for example, if an individual has been an assistant legal attaché in an office, and that is a more limited couple of weeks of training, retraining, up to several months of training, de-

pending on the individual, coupled with if there is a language requirement to get up to speed, but it is primarily the office of Mr. Beverly here, the Office of International Operations that takes that lead and works with other agencies to provide that training prior to our legal attachés being assigned.

The CHAIRMAN. Well, I thank each one of you for your testimony and for being so forthcoming in your responses to the committee, and we wish you every success.

I have a statement from Senator Biden that I would like to submit for the record, so by unanimous consent that will go in right after my own. Thank you very much. The hearing is adjourned.

[Whereupon, at 12 noon, the committee adjourned, to reconvene subject to the call of the Chair.]

RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED FOR THE RECORD

RESPONSES OF HON. MARC GROSSMAN, UNDER SECRETARY OF STATE FOR POLITICAL AFFAIRS, TO ADDITIONAL QUESTIONS FOR THE RECORD SUBMITTED BY SENATOR GEORGE ALLEN

Question 1. As the world's largest democracy, it seems fitting that our relationship with India should be evolving in such positive directions—politically, militarily, and economically. I am encouraged by the high-level dialogue carried out by you and others in the Bush Administration with India on a range of issues. One area where we could do more is in the economic arena. India remains largely an untapped market for U.S. investors and products. How is the Administration working with India to further develop our important economic relationship?

Answer. In November 2001, President Bush and Prime Minister Vajpayee formally established the "U.S.-India Economic Dialogue" which evolved from the "Economic Coordination Group" established during President Clinton's visit in March 2000. The Economic Dialogue has five "pillars": Energy, Environment, Trade, Finance and Commerce, each of which is led by the appropriate U.S. agency or Indian Ministry. The purpose of the Economic Dialogue is to facilitate senior-level discussions and cooperative activities between the two governments. The process also solicits the support and input of the private sector into government decisions and actions concerning the bilateral economic relationship. The Conveners of the Dialogue are the Assistant to the President for Economic Policy (currently Stephen Friedman) and the Indian National Security Adviser to the Prime Minister (Currently Brajesh Mishra). The U.S.-India Business Council, the Confederation of Indian Industries and the Federation of Indian Chambers of Commerce and Industry are the official private sector partners of the Economic Dialogue.

In February 2003, NEC chair Steve Friedman wrote to Indian NSA Brajesh Mishra and told him of the President's commitment to a stronger and more vibrant U.S.-India relationship. Mr. Friedman noted progress on the dialogue in three particular areas—the November launch by State Department Under Secretary Al Larson and Indian Additional Secretary Ghosh of the private-sector-led biotechnology initiative, the Finance sub-cabinet meetings in Washington and Commerce Under Secretary Kenneth Juster's talks in New Delhi on high-tech trade.

As a result of Mr. Juster's meetings, the High-Technology Cooperation Group (HTCG) was established in November 2002 in New Delhi, led by Under Secretary Juster and Foreign Secretary Kanwal Sibal. The role of the HTCG is to promote and facilitate bilateral high-technology commerce. The first official meeting of the HTCG was held on July 2 in Washington and the agenda covered trade facilitation, market access issues and confidence building measures for trade in dual-use items. The next meeting of the HTCG is tentatively scheduled for November 2003 in New Delhi.

Under the umbrella structure of the Economic Dialogue, numerous discussions and meetings were held during 2002, including Cabinet/Minister-level meetings in the areas of Trade, Finance, Energy and the Environment. In 2003, Cabinet/Minister-level meetings have been held on Energy, the Environment and Commerce.

Private sector endeavors have included the creation of an industry Biotech Alliance in November 2002, a Track II dialogue on trade, and participation in the June

2003 Commercial Dialogue. As part of the HTCG, over 100 business representatives from India and the U.S. attended the "Financing Innovation" Forum held on June 30. The Forum covered the investment climate for high-tech, the role of venture capital and the specific sectors of IT, life sciences, defense and nanotechnology. Another private sector forum is expected to occur in conjunction with the HTCG meeting in November.

We fully agree that India remains largely an untapped market for U.S. investors and products and we will continue to look for avenues to broaden and deepen our economic relationship in close consultation with the private sector.

Question 2. This Administration, to its credit, has recognized that India is a natural strategic ally for the United States. More than ever before, we have clearly placed greater focus on how to build constructive and broad-based relations with India, and rightly so. I understand we are working with India, for example, to expand our relations into such new areas as civilian nuclear safety and space cooperation. Could you comment on what progress is being made in these areas?

Answer. The United States is committed to increasing cooperation in the civilian nuclear safety, space, and high technology trade areas—the so-called "trinity"—consistent with our own laws and international commitments. President Bush has taken a personal interest in achieving this objective. We have:

- waived sanctions imposed because of India's 1998 nuclear tests that limited a wide range of military and economic cooperation.
- resumed and expanded a dialogue between nuclear regulatory agencies based on publicly available information that is aimed at promoting civil nuclear safety. This had been suspended after India's nuclear tests in 1998.
- hosted the chairman of India's Atomic Energy Board. The Chairman of the U.S. Nuclear Regulatory Commission paid a return visit to India in January 2003.
- reaffirmed our commitment to bilateral space cooperation, first by renewing a Memorandum of Understanding with Indian counterpart agencies, and second by laying plans for a conference with India in which technical experts will map out a detailed agenda for action.
- continued civilian space cooperation in such areas as earth and atmospheric sciences and utilization of data from satellite resources for agricultural, communication, telemedicine, disaster management/mitigation, weather prediction/research, and search and rescue.

RESPONSES OF HON. MARC GROSSMAN, UNDER SECRETARY OF STATE FOR POLITICAL AFFAIRS AND HON. GRANT GREEN, UNDER SECRETARY OF STATE FOR MANAGEMENT, TO ADDITIONAL QUESTIONS FOR THE RECORD SUBMITTED BY SENATOR JOSEPH R. BIDEN, JR.

Question 1. For the last six months the administration has been intensely focused on Iraq. The diplomatic campaign has caused considerable friction with many close allies in Europe. How has the argument over Iraq policy affected bilateral and multilateral cooperation with leading nations in Europe, such as France and Germany, in the campaign against al-Qaida?

Answer. Despite the disagreements over Iraq policy, our bilateral cooperation with both France and Germany in the war against terrorism has remained strong. France continues to provide over 1000 troops in the Afghan theater in ISAF, training the Afghan National Army, and conducting land and sea-based counterterrorism operations. Germany has played a substantial role in Afghanistan, deploying 2,500 troops in support of its lead role (with the Dutch) within ISAF III. Germany is also overseeing the training and equipping of the Afghan police. In support of Operation Enduring Freedom, Germany has deployed over 200 troops to Kuwait as part of a "Fuchs" Nuclear, Biological, and Chemical (NBC) detection unit.

In addition, law enforcement cooperation and intelligence sharing are proceeding with both countries and are continuing to produce concrete results. Germany's cooperation in the investigation and prosecution of members of the al-Qaida "Hamburg Cell" has been excellent, resulting in the provision of important evidence in the U.S. Government's prosecution of Zacarias Moussaoui.

Question 2. Have France and Germany denied any formal requests—or discouraged the submission of such requests by the United States—for extradition or requests under treaties on mutual legal assistance since September 1, 2001?

Answer. No, neither France nor Germany denied or discouraged U.S. requests in terrorism-related cases under extradition or mutual assistance treaties since September 1, 2001.

Question 3. What is the Department's view of the effectiveness of Security Council Resolution 1373? What is the record of compliance by member states?

Answer. UNSCR 1373 provides a strong diplomatic and legal basis for international cooperation against terrorism. It has a broad mandate with provisions that are binding on all UN Member States. Almost all UN Member states support and are cooperating on UNSCR 1373. All but eight Member States have made their initial reports to the Counter Terrorism Committee on their efforts to improve their abilities to combat terrorism. Multinational organizations, including the OSCE, OAS, ASEAN and AU, representing well over 130 countries, have in some fashion endorsed implementation of UNSCR 1373. Primarily because of UNSCR 1373, the number of UN Member States that have become parties to all of the 12 international conventions and protocols related to terrorism has increased significantly from 2 in September 2001 to 31. In addition, in an effort to close the legislative gaps identified by the CTC, many States have either adopted new or revised existing counter-terrorism legislation.

Question 4. What is the Department's view of the work of the Counter-terrorism Committee which is monitoring implementation of Security Council Resolution 1373? What is the United States doing to support the work of the Counter-Terrorism Committee? At what level is the United States represented in the work of the Committee?

Answer. During its first full year of operation, the Counter Terrorism Committee (CTC) made a good beginning in monitoring the efforts of UN Member States to implement UNSCR 1373. In reviewing more than 340 reports from 188 States, the CTC has been able to highlight the gaps in most States' counter terrorism capacity and is working to get them to improve. This will require assistance in the form of expertise and resources in many cases to ensure that these gaps can be filled. In addition, through its extensive outreach efforts, the CTC has helped place counter-terrorism on the agendas of many international, regional and sub-regional organizations. This has resulted in the beginnings of a global counter-terrorism network. The U.S. provides both expertise and diplomatic support to the CTC. U.S. direct, bilateral counter terrorism assistance to selected countries greatly assists in the implementation of UNSCR 1373 and the work of the Counter Terrorism Committee, because it helps fill some of the capacity gaps identified by the CTC. Also, the State Department leads an ambitious worldwide USG interagency program of capacity-building and technical assistance to coalition partners in all regions to build transparency and accountability in the financial and regulatory sectors and thus helps to strengthen their counter terrorism laws and regulations to help them implement financial aspects of UNSCR 1373. Representatives from the CTC made presentations and took part in the discussions. We are consulting with the Justice Department on proposals to send drafting teams to help some countries individually.

We are working with international organizations to which we belong—G8, FATF, International Financial Institutions, OAS, OSCE, NATO, ICAO, IATA, IMO—to encourage and assist their members to implement UNSCR 1373 and to support the work of the CTC. The U.S. Senior Advisor for United Nations Counter Terrorism Matters, Ambassador Ted McNamara, meets regularly with the CTC Chairman. In weekly meetings of the CTC, the U.S. is represented by the General Counsel of the U.S. Mission to the United Nations.

Question 5. What is the United States doing to press UN member states who are not in compliance with their obligations under Security Council Resolution 1373?

Answer. The U.S. and other members of the CTC approach such states bilaterally. We also work within the global, regional and sub-regional organizations to encourage and assist all Member States to improve their counter terrorism capabilities as required by UNSCR 1373. The U.S. also provides counter-terrorism assistance to countries bilaterally.

Question 6. After September 11, 2001, the Senate approved the UN convention for the Suppression of Terrorist Bombings and the UN Convention for the Suppression of the Financing of Terrorism. To date, 88 states have ratified the Convention for the Suppression of Terrorist Bombings, and 76 have ratified the Convention for the Suppression of Terrorist Financing. What are we doing to press other countries to ratify these treaties? How are efforts proceeding?

Answer. Global ratification and implementation of all 12 international counterterrorism conventions is a key Administration goal. We actively engage with every partner that has not ratified all 12 to urge them to do so, and provide bilateral assistance to aid implementation where appropriate. At international seminars and conferences we have held on strengthening counterterrorism legislation, we

have urged attendees to ratify the conventions and provided pointers for drafting implementing legislation.

Similarly, we work with the UN Counterterrorism Committee, UN Office of Drug Control's Terrorism Prevention Branch, the G-8, the European Union, the Financial Action Task Force, and other multilateral organizations to urge and assist adoption and implementation of the conventions. USG efforts are making progress: there are, for example, now 101 parties to the "Bombing Convention" and 91 parties to the "Terrorism Financing Convention."

Question 7. The obligations in the UN Convention for the Suppression of Terrorism Financing and Security Council Resolution 1373 require member states to take a number of steps to crack down on money laundering and other illegal efforts to evade regulatory controls.

- What is the Department's judgment about the technical ability of member states to comply with the requirements of the UN Convention and Resolution 1373? What are we doing to provide such technical assistance. Are nations willing to accept our assistance.

Answer. The technical abilities of UN Member States to implement UNSCR 1373 and of States Parties to implement the Terrorist Financing Convention vary widely. The U.S. provides bilateral counter terrorism assistance to 20 countries. We also encourage global/functional organizations and regional organizations to provide counter terrorism assistance. Nations are generally very happy to accept such assistance.

Question 8. In October 2002, a Council on Foreign Relations task force highlighted that "no international organization has emerged with the mandate and expertise to direct and coordinate global efforts to combat a problem that, by its very nature, requires global responses." A report by a working group at the United Nations also noted "overlaps and duplications" in the efforts of UN agencies, but also significant gaps in the institution in terms of both mandates and funding.

a. Are the counterterrorism efforts of existing international institutions sufficient?

Answer. All relevant international institutions, such as the UN, North Atlantic Treaty Organization (NATO), Group of Eight (G-8), International Civil Aviation Organization (ICAO), Organization of American States (OAS), European Union (EU) International Atomic Energy Agency (IAEA) and Organization for Security and Cooperation in Europe (OSCE) are contributing to the fight against terrorism, each drawing on its own expertise. The challenge is to keep counterterrorism efforts at the top of the agendas of these organizations and entities. The UN Security Council's Counter-Terrorism Committee (CTC) has been engaged in an active out-reach effort to bring the regional and sub-regional groups into the fight against terrorism, thereby increasing substantially the resources to engage in the fight against terrorism. Some 65 such organizations recently met at the UN to coordinate their efforts.

b. Is the administration considering proposing any changes within the UN system or elsewhere to promote improved international cooperation and coordination on counter-terrorism?

Answer. We are working with the UN to augment, on a step-by-step basis, its capability to support international counter-terrorism efforts. The objective is to enhance the ongoing and evolving counterterrorism activities of the UN and its specialized agencies, such as the International Civil Aviation Organization (ICAO) and the International Maritime Organization (IMO). For example, the CTC, which has been in existence for little over one year, has reviewed the capacity of more than 180 States to fight terrorism and has worked to ensure that States that are willing to fight terrorism, but do not have the resources or expertise, are matched with States or other regional organizations or other entities that can—and will—provide the needed technical assistance and resources. This is an on-going and evolving process.

Question 9. Following September 11, 2001, many posts, like Embassy Islamabad, were inundated by an influx of staff from law enforcement and intelligence agencies. Moreover, we had (and still have) a great need for both regional specialists, linguists, and public diplomacy specialists.

a. What measures are we taking, or are we considering taking, to provide a "surge capacity" for these kinds of situations?

b. Should we have a formal "reserve corps"—like the military does—of regional and linguistic experts (and State Department retirees) who can be called on in such emergencies?

Answer. Our Diplomatic Readiness Initiative (DRI) was designed to provide us adequate personnel to respond to crises and emerging priorities.

Typically, we provide additional capacity to the Embassy's political or other sections by pulling experienced people from other places and applying them to that priority situation. This is what we have been doing to respond to our growing antiterrorism and border security missions. We are able to reposition existing resources to best meet changing needs or respond to a crisis through formal and informal processes within the Department. In addition, we do currently maintain "surge" teams for security, consular, administrative/management, and terrorism response assistance.

Because we had under hired compared with our expanding mission in the 1990s, those responding to a crisis usually left important work unattended. With full implementation of the Diplomatic Readiness initiative in FY2004, we will have built a "personnel complement" and a stronger capacity to respond to these events. We will be on our way to planning for crises rather than just responding to them.

We are also able to call upon the resources of Foreign Service retirees. We frequently hire retirees to meet our needs when we lack a particular skill in the current population or need additional assistance. We have made additional use of this resource after September 11, 2001. This is a flexible response to changing needs that works well.

Question 10. Since September 11, there has been a great deal of discussions about whether State Department consular officers are receiving the right information from the intelligence and law enforcement agencies—so they can deny visas to suspected terrorists. Because of legislation passed after 9/11, State now has access, through the CLASS system, to data from the National Criminal Information Center (NCIC). State also gets information from the intelligence agencies through the "Tip-off" program.

- Do you have adequate financial and personnel resources in all aspects of visa processing? If not, where are there shortfalls?

Answer. The Department's visa processing activities as well as program support for the "Tip-Off" watchlist of known suspected foreign terrorists are funded from the revenues generated by the Machine Readable Visa (MRV) fee. This is a $100 fee paid by applicants seeking a non-immigrant visa.

FY 2003 revenue projections are based on an MRV demand level of 6 million cases. To date, Department estimates remain on target. However, because of uncertainties surrounding international travel, any decline below this target level would create program shortfalls that would have to be met with supplemental funding, such as additional appropriations.

In addition to funding the CLASS system, one major area dependent on MRV revenue is consular staffing. MRV revenues pay for the salary and benefits of over 2,400 staff involved in border security programs, including visa processing.

RESPONSES OF AMBASSADOR J. COFER BLACK, COORDINATOR FOR COUNTERTERRORISM, DEPARTMENT OF STATE, TO ADDITIONAL QUESTIONS FOR THE RECORD SUBMITTED BY SENATOR RUSSELL D. FEINGOLD

Question. I understand that a review of the Counterterrorism Office is now underway. Is this true? If so, can you elaborate on this review and inform the committee how foreign assistance programs funded under the NADR account will be impacted?

Answer. A preliminary top-to-bottom review of S/CT operations was done soon after my appointment. I have asked my senior staff to make some adjustments to better facilitate S/CT's core mission, which is to coordinate counterterrorism policy. The mission of foreign assistance programs under the NADR account will continue as requested and as appropriated. What I am striving to accomplish is improved management control and oversight of these critical programs, in particular TIP, to insure that the programs are carried out in a manner that will better serve the task given me by the Secretary. In this regard, I am establishing a direct hire U.S. government employee, reporting to me via my Deputy Coordinator for Policy and Programs, to be the program director for the TIP program. This direct hire U.S. government position will provide policy, funding, diplomacy, coordination, program direction to all TIP program activities. We already have such an employee dedicated to the DS/ATA program.

Question. As you know, funding for Antiterrorism Assistance (ATA) and the Terrorist Interdiction Program (TIP) has increased over the past two fiscal years to deal with the heightened threat of international terrorism. However, in some cases, it is

difficult for relatively small programs to effectively absorb large increases in funding. As of March 18, 2003, what is the status of the fiscal year 2002 and 2003 funding for ATA, TIP, and other foreign assistance programs managed by the Counterterrorism Office? Has all of this funding been obligated? If not, what are the problems associated with obligating this funding? Has funding for ATA or TIP been temporarily transferred or otherwise "borrowed" against to pay for other programs?

Answer. The rapid and sizeable expansion of the State Department's counterterrorism capacity-building programs has raised challenges. Helping our partners to develop the skills needed to fight terrorism more effectively, however, is a key part of the war against terrorism and the Department has devoted the attention and resources necessary to overcome these challenges.

The ATA program obligated all of its FY 2002 funding by the end of the fiscal year and has also obligated much of the FY 2002 supplemental budget. The remainder of the FY 2002 supplemental funds will be obligated based on ATA plans by the end of FY 2003 as required. For FY 2003, approximately half of the funding allocated to the ATA program has been obligated thus far.

To meet urgent needs for the Karzai Protection Operation (KPO) and related training activities, for which $25 million is requested in the FY 2003 supplemental budget, we have had to borrow (reprogram) about $7 million against other FY 2003 programs. This will cover us for almost two months, after which time we hope Congress will have passed the supplemental appropriation. Supplemental funds will allow us to reimburse programs and fund remaining KPO costs for the fiscal year.

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