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Transcript Q&A

Kidnapping for Ransom: The Growing Terrorist Financing Challenge

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5 October 2012

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Question 1:

You mentioned kidnapping for ransom (KFR) being committed by Al-Qaeda-affiliated groups in North Africa and even Tehrik-e Taliban in Pakistan, but you notably omitted mention of the Taliban in Afghanistan. There have been recent research papers, most recently by the United Nations, showing that the Taliban raise a significant amount of their revenues from kidnapping for ransom, from extortion money and from protection money – for example, protecting NATO convoys. Is there any reason for that?

David Cohen:

Is there any reason for me not mentioning the Taliban? Not specifically, other than needing to confine my remarks to the time allotted. With respect to Taliban financing, I think you're right: the Taliban has to some extent employed kidnapping for ransom as well. I think we assess that the source of financing for the Taliban comes largely from other dimensions, including the traditional donor base that they have in Pakistan and in the Gulf, as well as you say, from extortion money. They earn a far amount of their revenue from within Afghanistan by extorting protection money from a whole host of businesses and operations in Afghanistan. I did not mean to suggest that the kidnapping for ransom issue is confined to AQIM (Al-Qaeda in the Islamic Maghreb), AQAP (Al-Qaeda in the Arabian Peninsula), Tehrik-e Taliban; it is an issue that spans the range of terrorist organizations. It is particularly acute with respect to what's happening with AQIM and AQAP, which is why I focused on that, but it is an issue that is much more broadly based.

Xenia Dormandy:

Let me follow up. Is there a different policy that you institute if it's kidnapping for ransom by terrorist groups versus kidnapping for ransom by otherwise illicit groups? Say, in Latin America, for example, Mexico, Colombia.

David Cohen:

That's actually quite a complex question. It's important, as a baseline, to recognize that the US government's policy is to not pay ransoms, period, whether to terrorist organizations or to others who have taken US citizens hostage. Where the complication comes in principally is with respect to non-government sources of potential ransom payments. In that vein, it's important

to distinguish between terrorist organizations and others who have been designated. You mentioned South America, Latin America: there are a number of drug organizations that have been designated under other authorities that the United States has – not the terrorist authorities but the drug kingpin authorities in particular – where, as a legal matter, the issue of providing material support to those organizations is the same, whether it's a terrorist organization or a drug organization.

Our approach in all of these cases, as a government, is not to make any concessions, whether in ransom payments, in prisoner exchanges or other policy concessions. We will work with families or employers that find themselves in these situations regardless of whether it is a designated entity or non-designated entity that appears to be on the other side.

Question 2:

You talked about 'no concessions' from the US and the UK governments, but if you have insurance companies who are prepared to cover, isn't that a flawed philosophy? The terrorists also know that insurance companies will pay up if their [covered] employees are kidnapped. Shouldn't it be more of a philosophy to try and influence the insurance companies not to cover such payments?

David Cohen:

This is a policy – the 'no concessions' policy – that pertains to, most importantly, governments. It's important to distinguish governments versus private entities. In the first instance, it's important to emphasize that the US government – and as I understand, the UK government – will not pay ransoms. Whether a private company has insurance that may cover a particular situation, again, it's important to draw a distinction between terrorist organizations and other kidnapping situations. It would be quite perilous for insurance companies to pay off on policies where they understand that the recipient of the ransom would be a terrorist organization. I think most insurance companies in that circumstance would be highly likely not to pay off on that policy – and for good reason. In the circumstance where there may be insurance otherwise not involving a terrorist organization, it is a more complicated analysis.

I would look at this issue from the other side, from the question of when the insurance is written, when the insurance company is underwriting the risk and

looking at whether they want to insure this operation and what they demand of their policyholder before writing the insurance. I think one area where there is some useful work to be done is on the risk mitigation efforts, so that the insurers are not placed in a situation – or reduce the likelihood that they are placed in a situation – where they are being called upon potentially to make payments that go to ransom.

It's an area where a real conversation needs to be had. Part of my purpose in coming here this morning and more generally talking with counterparts in governments around Europe on this is to start that conversation across a whole range of topics, including the topic of insurance.

Question 3:

My question is related to your final punchline of 'do it together'. Have you found that there have been significant successes in identifying other forms of financial-flow criminality through the KFR programme? And equally, have there been significant successes in getting identification of ransom payments or groups behind them from information supplied through other money laundering and transaction-reporting procedures?

David Cohen:

To some extent, yes, but I am convinced that there is much more that can be learned. One of the challenges, and one of the endemic problems of kidnapping for ransom, is that the payments tend to be in cash. The ability to trace transactions in cash is more difficult than other forms of transactions. It's not impossible, though, and a well-developed, well-regulated financial sector is capable of helping us identify suspicious cash transactions as well as other types of suspicious transactions. So my final plea of 'we need to do this all together' includes the intelligence sharing, the sharing of law enforcement information. It includes working on the regulatory structure. It includes sharing information about the hostage situations themselves.

There is no question that the KFR arena is the same as other terrorist financing issues, the same as other terrorist issues – it's the same as other criminal issues – in that there is an enormous amount of value that is gained when governments share information. There is a real opportunity here, as we focus more on this issue, to find ways where we can share information not just among the countries in Europe and the United States but also, importantly, the countries where these activities occur. They also are eager

for some assistance that can come from a whole host of sharing of both expertise and information.

Question 4:

Can you tell us what you see as the level of exchanges of intelligence between terrorist organizations regarding kidnapping in the Horn of Africa? Secondly, we have a problem in Karachi, Pakistan, where kidnapping is spiralling. You yourself have experienced it with Daniel Pearl. You had a businessman kidnapped also in Lahore. There is a problem in Karachi that people say the police are being compromised, and even though they are targeting businessmen, people are going to the independent mediating organizations rather than the police. Can the US help bolster the institutions in Karachi? Some of this money is going to Al-Qaeda and other terrorist organizations. I'm sure you know this. Can you detail what the US is actually doing in Pakistan regarding this, right now?

David Cohen:

You are undoubtedly correct that kidnapping activity, ransom activity, in Karachi is likely supporting Al-Qaeda elements. In terms of our cooperation with Pakistani authorities, I will need to be relatively general in responding to this and say that there is a constant and quite robust conversation between the US side and the Pakistani side across a whole range of issues. Again, in response to the prior gentleman's question, that runs the gamut on things as seemingly mundane as the anti-money laundering, counter-terrorist financing, regulatory systems and more tactical issues. But I think I should probably leave it at that.

Question 5:

I have a two-part question about Iran. As you know, the US government has for a number of years described Iran as a major sponsor of international terrorism. Could you tell us about any Iranian role in this KFR or any other form of financial help to the terrorist groups? The second part of my question involves your duty to enforce the sanctions against Iran. As you know, there is a crisis going on in Iran over the plummeting value of the Iranian rial, with anti-government demonstrations. As the man in charge of enforcing those sanctions, how do you see the crisis? Can you tell us about your talks with

your European counterparts? Do you think Iran is in for an economic meltdown due to the sanctions?

David Cohen:

Iran is the leading state sponsor of terrorism in the world today. It has been for some time and it remains so. I don't, however, have any specific information I can share on Iranian kidnapping for ransom operations. As I described, the purpose largely for kidnapping for ransom is to raise financing. I think Iran finances terrorism from its national resources. It doesn't raise resources from kidnapping operations, at least so far as I'm aware of. It's not to say that Iran doesn't support terrorism in a variety of ways, both financially and otherwise – they do.

With respect to the situation in Iran today and the plummeting value of the rial, we've obviously taken note of that. It is a situation that is entirely the result of choices made by the Iranian government – choices made about how they manage their economy and choices made about how they have interacted with the international community in respect to its nuclear programme. We have been quite clear over the past several years that if Iran continues to refuse to engage meaningfully in discussions with the international community about its nuclear programme, the international community will continually work to intensify the sanctions. We have done that. We have, in a very deliberate and transparent fashion, increased the force of the sanctions over time.

What in particular has sparked the most recent precipitous decline in the rial, I'm not in a position to assess on a granular basis. But I can say that if you look over the course of the last year, the value of the rial has declined quite substantially. That is undoubtedly in significant part due to the Iranian government's own mismanagement of its economy and it is in part due to the effect of sanctions. I guess all I can say is that the Iranian leadership has within its capacity the ability to relieve the pressure that its people are feeling. It can do that by finally accepting the offer to negotiate and to resolve the well-founded and well-established concerns that the international community has about its nuclear programme. That offer has been made. The offer remains available to the Iranians. But unless and until they accept that offer, we, along with our partners in the international community, are going to continue to apply pressure.

Xenia Dormandy:

I noted in the *New York Times* today that apparently the Iranians have put forward an offer of their own, just to join the spree.

Question 6:

There is a very powerful tool that you have in the Terrorist Finance Tracking Program (TFTP), which means that you can trace bank transfers between terrorist groups. As you've said, cash payments wouldn't be captured by that. But on the other hand, the US government also has a new form that US citizens must fill in, declaring assets around the world above a certain level. If world governments as a whole were to introduce that as a measure for their citizens to do, would you eventually hope that you could get a handle on not just bank transfers around the world but cash movements of all kinds, in a way that would help you track even *hawala* and cash movements?

Question 7:

Referring to insurance of KFR and mitigation, I can say that as far as any of the policies I have ever seen are concerned, it is a condition of cover that a well-established – and I mean several decades old – security firm is employed, usually ex-special forces. In regard to the moral hazard, sometimes the potential victim and his family don't even know that they are insured. Nevertheless, training is provided, surveillance where necessary, and improvements to physical infrastructure. These people are also qualified to gather intelligence, to negotiate with kidnappers and sometimes even to take them out. I can't comment any further but one can assume that perhaps cooperation with governments would take place, certainly as far as the information gathering is concerned.

David Cohen:

I don't mean to suggest that insurance companies have been ignoring this issue over the past several years. My suggestion is that this problem is growing, and it is changing in some respects. I think the increased involvement of terrorist groups in particular is a new facet of this issue. It is my sense, as I said at the outset, that a sort of 'all options on the table, every aspect of this needing to be examined' is the right way to look at it. There is no question that in each of the institutions that are somehow involved in this issue, we can do better. On the insurance company side of things, I'm just

suggesting that we take a look under the hood and see whether there is some additional risk mitigation that can take place.

On the question of – this is a merger, in a sense, of FATCA (Foreign Account Tax Compliance Act) and TFTP. It is an interesting intersection. I don't think we look at the requirement for US citizens, first of all, to declare their foreign bank accounts, but also to obtain the information that we will soon be getting as a requirement of FATCA, as a tool to trace cash transactions. It seems to me to be a bit disintermediated (sic) from the cash transaction for that to work, although I will confess to never having really thought about it, so I will do that on the flight home today and think if there's something we can do there.

Question 8:

I was interested in what you were saying about creating policy, particularly policy that doesn't pay ransoms. As you know, all governments have their own foreign policy and their own local laws. [Reporters] come up against this a lot and we usually say that local laws and foreign policy have to adhere to international standards. So I was wondering if you could speak a little bit about what you had in mind, in terms of unifying this into one international policy? You are speaking to different European countries, so do you see something like this coming out of the European Union? Or to make it a more global, international policy, something that comes out of the UN? Is this something that NGOs should be encouraging and pushing for?

Question 9:

Thank you for mentioning the paper that we did earlier this year. Unfortunately the author can't be with us because she's on a Dutch warship, on anti-piracy operations as we speak. But I wanted to ask you about one of the particular conclusions that emerged from that paper. I know it had a specific purpose to it, in that it was in relation to Somalia piracy, which is quite different from what you're raising here in many respects, but the principal conclusion that we reached is that it's the denial of benefits in that context – and perhaps in some of these other contexts – that is the most likely area where potentially more can be done. One of the strong impressions that we got was that there are very unrealistic expectations, particularly from the private sector, about what the US and UK authorities can do in terms of tracking assets. But having said that, we did come up with what we feel is, to some extent, a lack of coordination even within governments, particularly the

US and UK governments, between different authorities related to tracking financial assets, the diplomats and including perhaps the private sector, about what is possible. Potentially opportunities for them to coordinate better but it would require quite senior policy oversight and time and resources spent to make everyone work together more effectively. I wonder whether this is a picture that you recognize and whether you felt there was more that could be done in this area.

Question 10:

I just wanted to seek clarification on cooperation. What you seem to be saying in your earlier answer to the insurance question was that there are degrees of acceptability in terms of ransom payments to prohibited terrorist organizations versus criminal organizations. I'm sure that's not what you meant, but that's what I heard. If prevention is one of your three key strands, then clearly cooperation between government and the private sector writ large needs to be central to that. I just wanted to clarify that particular point.

David Cohen:

In our view, there are no degrees of acceptability in the payment of ransoms. It is fundamentally a short-term solution that creates a longer-term problem, whether you're looking at a terrorist organization or not. I think there is no doubt that the payment of ransom just fuels the appetite for additional kidnapping operations, and that is true whether it's Somali pirates, a terrorist organization, a drug gang – it's true across the board. So point number one is we firmly believe that the right approach is to get to a place where ransoms are not paid and that the people who are contemplating that tactic recognize that there is no pot of gold at the end of the rainbow.

On the question of prevention, that is of course something that needs to be addressed across the board, not solely in the terrorist context but more broadly.

On the question of policy coordination in the denial of benefits effort, I'm astonished that you think there's not perfect policy coordination [laughter], either within governments or between governments. We in the US government – and I'll talk in a second about coordination with the UK government – but within the US government, we have a pretty well-organized and coordinated effort focused on counterterrorism and counter-piracy. There are obviously a number of players who have interest in that issue but we have

come together to try to approach the issue of piracy, of kidnapping for ransom, in a holistic and coordinated sense. So the policy that I'm describing this afternoon is one that is consistently adhered to across the US government.

With respect to the UK, I can tell you that we are very much in sync with the UK in both the policy approach here as well as in the importance of working together, to work with partners beyond the two of us, and particularly in Africa – the importance of sharing our information, sharing our expertise, helping to build capacity in Africa. There is always a challenge in coordination and collaboration; that is in some respects the nature of the business. But I don't think this is an area where there are – certainly within my government and bilaterally – any significant disagreements, particularly on the suggestion of the importance of denial of benefits. That is hard, but it is a critically important part of the solution.

Finally, on the question of how do we get to a broad international consensus on the right approach to kidnapping for ransom. To some extent, I am agnostic on that issue. I think it doesn't matter particularly whether it's through the UN, through other forums; what's important is that we get to a consistent policy. It is a situation where the weak link is itself in danger.

There is a very important organization called the Global Counter-Terrorism [Implementation] Task Force that is working towards the adoption of good practices in the kidnapping for ransom arena. We are looking forward to that document being issued towards the end of this year that will set out a whole series of recommendations that go from prevention through denial of benefits, with a fair amount of specificity.

One final point: should NGOs be encouraging this? Absolutely. I think it is very much in your interest to have an approach to this issue that reduces the likelihood that reporters who are in dangerous situations are targeted. One way to go about that, as a general matter, is to reduce the likelihood that kidnapping for ransom is used as a tactic.