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MFR 03010879

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Event: Interview of Michael A. Gayle

Type of Event: Witness Interview

Date: 9/8/03

Date memo prepared: 9/10/03

Special Access Issues: None

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Team Number: 4

Location: 9-11 Commission

Classification: ~~Confidential~~

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On October 8, 2003, we interviewed Michael Gayle [formerly _____], Office of Economic Sanctions Policy (recently renamed Office of Terrorist Finance and Sanctions Policy) (ESP), Energy, Sanctions and Commodities Unit (ESC), Bureau of Economic and Business Affairs (EB), State Department, for approximately 2 hours. This memorandum provides a summary of what we consider the most important points covered in the interview, but is not a verbatim account. The memorandum is organized by subject and does not necessarily follow the order of the interview. All information in this memorandum was provided by Gayle during the interview unless explicitly stated or indicated otherwise.

Gayle's professional experience is as follows: after serving 3 ½ years in the Marine Corps, on active duty as a JAG officer, Gayle entered the foreign service in 1988 as an economics officer. He served in a consular function in Pakistan (1988-91); doing anti-trust work at EB (1991-92); as an economic officer in Panama (1992-95); receiving training (1995-97); in Sapporo, Japan (1997-2000); and on the INR Watch for a year (2000-2001). He held this last position until the end of August 2001 and then started a two-year tour in EB/ESC/ESP just before September 11, 2001. He is now detailed to Senator Corzine's office as a foreign policy fellow. (During his year at INR Gayle did not recall seeing intelligence on terrorist financing.)

As [_____] at ESP, Gayle worked on terrorist financing capacity-building in Pakistan and Bangladesh. His superiors included Director, ESC/ESP, George Glass; Deputy Director, ESC/ESP, Ed Goff; DAS, ESC, Anna Borg; and AS, EB, Tony Wayne.

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Bruce Williamson served as deputy director and acting director in ESC/ESP prior to Glass' term; he is now in INL. Nicole Rothstein works on designation issues for ESC/ESP. Gayle witnessed quite a bit of turnover in ESC/ESP during his tenure.

After 9/11 ESP, according to Gayle, became the de facto counter-terrorist financing office at State. 9/11 was a watershed; counter-terrorist financing was not a mission that had previously existed, and ESC/ESP was where it landed post-9/11. Gayle does not see a clear link between administering sanctions programs (which are directed against a specific country) and counter-terrorist financing programs (which are directed against individuals and entities). Some of the tools are analogous, like the use of statues, executive orders, coalition-building, etc. but ultimately Gayle is not sure why counter-terrorist financing was added to the ESP portfolio – except that it had no other obvious home.

According to Gayle, capacity building came to the fore after 9/11. In a series of meetings held immediately after 9/11, interagency representatives decided that if stopping the flow of funds to terrorists was a priority then the US should be identifying and targeting certain countries for assistance. [It was not clear if Gayle had first-hand knowledge of these meetings.] Gayle described capacity-building as grafted on to existing anti-money laundering and anti-narco-financing regimes that are run out of INL. Gayle was the only person at ESP working in the area of capacity-building and had close contact with INL and S/CT, which both run large training and assistance programs for counter-terrorist financing. Gayle said that the office primarily worked on sanction and terrorist financing designation issues. Gayle did no sustained work on designations but, rather, was occasionally brought in to cover for an absent colleague. He had a hand in the initial drafts of Executive Order 13324 but the final product came out of the White House.

Gayle's role in ESP was to assess the financial vulnerability of certain countries to penetration and manipulation by terrorists and to make recommendations for assistance and training that the USG could provide. He focused on what are known as Tier I countries, rather than on the Tier II or III countries. Tier I countries are the highest priority with respect to capacity building. Most of the work Gayle did was on Pakistan (a Tier I country) and Bangladesh (one of the more significant Tier II countries).

Gayle said the day-to-day coordination of capacity-building in the USG is done through the Terrorist Financing Working Group (TFWG) of the Training and Assistance Subgroup of the Counterterrorism Security Group (CSG). Each of these organizations is interagency. Gayle attended TFWG meetings, along with representatives from INL and S/CT at State, FDIC, OCC, Customs, Treasury (OFAC, OTA, FinCEN, Executive Office for Terrorist Financing and Financial Crime), Justice (OPDAT, AFMLS), FBI, CIA, and occasionally DOD. TFWG is charged with coordinating the planning and delivery of assistance to countries [who are determined to be vulnerable to financial exploitation by terrorists]. Gayle said that these countries were chosen at the cabinet level (at the CSG) based on recommendations from TFWG, which evaluated intelligence and law enforcement estimates of the threat, host government capabilities, and diplomatic factors.

TFWG undertakes the detailed planning for assessment trips and follow-up. During Gayle's tenure were always led by State officers, who usually had relevant expertise and worked in EB, INL, or S/CT.

Gayle traveled on TFWG delegations three times during his two year tour in ESP. His first trip was a financial assessment trip to Pakistan in February 2002. This was followed up by a second trip to Pakistan in August or September 2002. In May 2003 Gayle traveled with an assessment delegation to Bangladesh. The delegation to Pakistan in February consisted of 6-7 people, representing OPDAT (DOJ), Customs, IRS, OTA, S/CT and Gayle from EB. This assessment trip was an FSAT ("financial systems assessment team") trip and was tasked with examining the vulnerabilities of the Pakistani regulatory, banking, customs, and legal systems to terrorist financing and making recommendations so that Pakistan could meet international standards. In Pakistan the delegation met with bankers, hawaladars, businessmen, central banker and representatives from the finance and foreign ministries and the tax, customs, judicial, anti-narcotics, federal/national law enforcement offices.

Upon return to the US, Gayle said the first step was to draft an anti-money laundering law with the assistance of the Asset Forfeiture and Money Laundering Section (AFMLS) of DOJ. The draft law is still under discussion in the Pakistani government. Gayle noted that Pakistan [redacted] it has not been able to seat the upper house of its Parliament one year after the elections. Gayle's view is that the Musharraf government does not lack the political will to pass the law but there are severe political limitations on what it can achieve in the current climate. The anti-money laundering law is not a priority given the numerous other pressing issues facing Pakistan and its [redacted] population. Gayle said that the USG does not generally provide assistance without the legal framework because it is seen as a waste of money. With respect to this delegation Gayle said that it had the resources it needed. The return trip to Pakistan, in late summer 2002, was as part of a biannual law enforcement trip and terrorist finance capacity-building was an "add-on" to the pre-existing agenda. Only Gayle attended from the original FSAT trip.

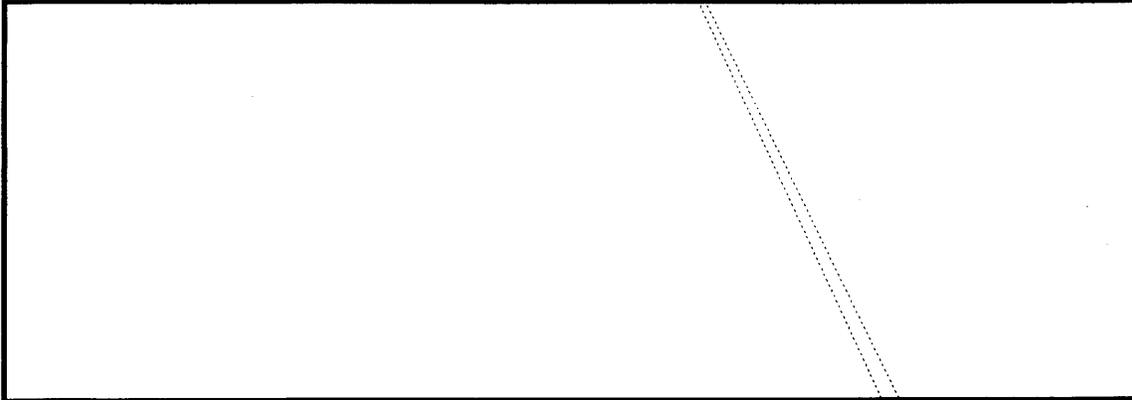
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[redacted] It is important to establish dialogue with multiple individuals. The overseas US missions were very supportive and remain supportive. The embassy demarched the Pakistani government at the senior level a number of times concerning the need to pass the anti-money laundering law, and at the lower-level almost weekly. Gayle pointed out a particular challenge faced by the US missions in Pakistan: the US representatives are currently on shortened tours of duty (6 months and 12 months) due to security reasons.

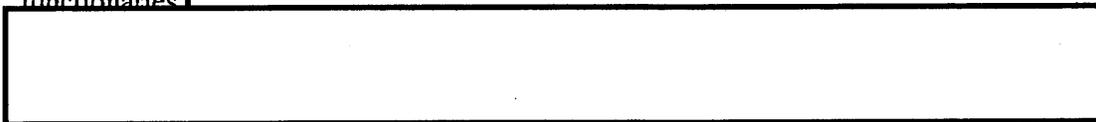
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[redacted] The effort to encourage Pakistan to adopt the anti-money laundering law has received the highest support in the US government. [redacted]

[redacted]

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Gayle admits that there was an enormous amount of overlap between his capacity-building work and the work of INL and S/CT. His role was distinct, however, because he did not control any programs but contributed area expertise. As Gayle said, he provided "policy continuity". For instance, if Customs were considering a particular training package for Pakistan, the Customs agents would only see the working level and would not know how to relate the package to other issues in the regime. In one instance, an AML component of a package was going to be placed with a Pakistan agency having neither the statutory nor political authority to accept the component. He often played the role of educator. On an assessment trip to Pakistan, Gayle traveled with an interagency group consisting of lots of experts but few, if any, diplomats. Gayle convinced the group to travel to Karachi, because it was the financial capital of Pakistan, rather than staying in the provinces interviewing police officers and other lower-level government functionaries.



Capacity building is a part of coalition building, according to Gayle. As such, Gayle also attended the biweekly meetings of the PCC subgroup on Coalition Building, chaired by Tony Wayne. About 80% of the Coalition Building subgroup's efforts, according to Gayle, are spent on designations. It was important for TFWG to keep the Coalition Building subgroup informed so that any diplomatic issues associated with proposed training/assistance can be vetted.

Gayle worked with the regional bureaus at State, specifically NEA and SA, but he noted that they do not take the lead on capacity-building issues because the desk officers are busy dealing with the moment-to-moment crises. Representatives from NEA and SA attended the TFWG and Coalition Building subgroups as well. As far as communicating with foreign countries and US overseas embassies on terrorist financing, Gayle said that

¹ We did not delve into Gayle's trip to Bangladesh because it is not one of the Tier 1 countries.

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there was no State-wide directive that ESP had the lead on this responsibility; rather, the workload and expertise of the various individuals and departments determined who drafted cables, etc. The relevant offices cleared the cables. Any failure to clear a document occurred, in Gayle's experience, only with intra-State documents. For instance, a working level memo from an S/CT officer to the Coordinator on Counterterrorism Cofer Black was viewed as a document by the author to his or her boss and therefore did not require clearance with ESP even if Gayle had discussed the subject-matter of the memo extensively with the drafter of the memo. Gayle noted that coordination with multilateral entities on counterterrorist financing assistance was tasked to S/CT.

Gayle said that the agencies with substantive experience participating in overseas assessment trips or on TFWG were supportive. There were some coordination and resource questions, specifically with OTA, but he was impressed with the overall level of teamwork. OTA had pre-9/11 programs and has independent resources so sometimes it is a challenge to keep it in the TFWG fold. Overseas missions and host country contacts frequently see OTA on the ground in non-counterterrorist capacities and then start to work with them directly on counterterrorist financing issues. Moreover, Gayle said that the natural competition to control resources is magnified by the fact that OTA is housed in a different agency than INL and S/CT [the two State entities with resources for these projects]. He directed us to Gary Novis, S/CT, for more on the OTA/State relationship. With respect to FDIC and OCC Gayle noted that counterterrorist financing was a "new game" for them. These agencies had to design new training and new courses and Gayle was impressed with how quickly they were able to respond. Gayle worked closely and successfully with the FBI; he noted that the FBI was a good fit for the Pakistan assessment trip. Gayle was most keen on AFMLS of DOJ and takes the view that all draft AML legislation should be vetted by that section.

Within the State Department, Gayle said there is natural competition for capacity-building resources. INL had pre-9/11 assistance programs dealing with anti-money laundering and anti-narco financing and retains its Congressional mandate in these areas. S/CT has a Congressional mandate, as well, which is to take the lead on terrorist financing programs. EB is not a direct player in this competition because it does not control resources for such assistance programs. All three offices, however, suffer from the shortage of human resources, i.e., individuals with the qualifications, expertise, and availability to provide training and consultations.

Gayle also represented EB for purposes of FATF, although the official USG representative is the Executive Office for Terrorist Financing and Financial Crime and the official State Department representative is INL. FATF has traditionally been a standard-setting body. Gayle attended the meeting of FATF in the Fall 2001 when FATF drafted and issued its Eight Recommendations on Terrorist Financing. Gayle said that these recommendations were used as an icebreaker in his capacity-building work. They enabled the USG to convince other countries that the USG was applying international standards, as opposed to US standards. Commenting on the planned expansion of FATF's role to include operational components, Gayle said that State and Treasury had

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different perspectives on the merits of this expansion. In Gayle's view, Treasury, as the lead USG representative to FATF, saw the expansion of FATF's role as an expansion of Treasury's role and therefore a good thing. State, on the other hand, according to Gayle, thought the USG's interests would be better served by FATF remaining a standard-setting and politically-neutral body. Gayle believes that the expanded role includes brakes and reviews (through the G-8) that mitigate State's concerns.

In Gayle's view the USG is not devoting enough money to training and assistance in counterterrorist financing. He said he has heard of instances where trips were not made due to lack of funds, although he could not provide any specific examples. He felt that he and others in his Pakistani and Bangladeshi delegations had to "turn back-flips" in order to raise sufficient funds for the trips. INL and S/CT have greater woes. Some of the responsibility lies with Congress, according to Gayle. OTA has a back-channel to the House Appropriations Committee and is therefore better funded. Congress also places limits on the money it does appropriate; Gayle says that it will often fund training programs but not "bricks and mortar", computers, and the like.