

EVALUATING THE EFFECTIVENESS OF U.S. SANCTIONS PROGRAMS

HEARING BEFORE THE SUBCOMMITTEE ON MONETARY POLICY AND TRADE OF THE COMMITTEE ON FINANCIAL SERVICES U.S. HOUSE OF REPRESENTATIVES ONE HUNDRED FIFTEENTH CONGRESS FIRST SESSION

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EVALUATING THE EFFECTIVENESS OF U.S. SANCTIONS PROGRAMS

Thursday, November 30, 2017

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON MONETARY POLICY AND TRADE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:24 p.m., in room 2128, Rayburn House Office Building, Hon. Andy Barr [chairman of the subcommittee] presiding.

Present: Representatives Barr, Williams, Huizenga, Pittenger, Hill, Mooney, Davidson, Tenney, Hollingsworth, Moore, Foster, Sherman, and Crist.

Chairman BARR. The committee will come to order. Without objection, the Chair is authorized to declare a recess of the committee at any time, and all members will have 5 legislative days, within which to submit extraneous materials to the Chair for inclusion in the record.

This hearing is entitled, "Evaluating the Effectiveness of U.S. Sanctions Programs." I now recognize myself for 5 minutes to give an opening statement.

I am pleased to welcome our colleagues and our witnesses to this subcommittee's hearing on U.S. sanctions. From Iran, to North Korea, to Russia and Venezuela, sanctions are increasingly used as an instrument in our foreign policy toolkit, and Congress must ensure that they be held accountable for results.

This hearing will examine major sanctions programs as we seek to evaluate their effectiveness. Let me highlight three points that may provide context for this discussion.

First, sanctions are key to bringing about behavioral change abroad, and this committee has stressed that they should be designed accordingly. That means calibrating sanctions, and sanctions relief, based on specific and achievable actions we wish to see from a foreign actor. Tailoring sanctions in this way is especially important for secondary sanctions, given how banking restrictions tend to have broader and less predictable effects than primary measures.

In October, the Financial Services Committee reported, and the full House overwhelmingly passed the Otto Warmbier North Korea Nuclear Sanctions Act, a piece of legislation that I was proud to sponsor with our Ranking Member, the gentlelady from Wisconsin. The bill would impose financial sanctions targeting every area of North Korea's economy, including all petroleum imports, and any deployment of laborers abroad. This week's test launch by the

DPRK (Democratic People's Republic of Korea) of an ICBM (inter-continental ballistic missile) that can reach any part of the United States underlines why maximum pressure is needed.

Our bill outlines the principles that the majority and minority here consider essential for the use of secondary sanctions, not only with respect to North Korea, but other countries as well. Namely, we should strike with as much strength as possible, provide the President with flexibility, and link the termination of sanctions to a narrow set of realistic objectives.

This approach is distinguished from what we might call, quote, "symbolic sanctions," unquote; that is, devoting scarce resources to designations with no real impact on our foreign policy objectives, or tying sanctions to a list of outcomes that no one expects to emerge in the foreseeable future.

For sanctions to retain their credibility, we must guard against such half measures. If sanctions are akin to antibiotics, then we should ask what indiscriminate use will do for antibiotic resistance. At the same time, if we want to preserve the trust that the world continues to hold in the U.S. financial system, we must think clearly about what it means to restrict access to that system, and communicate with equal clarity so that others understand the rationale that governs both the imposition and lifting of our sanctions.

The second point to underscore is the need for continuous engagement with Congress, when the Executive chooses to wield its sanctions' powers. As we know, the Executive possesses broad authorities under the International Emergency Economic Powers Act (IEEPA). What may be less well-known is that IEEPA lays out explicit provisions for regular Congressional consultations and reports, so that these authorities are exercised with appropriate oversight.

The committee would encourage our witnesses to examine whether the Office of Terrorism and Financial Intelligence (TFI) is upholding the letter and spirit of these provisions. TFI has been the recipient of bipartisan goodwill, and using emergency powers accountably will help ensure that such goodwill is sustained.

This brings me to point number three. As our country becomes more reliant on economic sanctions to carry out its foreign policy, the Treasury Department will be increasingly called upon to make its voice heard on the substance of that policy.

We have already seen bureaucratic changes that reflect the shift. In August, for instance, the President signed into law the Countering America's Adversaries Through Sanctions Act (CAATSA), which included the secretary of the Treasury as a member of the National Security Council.

In light of this trend, we should expect that Congress will look more and more to the department, and particularly, to TRI, not only to implement sanctions, but to help shape their goals, scope, and strategy, and to answer for sanctions' shortcomings, if they fail to meet their objectives. Of course, Treasury undertakes these things to a certain extent already, but its accountability will only grow with its prominence in these debates.

I want to thank our witnesses for testifying today, and look forward to working with them so that our sanctions programs are coherent, realistic, and impactful.

The Chair now recognizes the Ranking Member of the subcommittee, the gentlelady from Wisconsin, Gwen Moore, for 5 minutes for an opening statement.

Ms. MOORE. Thank you so much, Mr. Chairman. Before I begin my comments, let me thank our guests from the Treasury Department. I always look forward to hearing from these experts, and information is a powerful tool.

Let me begin by thanking our Chairman for calling this hearing, and as he indicated before, I am a part of the bipartisan work on the North Korea sanctions; so proud to have worked on that in a bipartisan matter. I do believe that we have passed a strong bill, and I certainly hope that the Administration does the hard work of implementing this bill.

With that said, I can't pretend that I am not concerned about the general state of United States foreign policy, and this Administration's commitment to implementing our sanctions programs. I can tell you that as an American, I think there are many other people who join me in feeling that we are isolated and weak, with even the British debating whether or not the President of the United States is welcome in England. This is stunning.

My constituents are very concerned about the extent and depth of the relationships with human rights violators; with Putin, a relationship that has the President and many of his cabinet and advisers mired in deepening and widening scandals relating to Kremlin connections.

I am concerned with reports that the Department of State eliminated the office of the coordinator for sanctions policy. We did the hard work in this committee to draft this North Korea sanctions bill, and I am sure that our witnesses are aware that the U.S. currently has sanctions against Russia, and that Congress recently passed further sanctions against Russia.

So it is puzzling to me why the Department of State would eliminate the office that would coordinate these sanctions policies. I think you can catch my drift, and perhaps even empathize with me. Cutting out some people who could help you all—

I am sure you are also aware that the Administration seems not to be implementing these Russian sanctions. Forgive me, but I grew up in a time and era where, as a public school student, as a little girl, we were diving under our desks, we were so afraid of Russia.

It is puzzling to me why we are not implementing those Russian sanctions at this point. I am worried that the Administration is more interested in implementing the goals of the Kremlin, and to not have sanctions through the statutory mandates of this Congress to expand and strengthen the Russian sanctions. I really am interested in hearing about the Treasury's efforts to make sure it is implementing Congressional intent and vigorously enforcing sanctions against Russia.

I am going to apologize in advance for bowing out of the meeting somewhat early, because I have a conflict of another meeting that is extremely important as well. But I do look forward to hearing your testimony. I will be here to hear your testimony and answer some of these questions.

Thank you so much, and Mr. Chairman, I yield back.

Chairman BARR. The gentlelady yields back. Thank you for that opening statement.

Today we welcome the testimony of Marshall Billingslea, the Assistant Secretary of the Treasury for Terrorist Financing. In this role, he helps oversee the Administration's efforts in administering economic sanctions programs globally.

Prior to joining Treasury, Mr. Billingslea served as Managing Director for Business Intelligence Services at Deloitte Advisory. He had previously held positions at the Department of Defense, where he served as Deputy Undersecretary of the Navy, and Principal Deputy Assistant Secretary of Defense for Special Operations and Low Intensity Conflict.

Mr. Billingslea has also worked as a NATO Assistant Secretary General for Defense Investment, and as a staff member on the Senate Foreign Relations Committee. He is a recipient of the Defense Medal for Distinguished Public Service.

John Smith is the Director of the Treasury Department's Office of Foreign Assets Control, OFAC, which is responsible for administering economic and trade sanctions to advance U.S. national security and foreign policy goals. Mr. Smith has previously served as OFAC's Acting Director, Deputy Director, and Assistant Director.

Prior to joining OFAC, Mr. Smith served as an expert to the United Nations' Al Qaida and Taliban Sanctions Committee from 2004 to 2007, and as a trial attorney at the U.S. Department of Justice from 1999 to 2004.

Each of you will be recognized for 5 minutes to give an oral presentation of your testimony. Without objection, each of your written statements will be made part of the record.

Mr. Billingslea, you are now recognized for 5 minutes.

STATEMENT OF THE HONORABLE MARSHALL BILLINGSLEA

Mr. BILLINGSLEA. Chairman Barr, Vice Chairman Williams, Ranking Member Moore, and members of the committee, thank you for inviting me here today to offer testimony on the effectiveness of sanctions, and to talk about a number of the matters that you, Chairman, and you, Ranking Member, have raised in your opening statements.

The Treasury Department has, in my view, pioneered the use of targeted sanctions as a tool of statecraft, and we are continually refining how we employ financial pressure. In the interest of time, I will skip to the bottom line up front, which is that I believe that there are several reasons why sanctions are quite effective tools. Chairman, I do actually agree with the way you laid out the overall context of sanctions.

But I believe I can name, and I will name numerous examples in which our sanctions have been effective, and I would like to provide four specific reasons, or four specific matters which I think affect the effectiveness of sanctions, when we choose to employ them.

Now, this Administration has aggressively targeted ISIS leaders and operatives for their operational and financial support around the world, and the result has been that we have engaged—John and OFAC have engaged in over 70 actions against ISIS leaders, their facilitators, recruiters, and affiliated money services businesses worldwide.

U.S. and U.N. designations, along with close cooperation between United States and Iraqi authorities, in particular—in fact, I just came back from Baghdad a little more than a week ago—have effectively shut down a number of exchange houses that were functioning as key nodes for ISIS—or Daesh, as we might call them and their financial facilitating networks.

Separately, we continue the effort against al Qaida and other terrorist groups through both unilateral and multilateral actions. Secretary Mnuchin, as you may know, recently announced the opening of a rather significant and rather innovative breakthrough, which is the creation of a multinational Terrorist Financing Targeting Center, the TFTC, that is housed in Saudi Arabia.

In conjunction with that announcement, the six Gulf Cooperation Council member states—so seven of us altogether, seven nations—imposed sanctions on a network of al Qaida and ISIS financiers and weapons traffickers in Yemen. This was, in fact, one of the biggest multinational designations ever outside of the United Nations.

We have also targeted, and I am sure you will hear more about the way we have gone after dozens of North Korean individuals and entities, including coal companies, banks, financial facilitators—any revenue that North Korea generates that can be used to support—or actually, any revenue they generate, period, is used to support the various weapons programs that the regime has, and we are determined to cut that off.

Finally, and I know we will want to talk more about Iran today. Sanctions were the dominant factor in forcing Iran to the negotiating table over their nuclear weapons program, and we are committed, the Administration is committed to combating Iran's malign behavior around the globe. Even Hezbollah's leader, Hassan Nasrallah, has acknowledged that their donors are scared to continue remitting funds as a result of U.S. sanctions.

Now, I mentioned four specific reasons why I think sanctions are effective. First is that we employ these against the backdrop of an international financial system that we are continuously working to improve to create capabilities to create standards through the Financial Action Task Force to cause the international financial system to embrace anti-money laundering (AML), and countering the financing of terrorism standards, and to create regimes that are enforceable across the globe.

This has been a patient and long-standing effort of the Treasury Department. It is a bipartisan, nonpartisan endeavor that has stretched across multiple Administrations, and it is because of this backdrop of driving the creation of these regimes that we are, in fact, able to cause our partner nations to work with us, and to embrace and enforce these measures.

In the interest of time, a second reason that sanctions are so effective is because of the financial diplomacy that goes with the actions we undertake. A specific Treasury action by OFAC or by FinCEN (Financial Crimes Enforcement Network) is often preceded by, and almost always followed up with engagement by the Treasury and State Departments, with our allies, our partners in the public and private sectors. As a general proposition, sanctions are most effective, as the Ranking Member indicated, when they are implemented multilaterally.

That said, of course, this Administration, and in fact, no Administration would hesitate to take action unilaterally to defend the American people as necessary. But when and where possible, we do work with other nations to amplify our message, and drive concerted action.

We, of course, pursue financial diplomacy through a variety of multilateral and multinational organizations, such as the United Nations, but I also mentioned the TFTC that was just established as another example.

I am at time, but simply to summarize the final two reasons, which I can come back upon, as you wish. The third reason, and a third important criteria is that we have to be clear and consistent in our messaging: When we sanction; what is it that we are seeking to achieve. I would suggest, how we have approached Venezuela is a good example.

The fourth that influences the effectiveness—and Mr. Chairman, you mentioned this specifically—is the extent to which the targeted individual, their finances, do they touch the international financial system? I would agree with you that symbolic sanctions probably are not worth the candle, though there are times and places where that is worthwhile.

Again, I appreciate the chance to appear before the committee, Mr. Chairman.

[The prepared statement of Mr. Billingslea can be found on page 32 of the appendix.]

Chairman BARR. Thank you. The gentleman's time is expired. Director Smith, you are recognized now for 5 minutes.

STATEMENT OF JOHN SMITH

Mr. SMITH. Thank you, Chairman Barr, Vice Chairman Williams, Ranking Member Moore, and distinguished members of the committee. Thank you for inviting me here to discuss the important role of sanctions in addressing some of our Nation's most prominent national security and foreign policy challenges.

As the Director of the Treasury Department's Office of Foreign Assets Control, or OFAC, I will speak to the sanctions my office has imposed against supporters of the destabilizing and provocative actions of governments such as North Korea, Iran, and Russia, as well as a range of other actors engaged in conduct antithetical to our Nation's ideals and interests.

When deployed strategically and with precision, sanctions are a highly effective way of pressuring regimes and malign actors to change their behavior. These regimes and actors ultimately rely on funding to operate, and by freezing their assets, cutting them off from the U.S. financial system, and restricting their ability to interface in the international financial system, the choice to them becomes clear: Either modify your behavior, or accept the isolation and negative economic effects of our financial blacklists.

One of our highest priorities is targeting the North Korean regime and its key financial vulnerabilities. This year, OFAC has issued eight rounds of sanctions related to North Korea, adding 112 individuals and entities to our Specially Designated Nationals and Blocked Persons List—what we call the SDN List. The regime requires revenue to maintain and expand its nuclear and ballistic

missile programs, and we have focused our efforts on areas where we can have the maximum disruptive impact.

Just last week, OFAC sanctioned several Chinese trading companies that were responsible for hundreds of millions of dollars of imports from and exports to North Korea over the last few years. Earlier this year, we designated a number of Chinese companies that had imported nearly half a billion dollars' worth of North Korean coal between 2013 and 2016. That action, combined with diplomatic pressure and multilateral sanctions, helped pressure China to announce that it would halt all coal imports from North Korea, representing a blow to the regime's revenue generation capabilities.

Iran is another top priority, and since January OFAC has issued eight tranches of sanctions involving Iran, designating 78 targets around the globe in connection with the Islamic Revolutionary Guard Corps, the IRGC, and Iran's ballistic missile program, support for terrorism, human rights abuses, cyberattacks, transnational criminal activity, and other destabilizing regional activity. We recently designated the IRGC, under the Global Terrorism Executive Order, pursuant to the Countering America's Adversaries Through Sanctions Act, the CAATSA legislation that you mentioned.

Just last week, we sanctioned an IRGC-Quds Force counterfeiting network that deceived European suppliers to procure advanced equipment and materials to print counterfeit Yemeni bank notes potentially worth hundreds of millions of dollars.

Another significant priority for OFAC is addressing Russia's destabilizing activities in Ukraine. This summer, we continued our regular pattern of sanctions, and designated 38 individuals and entities involved in the ongoing conflict in Ukraine. More recently, we have been hard at work implementing requirements and publishing guidance related to the CAATSA legislation passed by Congress. I want to be clear and emphasize: The Treasury has fully implemented every CAATSA requirement delegated to it within the statutory deadlines.

We have also used our sanctions this year to address the erosion of democracy in Venezuela; disrupt major narcotics traffickers in Mexico, Colombia, Peru, and Venezuela; increased pressure on the Assad regime in Syria; denied terrorist groups like ISIS and Hezbollah the ability to access the U.S. financial system; and shine a spotlight on various governments for serious human rights abuses.

We have dedicated the bulk of our resources and attention on the issues most pressing to our Nation's security. We greatly appreciate Congress' partnership and continued efforts to ensure that OFAC and TFI are equipped with adequate tools and authorities.

However, I will note that our existing powers are relatively broad, and in order to achieve maximum impact, we need flexibility in administering and enforcing our sanctions. Additionally, the increasing Congressional reporting requirements and statutes with no expiration dates ultimately draws resources away from our primary sanctions activities.

Thank you, again, for the opportunity to speak with you today, and I look forward to continuing to work with you and your staff as we try to maximize the impact of our sanctions.

[The prepared statement of Mr. Smith can be found on page 37 of the appendix.]

Chairman BARR. Thank you. The gentleman's time is expired, and the Chair now recognizes himself for 5 minutes for questioning.

Let me just first commend Treasury and the Trump Administration for abandoning this policy of strategic patience that has led North Korea to obtaining a nuclear arsenal, including a hydrogen bomb, and as we saw earlier this week, an intercontinental ballistic missile capable of reaching the continental United States, and potentially, a reentry vehicle for that missile. I would commend Treasury for its eight rounds of sanctions and designations in North Korea.

However, I do want to read into the record an op-ed that you probably saw this morning in the Wall Street Journal entitled, "Maximum Pressure on North Korea: China and the U.S. Still Haven't Imposed Toughest Sanctions." I will just read and quote from the article.

Quote, "the Trump Administration has done more than its predecessors to thwart North Korea's nuclear progress, but it is still far from using maximum pressure. It may not work in the end, but the alternatives are terrible: acquiescence or war. Wednesday's ICBM test shows Kim is getting closer to his goal of threatening U.S. cities. So why is the U.S. not using all the tools it has to stop him?"

So my question is this, to both of you: In a hearing before the Senate Banking Committee earlier this fall, Treasury Undersecretary Mandelker stated that the U.N. Security Council resolutions pertaining to North Korea represent, quote, "the floor, not the ceiling." That is why, under the House-passed bill that we were referring to earlier, the North Korean sanctions bill that was bipartisan, we go beyond those resolutions to target all oil exports to the DPRK, and all of its foreign labor.

So the question is this, if the U.N. resolution is truly just the floor for U.S. policy, what is Treasury doing to eliminate the petroleum and labor loopholes that are left by the resolutions, and why should Congress tolerate the same incremental strategy that has gotten the Kim regime where it is today? We will start with you, Mr. Billingslea.

Mr. BILLINGSLEA. Thank you, Chairman. So obviously, the U.N. sanctions regime is multinationally crafted, and it requires the Chinese and the Russians to come along. In fact, Ambassador Haley at the U.N. reengaged in wake of the recent launch to drive again the need to further ratchet the pressure on North Korea for its continuing behavior.

I would say we have actively worked to dry up all of the different mechanisms by which the North Korean regime obtains petroleum and other petroleum products, regardless of the fact that the U.N. Security Council resolution, that they ultimately did not agree to the U.S. position to shut off all crude oil imports. They agreed to a reduction in crude, and to a cessation of oil products.

The number of things that we have done along these lines—and again, back to my point about, not everything is a sanction, right? There are a lot of other things TFI, the Treasury does in the financial diplomatic world that go beyond the individual discreet sanc-

tions acts. But John is going to be able to tell you about the very specific sanctions designations that we have engaged in to target the different exchange mechanisms by which people were illicitly flowing petroleum into North Korea.

But on top of that, we have identified the latest evasion technique that the North Koreans are using, which involves North Korean oil freighters pulling out into the middle of the ocean, and linking up with commercial chartered oil tankers to do ship-to-ship transfers. We have exposed a number of these. We have gone after their flagging authorities with the various nations, to yank the flagging authority, to cause the vessel to have difficulties. We are further investigating the network of shell and ownership structures that are created to hide the true ownership of these ships.

On labor, I personally have engaged with a large number of countries overseas, particularly in the Middle East, to secure agreement to expel North Korean slave labor from these countries, and to identify the companies that were being used to exploit these people.

Those are just two examples of how we are—

Chairman BARR. If I could just jump in there, you did mention in the testimony about the designation of the four Chinese trading companies that have conducted business, and the designations there. But I am sure you are familiar with the recent report that indicated there are over 5,000 such companies in China. We just want to know how Treasury can make a dent in these Chinese firms' business with North Korea if you are focusing on individual designations, as opposed to these secondary sanctions on these middlemen front companies.

Mr. BILLINGSLEA. The challenge we have is when we see these press reports and these 5,000 here, 3,000 there. The challenge is that we have to meet evidentiary standards for the measures that we take, legal standards. So we do need much more granular information, so that John can take his actions.

So when we get these leads, we follow them up aggressively.

Chairman BARR. Thank you. My time is expired, and as my questioning points out, I think as our recently passed House bill makes clear, we believe there is a need for Treasury to exhaust all options available, especially in light of this most recent ballistic missile test.

At this time, I would like to recognize the Ranking Member for 5 minutes of questioning.

Ms. MOORE. Thank you so much, Mr. Chairman. Thank you again.

One of the most horrific acts that is occurring anywhere on planet Earth at this point is the ethnic cleansing of the Rohingya people, who have fled to Bangladesh since late August. I was wondering, is there any program under the Global Magnitsky Act that targets the senior-most members of these Burmese security forces, who likely ordered these rapes, and murders, and acts of arson. Have you identified any of these folks? When do we expect to see sanctions announced against Burma?

Mr. SMITH. Thank you, Ranking Member. I am glad you mentioned the Global Magnitsky Act. We appreciate Congress' giving us the authority to target human rights abusers and corrupt actors

worldwide. As you mentioned, this authority gives us the opportunity to target those that are responsible for such activity, serious human rights abuses, no matter where they occur. Congress has given a mandate in that legislation, asking us to report at certain periods, and take action by certain periods, and the next period comes up in December. I think the Treasury Department is working to make sure that we implement this statute fully. It is something—

Ms. MOORE. Have you identified any people in Burma?

Mr. SMITH. We have not under Global Magnitsky.

Ms. MOORE. OK.

Mr. SMITH. It is authority that has just been delegated to us—

Ms. MOORE. OK, OK, thank you for that.

I was arrested hanging out with John Lewis—warn some of the freshmen about him—for protesting at the Sudanese embassy for crimes that have been committed in Sudan. The president, by the way, still remains under indictment by the International Criminal Court for War Crimes, including genocide. We impose sanctions for human rights violations, and yet we have relaxed them under this Administration. What did I miss?

Mr. BILLINGSLEA. Relaxed—we actually removed them.

Ms. MOORE. Removed them. Why?

Mr. BILLINGSLEA. Correct. We removed them, by the way, on the basis of criteria established by President Obama. So President Obama established five specific criteria against which the Sudanese would be held accountable.

Ms. MOORE. OK, thank you. My time is waning. I am going to continue on this theme of sanctions and human rights, because I am confused by what the policy of the Administration is. We have seen him following Obama's agenda, he is re-imposing sanctions, strictures against Cuba. He has decided that Venezuela has become enemy number one because of the government's role in undermining democratic processes and institutions.

And yet, we see that he shows a fondness for totalitarian strongmen around the globe, including the Philippine president, Duterte, praising the authoritarian leader of Egypt, who had his political opponents gunned down, and jailed those dissidents, and the President thinks that they have done a fantastic job in a very difficult situation. Of course, defended President Putin against accusations that he has murdered journalists and dissidents.

So I am wondering why it seems to be such a checkerboard approach to sanctions. Can you help me sort this out?

Also, what I want to ask you, Mr. Smith, is, sometimes you can give waivers for—and I want to know if there are any waivers that we don't know about. You can do it without coming to Congress, for reducing, relinquishing waivers against Russia.

Mr. SMITH. So thank you for the questions.

With respect to the human rights-related designations, we have continued to actively target, over the past year, human rights-related concerns in North Korea, Iran, South Sudan, and Venezuela, among other programs. So we have continued our focus on human rights concerns.

In terms of waivers, with respect to Russia—

Ms. MOORE. So how does this—yes, OK. Go on.

Mr. SMITH. With respect to Russia, I think most of the waivers that might exist in statutory programs have been delegated to the State Department under the various authorities. OFAC can issue particular licenses, and under the CAATSA legislation, we are notified—

Ms. MOORE. OK, and so I have 2 seconds left, very quickly. My time is expired.

Chairman BARR. Gentlelady's time is expired. Chair now recognizes the Vice Chairman of the subcommittee, and author of the Strengthening Oversight of Iran's Access to Finance Act, the gentleman from Texas, Mr. Williams.

Mr. WILLIAMS. Thank you, Chairman Barr, for your important work on sanctions legislation, most recently, the House passage of increased North Korea sanctions. Given the overwhelmingly increased aggression under the Kim regime, this legislation cannot be timelier.

I would like to also welcome Assistant Secretary Billingslea and Director Smith to our subcommittee, and thank them for joining us this afternoon. I appreciate your time, and I appreciate your expert testimony. America and some of her most important allies, such as Israel, are under the constant threat by those who wish to harm us, and the work that both of you do in the sanctions field helps to keep the bad actors away. Appreciate that.

Though there are areas where we can improve, I am specifically encouraged by the current Administration's path forward in dealing with the world's foremost state-sponsored terrorism in Iran. After 8 years of flawed policy toward Iran, culminating with the terrible JCPOA (Joint Comprehensive Plan of Action), I am encouraged by the President's direction.

So Assistant Secretary Billingslea, thank you for being here. Iran continues to be extremely concerning to me and those I represent. We must do all we can to ensure that appropriate sanctions are enacted to the world's foremost state-sponsor of terror. To that end, I recently sponsored, as you heard, Strengthening Oversight of Iran's Access to Finance Act, which was reported favorably out of this committee, and just yesterday was introduced by Senator Cruz and Senator Perdue in the Senate. My legislation will increase Congressional oversight of aircraft sales to Iran, and their effect on financial institutions.

So Mr. Secretary, what similar steps can be taken to further prevent the abuse of the financial system by Iran in the way that promotes terrorism, human rights abuses, or assistance to the Assad regime?

Mr. BILLINGSLEA. Thank you, Vice Chairman. As you have said, Iran is the foremost sponsor of terrorism around the world, and they have used their newfound access to financial resources to further support terrorism and foment instability across the Middle East and globally.

The Iranian Quds Force, in particular, is heavily engaged in destabilization in Syria, in Iraq. They are moving money to Hezbollah, to Hamas, and to other terrorist organizations. Obviously, their role in Yemen and the civil war there, supporting the Houthis, is truly, truly incredible.

Much more needs to be done to constrain Iran's ability to obtain and move finances to terrorist organizations. That is why Congressional action under CAATSA with regard to the Iranian Revolutionary Guard Corps, as the parent organization of the Quds Force, is a major entity, or set of entities interwoven throughout the Iranian economy.

One of the things that we have been cautioning our European allies and others, is to be very careful as you look at doing business with Iran, because we have sanctioned the IRGC—actually, the Europeans have as well, and we expect that extreme caution should be exercised before entertaining any type of business in that country, particularly when they have not only no safeguards and no anti-money laundering regime to speak of, but when they are engaged in outrageous counterfeiting behaviors that Director Smith mentioned, which completely fly against all of the norms of the financial services sector.

Mr. WILLIAMS. Thank you. I would also like to further discuss the tools that the Treasury is utilizing in its fight against Iran's destabilizing financial activity. In August, Congress passed new sanctions and legislation, giving the Trump Administration new tools for the fight against Iran's missile program, terrorist assistance, and human rights abuses. I firmly believe that Iran will continue to develop new ways to work around U.S. and international sanctions to continue their campaign of terror across the globe.

So another question I have is, how do we maintain pressure on Iran's leadership and financial institutions, ensuring that the IRGC and related financial entities do not create loopholes to avoid these sanctions?

Mr. BILLINGSLEA. Quickly, in two ways. I will talk with one, and then, I think Director Smith on the other.

With regard to pressure on the regime, one of the things that they have to do is they have to create a legal framework, and be held accountable for stopping the financing of terrorism. They do not have sufficient laws in Iran. I don't know that they would honor those laws, even if they had them. But they don't have the regime in place, and we ought to insist that until they do have an anti-money laundering set of laws that are being enforced, counter measures should be imposed on their financial sector.

Mr. SMITH. I was just going to say, I think we also need to keep doing what we are doing, and ramping up pressure, exposing the bad activity where we see it across the board. We are exposing it wherever we see around the world, no matter what country it is involved in, no matter what type of company, and we are exposing the different types, including the counterfeiting ring that I mentioned earlier.

Mr. WILLIAMS. OK. Thank you. I yield my time back.

Chairman BARR. The Chair now recognizes the gentleman from North Carolina, Mr. Pittenger, for 5 minutes.

Mr. PITTENGER. Thank you, Mr. Chairman. Thank you, gentlemen, for being with us today. Appreciate your commitment and your involvement with us.

Director Smith, and I would say to you as well, Mr. Secretary, would you please discuss with us the tools that you believe are effective that, at your disposal, that will allow us to address export

controls? I would like to discuss CFIUS (Committee on Foreign Investment in the United States) as well, and what modifications should be made, if any, to CFIUS, and the relevance of that committee, and particularly, as we deal with nations who have supported our adversaries, and also seek to acquire assets in our own country. So if you could respond to that, I would be grateful.

Mr. SMITH. Thank you so much for the question. I think it has been very helpful to have the interest from Congress in making sure that we have the appropriate tools.

When you ask about the appropriate tools that we can use, I think the power that Congress has given us, and the oversight that Congress plays has been a very important role in our success in being able to go after these types of activities of concern. The fact that we have the authority to call out these activities, freeze their assets, prohibit U.S. persons, wherever they may be, from engaging in this type of behavior, and then Congress nudging us to add additional designations or sanctions. For example, with respect to the IRGC, where we had designated it before, but we added to it under the terrorism authorities and all its agents, affiliates, and officials worldwide. That has been a very helpful all power for us to have.

I think I will yield to my colleague, Marshall, on the CFIUS question. OFAC plays a role in terms of reviewing some of those, but it is not my expertise.

Mr. PITTENGER. Thank you.

Mr. BILLINGSLEA. Congressman, the issue I have is that this Administration and the CFIUS process belongs to a different part of the Treasury, and so I am hesitant to opine, when I think they would give you a better answer. But I will definitely arrange that discussion.

Mr. PITTENGER. I thought maybe you might have a perspective just from—

Mr. BILLINGSLEA. I do, in the sense that we need to ensure that the critical pieces of our economy are safeguarded from adversarial acquisition or influence.

Mr. PITTENGER. Do you feel that they are vulnerable today?

Mr. BILLINGSLEA. I do feel they are vulnerable today.

Mr. PITTENGER. Do you feel that the expansion of the oversight of CFIUS is warranted today?

Mr. BILLINGSLEA. I am not sure I understand exactly what is implied by that, but I do believe that—

Mr. PITTENGER. A greater capability for oversight.

Mr. BILLINGSLEA. Greater capability for investigation, from understanding the origin of funds, the structure of acquiring entities to make sure we truly understand who is behind acquisition of different companies.

Mr. PITTENGER. Joint ventures and the like.

Mr. BILLINGSLEA. Things such as that, yes, sir. Absolutely.

Mr. PITTENGER. Very good. Mr. Secretary, another point: What is the typical evidentiary standard that is needed to designate a foreign entity for violating the U.S. sanctions? And, when dealing with the support of terrorism proliferators, what should that standard be?

Mr. BILLINGSLEA. I am going to defer to Director Smith on the evidentiary standard, because he has a team of lawyers and counsel that help him on that. But it does tend to vary.

Mr. PITTINGER. Very good. Thank you. Mike.

Mr. SMITH. The standard is the basic administrative standard that is used across the Federal Government. It is the reasonable cause to believe. It is a relatively low standard, and in terms of when you think of the overall standards of proof beyond the reasonable doubt in the criminal context, or even a preponderance of evidence that says, more likely than not. Ours is just a reasonable cause to believe, so it is basically, are we reasonable in believing that? That is the standard that we use in our designations programs, as well as our enforcement of sanctions violations.

Mr. PITTINGER. Given the actions of various countries like Qatar in the past, knowing we have an MOU with Qatar at this time, obviously, there have been concerns relative to ransoms for kidnappings, and safe harbors for Hamas, and Al Jazeera, and many other concerns. Do you believe that sanctions were warranted on Qatar or other countries that have been predisposed to be supportive of our adversaries?

Mr. BILLINGSLEA. Congressman, that is a great question. I didn't have time to get into it, but an entire paragraph in my testimony talks about all the non-sanctions dimensions to financial diplomacy. One of the things I emphasized was the importance when sanctions is a tool available to us, it is a threat that is lying there on the table that we can use to great effect with various third parties.

One my very first trips in my capacity when I was confirmed by the Senate was to Qatar. I will tell you that we do have issues with Qatar on the terrorism front. We have issues, actually, with many countries in the Gulf on various terrorism issues. It differs country by country.

The Qatari did, very, very recently, engage in a series of arrests of very senior al Qaida financiers, and we view that as crucial, and we are watching the prosecution process that is now unfolding very, very closely.

Mr. PITTINGER. Good. They have—to date, they have not prosecuted anybody until now.

Chairman BARR. Gentleman's time is expired. The Chair recognizes the gentleman from Arkansas, Mr. Hill.

Mr. HILL. Thank the Chairman. Appreciate you holding this hearing that we have done so consistently now over the last few weeks to assess how America is doing in our sanctions regime for some of the world's most rogue nations. Sure appreciate our witnesses' service to our country, and tackling these tough issues, because we are not going to be successful in countering illicit finance or terrorism without every asset at our disposal—diplomatic, military, and financial, economic. So thank you for leading the economic cause.

I want to talk a minute, since we have talked a little about North Korea. Let us talk some more about Russia. I was particularly pleased Secretary Tillerson appointed Ambassador Volker as our special envoy regarding trying to break the frozen conflict around Minsk. I think this was something missing from the pre-

vious Administration, where America really partnered in the E.U., and heading in a different direction. I was intrigued by your comments and your testimony, talking about Russia's obviously destabilizing actions in the Ukraine.

But in addition to that, it continues to meddle in Eastern Europe, generally through cyberattacks, incursions, disinformation campaigns, and even evidence that they interfered in Montenegro's elections last October.

It is for this reason back in June that Mr. Suozzi of New York and I introduced Fighting Russian Corruption Act, H.R. 2820. One thing I would like you to do today is if you could take a look at that legislation, and give me your thoughts about it, officially, from the Treasury. It sets up an anticorruption office over at State as a political matter, to work particularly in the E.U. with our European partners, about taking our knowledge, our capabilities that we have, both in cyber, illicit finance, and partnering with them to counter Russian political meddling.

I think it would be important, because you do so much work in the technical assistance area, where Treasury would help train our U.S. diplomatic efforts in that regard, and make it part of our NATO effort, as well. We suggest that anticorruption become part of NATO's readiness plan. So if you would take a look at H.R. 2820. We have twelve Republicans and four Democrats, and I appreciate the work with Mr. Suozzi on that.

So given this political interference that you have established both in the Ukraine, and in Montenegro, and other Balkan countries, what is Treasury prepared to do to punish and deter activities like this under your existing authorities you have?

Mr. BILLINGSLEA. Congressman, I think you have highlighted a number of worrisome activities by the Russians. I would also add to that list, actually, the money-laundering behaviors that we have seen them engaging in some of the Baltic nations, as well as in Cyprus and other places, which are fundamentally, when you talk about corruption, they are such a corrosive behavior that strikes at the heart of the financial integrity of these countries.

It is crucial, in particular, that we go after Russian organized crime. We have done a number of actions, together with the Secret Service and others, in combating Russian organized crime. Russian organized crime tracks right back to parts of the regime in various ways, particularly when you start talking cyber matters. So I think you are pointing in the direction that we have to go.

Mr. HILL. Good.

Mr. BILLINGSLEA. Which is to focus on that corruption.

Mr. HILL. Mr. Chairman, I hope that maybe we can have a roundtable, or maybe a classified briefing on that matter, and we spent a lot of time, as we should, on North Korea. But I think it would be useful to learn more here.

In the time I have remaining, I know that Congress asks FinCEN and your offices for reporting, a lot of reporting. I think that is important. Our oversight responsibility is critical here, and you have that both to Foreign Affairs in some aspects, and here, at the Financial Services Committee. Are these requirements becoming too burdensome? How could we consolidate our requests to get the information that we want to have for oversight? But I know

it seems like every measure we introduce has a Treasury-reporting obligation. Could you reflect on that?

Mr. BILLINGSLEA. Congressman, we are beyond reasonable here. The reporting burden from north of 80, 90 different reports, some that date back 20 years, it is crushing. It is absolutely crushing on us.

In your opening comments, you talked about how we needed to bring every asset to bear, and I will tell you that within the very small structure of TFI—we are talking 700 people total, of which half are focused on banking oversight. So when you talk about John's shop, my shop, the under-secretary's organization, our intel shop, we are consumed by reports. As a former Senate staffer, I can't tell you that I know that all of these reports are even being read.

Mr. HILL. Thank you, sir, and thank you, Mr. Chairman, for the time, and I hope we are more sensitive about our regulatory reporting burden on these important actors. Thank you.

Chairman BARR. The gentleman yields back. The Chair recognizes the gentleman from West Virginia, Mr. Mooney.

Mr. MOONEY. Thank you. My question is for Secretary Billingslea. You mentioned on page three of your testimony that some circumstances providing financial intelligence to a trusted foreign partner is all it takes to shutter terrorist exchange houses, or freeze a proliferator's bank account. I want to go back a step further, because we have to get that intelligence from somebody first before we can share with somebody. Somebody has to give it to us. We have to find it. So the discussion today has revolved around the ways the United States sanctions rogue nations, terrorist states, and others that pose a threat to our people, and our economic and financial systems.

With the conflicts around the globe we are embattled in we have partners who want to aid the United States in these fights, give us information. Some are countries, but some are individuals or groups that wish to aid us, give us information on certain activities of the funding of terrorist organizations.

So my question to you is: Would it be helpful to our cause in general to get this information, if your office could reward those individuals or groups that step forward with helpful information about where our adversaries are keeping their finances? And if so, what incentives could be used to encourage such assistance?

Mr. BILLINGSLEA. Congressman, I would like to talk with you more about that and understand, but at first blush, I think that is exactly the innovative, insightful support that, through legislation, Congress could help us in the missions that we have to undertake. You are spot on, in terms of the challenges we face, and the informational gaps we often have, particularly when it comes down to that last tactical mile of getting to the adversary's bank account.

So the idea of a rewards program, I can tell you from my time running the Special Operations and Low Intensity Conflict Office for Secretary Rumsfeld, we used reward authorities to great effect to elicit information. In my time, we used information and paid rewards for instance, leading to the identification of where Saddam Hussein's two sons were, and we deployed Special Forces to bring them to justice, and that was highly effective.

So in line with your idea, I would like to explore that with you further. But I think, Congressman, you are onto something there.

Mr. MOONEY. Yes, I would like to talk about that further, too. I have a little more time left, so changing questions, and I am more specifically on a country, the IMF estimates that in 2016, the Venezuelan economy contracted by 18 percent, and saw inflation of over 250 percent, with the further contraction of 12 percent in 2017, and inflation of 650 percent.

So our understanding is that the Executive Order the President issued in August, which restricted dealings in Venezuelan debt, has further affected bond liquidity, and added to pressure on President Maduro, which I think is a great idea. President Maduro is like a sweaty rhino running out of control around that area.

So having said that, given the regime's resilience up to this point, can you articulate what the endgame of Venezuelan sanctions is? The government clearly hasn't been moderating. So what outcome are you aiming for, and how appropriate are existing sanctions to achieving it?

Mr. BILLINGSLEA. Venezuela's economy is in a death spiral due to the kleptocratic policies of the Maduro regime, as they have engaged in wholesale looting of that country, of the state oil enterprise, and the ensuing humanitarian crisis that is erupting around us. This is a major national security issue, on top of a humanitarian disaster in the making, because it affects key allies like the Colombians next door.

I am very concerned about, it looks like we are on the verge of a malarial epidemic now, because Maduro is blocking the bringing in of humanitarian assistance from the outside. He is preventing—and through his own economic mismanagement, they don't have the resources to buy the anti-malarials, in particular. So we have a significant issue here, and the President has made it extremely clear: We will not participate in the looting of that country's economy. Sanctions have been imposed—any new debt or equity, and those sanctions will only be removed if there is a return to the normal democratic process in that country.

Mr. MOONEY. I, for one, appreciate the President's aggressive approach in Venezuela. As you may know, my mother fled a communist country, Cuba, and America could have stopped that, and didn't. Now, we have really bad actors trying to impose evil regimes on folks, and don't care about human life, and stealing, and it is just, it is terrible. So I would like to encourage you to keep that up, and anything we can do here to help, I would sure appreciate.

With that, Mr. Chairman, I will yield back the balance of my time.

Chairman BARR. The gentleman yields back. The Chair recognizes the gentleman from California, Mr. Sherman.

Mr. SHERMAN. Yes. Does the Venezuelan government own major assets in the United States? They used to own CITGO gas stations.

Mr. BILLINGSLEA. Yes. CITGO is a wholly owned subsidiary of—

Mr. SHERMAN. So how come we haven't seized those assets for the benefit of the Venezuelan people? As long as they remain under the control of Maduro, they are going to be looted. We could seize them, sell them, put the money in trust for the Venezuelan people.

Are you moving in that direction, or are you just going to let Maduro run the company into the ground, loot it, and abscond with the money?

Mr. BILLINGSLEA. Congressman, excellent question.

Mr. SHERMAN. If you need any legislation, why haven't you submitted it? I bet you we could pass it.

Mr. BILLINGSLEA. Thank you, sir. To your point, we have, in fact, specifically moved to prevent Maduro from being able to access any funds from CITGO. The Treasury Department, in working with the White House when the new Executive Order on Venezuela was issued, a specific provision was included to—

Mr. SHERMAN. Could he sell the company and keep the money?

Mr. BILLINGSLEA. —To prohibit any payment of dividends out of CITGO whatsoever.

Mr. SHERMAN. No dividends, but can they just sell all the stock? Could Exxon buy the stock tomorrow? Don't tell me about antitrust law. Could Amazon buy the stock tomorrow?

Mr. BILLINGSLEA. The CITGO ownership structure, I would have to get back to on you, but it is—

Mr. SHERMAN. OK, but if you don't want to—you don't want to be here after the barn door is closed. If he can sell the entire company tomorrow, and I don't think you need CFIUS to de-invest in the United States. So anyway, just more work for you when you get back.

Speaking of more work, obviously, we require a lot of reports, but that is because if we don't require reports, sometimes we pass laws, and nothing happens.

As to North Korea, the strategy of this Administration is to go after individual Chinese companies. That may raise the cost of doing business for North Korea a bit. But if the top 25 Chinese companies in an industry refuse to do business with North Korea, the 26th biggest may not care about doing business with the United States, and they may decide to pick up the North Korean business instead.

The only way you are going to accomplish anything is if you at least threaten to sanction the whole country. It has to be something that hits the government in Beijing, not just the pocketbook of a few large companies. Because it is not a successful sanction if you force somebody to pay a higher ATM fee because the banks with the lower ATM fees won't do business with them.

The goal here is not to annoy Pyongyang; it is not to destroy Pyongyang. But it is to put them in a position where they feel their economy might be destroyed.

Let us turn to Iran. Mahan Air is designated as a terrorist entity given its support for the Assad regime, its involvement in terrorism. Yet every day, Mahan Air lands at airports in Europe, and every day the flag airline from that country flies from that big airport to the United States. Why are we allowing European air carriers to start their flight at a Mahan-infested airport, and come to the United States? Why are we not going after the airports, or are we serious about Mahan Air? Do you have an answer?

Mr. BILLINGSLEA. It is a great question, Congressman. We are very serious about Mahan Air. It is the aviation arm of the Quds Force. It is what they use to traffic weapons, terrorist assassins—

Mr. SHERMAN. So why are we still doing business with airports that accommodate them? Why are American planes still buying fuel from the same companies that sell fuel to Mahan Air at European airports?

Mr. BILLINGSLEA. Two points on that. One is that we have been in a departure from the previous Administration's approach, we have been incredibly aggressive with the European—

Mr. SHERMAN. Setting a rather low bar for yourself, but go on.

Mr. BILLINGSLEA. At least we clear the bar, right? But I think you make a good point, and I think it would be very prudent for any company that transacts with Mahan Air to be exceptionally cautious, going forward.

Mr. SHERMAN. I don't think they should be cautious. I think you should nail. Then they will know.

But now, let us talk about the IRGC. There are about 800 IRGC companies that have yet to be sanctioned. You have sanctioned about 80. You have sanctions on individual planes. I am not counting those. Likewise, only a handful of companies and individuals that have done business, or provided significant assistance to IRGC have suffered sectionary sanctions.

Is your standard of proof too high? Is your staffing too low? How many Farsi-speaking individuals do you have working full-time on this?

Mr. SMITH. So Congressman, I would say that—answering a few of your questions there quickly, on Mahan Air, I just wanted to say we have actually done some designations in the last few months against European airlines, Ukrainian airlines that had been servicing Ukraine—Mahan Air. We actually took action. We are looking for—

Mr. SHERMAN. So is there a flight that has been canceled as a result of that?

Mr. SMITH. There have been some routes that have been stopped over the previous months because of Mahan Air, because of the U.S. Government's outreach over the past year, so—

On the questions you ask on making sure the standard of proof, it is the reasonable belief standard that we have. It is not too high; it is something that we can live with.

But in terms of what we are trying to do with IRGC and other targets, trying to hit the maximum impact ones. We are not trying to do a numbers game, where we give you 20—

Mr. SHERMAN. How many Farsi speakers working full-time?

Mr. SMITH. We have a number of them, but I can get back to you with the answer—

Chairman BARR. The time of the gentleman is expired. We may have a chance for a second round. The Chair now recognizes the gentleman from Indiana, Mr. Hollingsworth.

Mr. HOLLINGSWORTH. First and foremost, I want to echo all of what my colleagues have said in thanking you for the work that you, your teams put in every single day. Hoosiers back in the Ninth District feel unsafe with some of the things they see around the world, and I know you and your teams are working every day to ensure that the world becomes safer for Americans at home, and American interests abroad.

I wanted to spin the globe back to Venezuela for a moment. Mr. Billingslea, you had mentioned that there is a restriction on new debt with regard to Venezuela. I certainly understand that. I know, also, that that restriction is fairly broad, and the summary of new debt, as provided by OFAC, is somewhat difficult to parse through and better understand. With regard to Russia, specifically, I think there were a number of frequently asked questions that were also posted to help people parse through what is new debt versus existing, etc.

I wanted to find out whether there is any possibility, or whether there is expectation that more clarity will be provided around the new debt definition for Venezuela, specifically. That can go to either of you, frankly.

Mr. SMITH. Congressman, thank you for the question. I think we have been responding, and we have published additional FAQs with respect to many of these questions, with respect to Venezuela.

In fact, we did put something out with respect to what the meaning of debt, as well. So we can refer those FAQs to you or your constituents. We are getting a lot of calls on this. We are trying to be responsive.

Mr. HOLLINGSWORTH. Fantastic. I think, as Mr. Sherman and some others have mentioned, some clarity around understanding what transactions are permissible, with regard to CITGO, as well. I know I have had some constituent companies that have been concerned about any dealings with them, or understanding what level of dealings with them, and don't want to be unnecessarily or unintentionally caught up in something that is larger than they are. So I appreciate that as well.

Mr. SMITH. I would just say, if you can have your constituents reach out to us, we have the compliance hotline that operates as well as the Licensing Division. We are taking a lot of calls on this, and trying to make sure that we get the clarity out there.

Mr. HOLLINGSWORTH. Fantastic. I know that my constituents back home, and the companies that they own, operate, or manage that want to do the right thing, understand, as you well said, the humanitarian crisis, as well as the national security crisis this presents, but they want to do the right thing, and understand where they are with regard to the law.

Following up on Venezuela a little bit further, I know that one of the things that economists have talked about is just the need to restructure the debt in Venezuela. Obviously, with the new restrictions in place, that can't happen, or may happen only in some gray zone of understanding. Is it your understanding that we are going to require the Madura organization, administration, government itself to change? Or is there any capacity in which those officials themselves can get into compliance, such that there can be a restructuring of the debt by IMF or other external resources?

Mr. BILLINGSLEA. So on the IMF question, this is a country, this is a regime that has failed to publicize any of the standard data that are expected by properly functioning economies. On top of that, you are dealing with a regime where, Maduro and his cronies, his vice president is a drug kingpin. He put him in charge of the debt discussions. This is a designated individual. On top of that, this is a country where its constitution specifies that the national

assembly is the only organization that can authorize the issuance of new debt. But what Maduro did is wiped out democracy.

He overturned the national assembly. These people have run for their lives. He has now established this constituent assembly, which is packed full of his people. This is not a—

Mr. HOLLINGSWORTH. This is certainly understandable to say the regime needs to change, period, in order for us to be able to accomplish that.

Mr. BILLINGSLEA. I don't think we are saying that. I think we are saying we need a return to the democratic order.

Mr. HOLLINGSWORTH. Got it. Understood. Then, is there any feeling what the timeframe or timeline might occur? Do you see any weakening in resistance by the administration, the administration's cronies, etc., or it been as obdurate as it had proven in the past?

Mr. BILLINGSLEA. To the extent that the regime has been enriching themselves at the expense of the Venezuelan people, including through the wholesale theft from PDVSA, the State oil company—it is clear that the gravy train has come to an end. They are out of money.

They have crashed their economy. Presumably, at some point, people are going to look around and say, "Wow, the United States has designated me. The Canadians have designated me. The European Union is starting to designate officials above me. Maybe it is time to look at doing something different."

Mr. HOLLINGSWORTH. Yes. I hope that comes soon. Again, just in my closing, I wanted to thank you both for the efforts that you undertake every single day.

Mr. BILLINGSLEA. Thank you.

Mr. HOLLINGSWORTH. I will yield back, Mr. Chairman.

Chairman BARR. Gentleman's time has expired, and there has been an interest in a second round of questioning, if our witnesses are willing to take that responsibility on. We appreciate your testimony today, and again, appreciate your service in the interests of our national security, and using every economic lever we can to deter our adversaries.

I do want to follow up on some of the questions regarding Russia. As we discussed earlier, I had an opportunity earlier this year to travel to Eastern Europe and visit with some of our NATO allies. We went to Germany and Poland, Lithuania, Estonia, and Montenegro, the newest member of NATO. I can tell you that our allies, and the foreign leaders in these countries were very consistent in the message that they delivered to us. That message was that in addition to Russia's illicit annexation of Crimea, and the frozen conflict in Ukraine, that there is a whole range of malign activities that the Russians are engaged in to destabilize our NATO allies, from disinformation campaigns, to incursions into the Baltic with their air force. The attempted coup in Montenegro was a major topic of conversation and concern; the cyberattacks; the militarization of Kaliningrad was of great concern to the Baltic countries.

It has been 4 months since the enactment of the Countering of America's Adversaries Through Sanctions Act, which was the sanctions legislation on Russia. I want to just ask you all, what has Treasury specifically done in implementing that sanctions legisla-

tion? Second, what has been the response? What has been the response of the Russians to that? What, if any, behavioral change have we seen from the Russians? I have probably given you too much to answer right there, so I will go ahead and leave both of you to consider both of those issues.

Mr. SMITH. I can start out and say that we have been very busy to make sure that we are implementing the requirements of CAATSA, and we are doing it on time, as per the legislation. Just about every 30 days, starting at, I think, day 60, Congress in that statute required that we do some type of implementation of the Act with respect to Russia, as well as the other parts. On day 60, we started modifying our directives that were put out under the Russia-Ukraine sanctions programs to tighten the restrictions in there. We have done that at day 60; we have done that at day 90.

So we started a few months ago, and in fact, we just, earlier this week, did additional modifications to continue tightening, and make sure that we also explain that to industry, and to the rest of the world so they know what they are and are not allowed to do.

Chairman BARR. What has been the Russian response to this?

Mr. SMITH. So the Russians haven't been happy, as you can imagine. They were concerned with the legislation. I think they probably aired that publicly with you all at the time. I think we have heard that as well. I haven't had any conversations directly with the Russians myself.

Chairman BARR. Have you seen major behavioral change? The disinformation campaigns, the destabilization efforts, the Russian aggression continues. Is that correct?

Mr. SMITH. I think the Russian aggression has continued in many of the respects that Congress—

Chairman BARR. That brings to mind the question of how we can make sanctions more effective in better changing behavior, and deterring Russian aggression. I want to focus on energy, the Russian energy sector. Many of our NATO allies have expressed interest in the United States helping Eastern Europe achieve energy independence; certainly independence from Russian gas. Also, in the case of Lithuania, the Astravets nuclear facility is being constructed about 30 miles from Vilnius. In Belarus—so the question is, should we consider sanctioning and getting more aggressive on the Nord Stream 2 project, Astravets, other energy projects that the Russians are endeavoring to interfere with NATO, and get NATO countries dependent and reliant on Russian energy?

Mr. SMITH. So I think you probably heard—I know you all heard up in Congress as well—as the Administration, on the views of European partners and allies with respect to energy independence. I think in the CAATSA legislation, Congress did impose additional restrictions, additional tightening of the sanctions, with respect to many of those features. My understanding is that Congress engaged with the European partners, as well as did the Administration.

From my perspective, I think we are still hearing from Europe as we implement those sanctions. I am not sure that there is anything that I have seen that is needed at this point.

Chairman BARR. I can tell you that if the Russians do not respond to what we have done so far, we ought to send a message to the Russians, that if they continue their aggressive behavior, their energy exports to our NATO allies should be in the crosshairs of our sanctions regime. That is the view of one Member of Congress, but I would say that there are other Members of Congress who feel the same way, as well.

With that, my time is expired, and so I will now recognize, for a second round of questioning, the gentleman from California, Mr. Sherman.

Mr. SHERMAN. OK. I would like to go back, first, to Venezuela. Do I understand, you will be going back to your office to make sure that Venezuela can't just sell CITGO, and take the money back to Caracas? Do I have that right?

Mr. BILLINGSLEA. It is actually prohibited under law.

Mr. SHERMAN. So they can't—neither the dividends—

Mr. BILLINGSLEA. The dividends are not—

Mr. SHERMAN. Right. But what they can, of course, do is overpay for oil. One way to dividend, if you have the retailer, is just have them pay \$70 a barrel for the oil that comes out of Venezuela, and when the world price is closer to \$50. Are we monitoring that?

Mr. BILLINGSLEA. I will verify, but I—

Mr. SHERMAN. Please answer for the record.

Mr. BILLINGSLEA. Yes, sir.

Mr. SHERMAN. But you are saying they can't sell the stock of CITGO, nor can they pay a dividend.

Mr. BILLINGSLEA. So they cannot pay the dividends under the Executive Order. A wholesale sale of CITGO would likely trigger a number things. Let me—

Mr. SHERMAN. What would it trigger? If they were going to buy a major American company, that would trigger CFIUS, but I don't know what it would trigger to sell—

Mr. BILLINGSLEA. My understanding is PDVSA—

Mr. SHERMAN. Or they could just sell some of the stock. So please answer for the record, but more promptly than we usually get questions for the record. What are we doing to make sure that CITGO is not overpaying its Venezuelan affiliate for either refined or non-refined petroleum products; but second, what are we doing to prevent them from selling some, or a majority of, or all of the stock?

Now, as to Mahan Air, it seems like Ukraine was the low-flying fruit, because it just so happens the Ukrainian airline is also in the airline servicing business. United doesn't refuel American Airlines flights, but in some airports, the airline is also the—

But it is not just sanctioning in that circumstance. Mahan Air is flying into Milan, and into Munich. Are we going to continue to allow American planes to fly into Milan and Munich, and are we going to continue to allow foreign planes to fly from Milan and Munich into the United States?

Mr. SMITH. Sir, I can't talk about what we would do in the future, but what I can tell you is that the Treasury Department—

Mr. SHERMAN. Why haven't we done it already in the past?

Mr. SMITH. The Treasury—

Mr. SHERMAN. This is Mahan Air. Why should American towns be connected by direct routes into airports that are servicing Mahan Air?

Mr. SMITH. The Treasury Department is engaged exclusively—

Mr. SHERMAN. We try to prevent American airplane travelers from coming close to terrorists. You are flying in, and the terrorist airline is already on the ground.

Mr. SMITH. We have been engaging extensively with our European partners, who do not have Mahan Air on their sanctions list. We have been trying to make sure to provide them the information on Mahan Air that they need to have, and at the same time, enforcing and implementing the most major impactful sanctions designations.

Mr. SHERMAN. I will ask you to answer for the record, why we should allow Americans to fly in and out of airports, when as they land, there are the terrorists, right there. Sounds pretty dangerous.

I will go back to the question of staffing. Do you have enough staff to do your job, gentlemen?

Mr. BILLINGSLEA. Congressman, that is always a challenging question. The formalistic view is that I would need to coordinate with OMB, and so on and so forth, and we are putting the budget request forward.

The practical reality is that when you look at the use of Treasury authorities, we are burning hot. In fact, I think we just submitted to the Finance Committee the survey that is taken of our employees, and if you parse through the survey data, what you see is that maintaining work/life balance for our people is something we are keeping a very close eye on.

Mr. SHERMAN. So your people are working enough so that their spouses are complaining. Sounds like we should get you some more people.

Mr. BILLINGSLEA. I would say the taxpayers are getting their—

Mr. SHERMAN. Getting their money to work—all the people you have now. I am told that between the two of you, you have maybe two Farsi-speaking individuals? Can either of you be confident that between the two of you, you have more than two that are working on Iran, and that actually speak Farsi? You can't tell me, hey, you have five or six that you happen to know of, or anything like—

Mr. SMITH. I can go back and ask. We actually do a list every year to make sure, and update it. We do have Farsi-speaking individuals, and that is, when we find a talent, a language talent that we need, we bring—

Mr. SHERMAN. I have 30 people in my district, native Farsi-speakers. Let me know.

Mr. BILLINGSLEA. Chairman, I am always on the lookout for great resumes.

Chairman BARR. Gentleman's time is expired. The Chair recognizes the Vice Chairman of the subcommittee, Mr. Williams.

Mr. WILLIAMS. Secretary Billingslea, the Obama Treasury Department authorized U.S. banks to draw on American savings to finance aircraft—we are back at that now—for the world's foremost state sponsor of terrorism in jurisdiction primary money-laundering concerns. This allows our deposits to be used for state-owned airline, Iran Air, that was sanctioned in 2011 for providing support

to the Islamic Revolutionary Guard Corps, and the Assad regime in Syria.

So in a committee hearing last April, we learned that Iran Air flew at least 114 flights from Iran to Syria between the JCPOA's implementation day and March 30, 2017, likely as an airlift in support of the Syrian's government's atrocities. So this is an easy question here, a simple yes or no. Can you certify for us today that Iran Air has ceased all sanctionable activities?

Mr. BILLINGSLEA. I need to get back to you on that, Congressman.

Mr. WILLIAMS. OK, if you would.

Mr. BILLINGSLEA. Vice Chairman. Yes, sir.

Mr. WILLIAMS. Next question: Which financial institutions, if any, have contacted Treasury with respect to aircraft finance for Iran?

Mr. SMITH. I am not sure of the answer to that. I am not aware that any have, but we can get back to you.

Mr. WILLIAMS. Would you, please.

Third, can you assure us that a U.S. bank, or a foreign bank with a U.S. nexus, would not be exposed to any significant illicit finance risk if it did business with Iran Air?

Mr. SMITH. I am not sure of the question. If you are saying, can we assure you that if a U.S. bank engaged in this transaction, in any transaction that was licensed, they would be part of a transaction that we authorized. But where the money goes to in Iran, I can't assure you, or give you any guarantee of where that goes.

Mr. WILLIAMS. OK. Do you agree that Congress has a right to know whether aircraft finance for Iran may benefit persons that engage in sanctionable activities, including support for terrorism, weapons proliferation, and human rights abuses?

Mr. BILLINGSLEA. Absolutely. Absolutely, you should know that, and we commit to engage with you at any point that is—

Mr. WILLIAMS. OK.

Mr. BILLINGSLEA. —You want to have the discussions.

Mr. WILLIAMS. So I think we have two questions we need to get, if you get back with us on that.

Now, another question I have. As part of the omnibus package that was passed earlier, we requested that the Treasury Department issue a report on entities that were delisted under the JCPOA, and whether such entities have engaged in sanctionable activity since the JCPOA. We have not got that result yet, so if you could help us there. So what is the status of that report? Do you feel that any entities that had their sanctions lifted under the JCPOAs have continued to engage in sanctionable activity since the deal began to be enforced?

Mr. SMITH. So we continue working on those reports. As we said, we have about 90 a year that we are working on, and most of those, we get in on time. Some are more difficult, because they are time-consuming.

If we see sanctionable activity, if we see sanctionable conduct, we act against it.

Mr. WILLIAMS. OK. Mr. Chairman, I yield my time back.

Chairman BARR. Gentleman yields back. The Chair now recognizes the gentleman from Michigan, Mr. Huizenga, the Chairman of the Capital Markets, Securities, and Investment Subcommittee.

Mr. HUIZENGA. Thank you, Mr. Chairman, and appreciate your testimony today. Good to see you again, and a couple quick questions; one, I want to touch on China, and then, I want to talk a little bit about North Korea.

In 2005, the U.S. designated China's Banco Delta Asia as a financial institution of, quote, "primary money laundering concern" and Treasury Department recently did the same thing with China's Bank of Dandong. However, these banks are relatively small institutions, and are there larger foreign financial institutions that Treasury is going after?

Mr. BILLINGSLEA. Thanks for the question, Congressman. We, as a matter of practice, don't tip our hand in advance of any actions.

Mr. HUIZENGA. I don't want to know names. I want to know whether there are bigger—there certainly are bigger fish to fry. I am looking for some reassurance that Treasury is looking at this, and is looking to pursue this.

Mr. BILLINGSLEA. I think the best reassurance I can give you, because it is out there, is that we put out an advisory to all of our financial institutions through FinCEN, which delineated, which showed the typology the Bank of Dandong was engaged in, and then highlighted other areas where our banks need to be wary, and pointed them right at a particular part of China adjacent to North Korea, where we urge our banks to be vigilant.

You can interpret directly from that that we have a lot of concerns, and we continue to investigate.

Mr. HUIZENGA. Mr. Chairman, maybe—We had a great classified briefing yesterday, and maybe this would be an issue and a subject that we could, if we needed to go into a classified, bipartisan briefing, we might want to look at doing that.

Quickly, in a July 13th Washington Post article, a high-level North Korea defector who was part of routinely evading sanctions noted how even when North Korean firms are on the blacklist, he said, quote, "North Korea is 100 percent state enterprise, so these companies just change their names the day after they are sanctioned. That way, the company continues, but with a different name than the one on the sanctions list," endquote. Without objection, Mr. Chairman, I would like to enter that article into the record as well. So I assume I—without objection, I would like to enter an article into the record.

Chairman BARR. So ordered.

Mr. HUIZENGA. Thank you.

We have also seen North Korean entities designated by Treasury—is there more energy being devoted to enablers in China, or Southeast Asia and elsewhere? Rather than just play Whack-a-mole with the DPRK entities.

Mr. BILLINGSLEA. Yes, sir. The key is not to play Whack-a-mole. The key is to map these networks out, and then to take the networks down simultaneously, employing not just sanctions authorities from OFAC, but working with our law enforcement community, partner nations and their communities, the intelligence community

and so on—diplomatic endeavors. Otherwise, you are treating symptoms of the problem, not the root cause.

Mr. HUIZENGA. Yes, treating those symptoms, I wholeheartedly agree, yes. It just—this one stunned me. There are media reports that there is a proposal circulating within the U.N. Security Council that would have frozen North Korean leaders' assets. I said to myself, "I didn't know there wasn't an asset that wasn't frozen already." If it hasn't been frozen, why not? This was the sixth missile launch test that they have done. If we haven't gotten to everybody, every Korean, significant Korean, North Korean leaders' assets internationally—which, reports are, they are significant—we know that they have no problem starving their own people for advancement of both the weapons, as well as their own aggrandizement.

But what is Treasury doing? Is Treasury going after those banks that hold those assets, as well?

Mr. BILLINGSLEA. We are.

Mr. HUIZENGA. OK. I would look forward—maybe we can unpack this a bit more in a slightly different setting, but I think this is a significant, significant issue, and this is one of the few tools that we know has worked in the past, and that we need to continue to implement that.

So with that, Mr. Chairman, I yield back.

Chairman BARR. The gentleman yields back. The Chair now recognizes the gentleman from West Virginia for 5 minutes.

Mr. MOONEY. Thank you. OK, continuing right along on the North Korea issue line of questioning, and I think my first question is relating to the Office of Foreign Assets Control, so direct this first one to Mr. Smith. On September 26, OFAC announced it was designating eight North Korean financial institutions, along with 26 representatives of North Korea, banks abroad. So how is it that as of September 2017, there were still any North Korean banks that remained unsanctioned, and how many more still have not been designated?

Mr. SMITH. So when we identify a bank—and we use a specific terminology—when we identified those banks, we were identifying them for the ease of the public. But the state-owned banks had already been designated as a matter—their assets would have been frozen in the United States, because they were government of North Korea. So we use the term. We identified those banks, and then we sanctioned the additional financial representatives around the world, because we were adding them to our list.

So it is very important for us, because our SDN List is used around the world. We want to make sure that is on every bank's filter, no matter in the United States, but also around the world, so that they get a hit, even if it is not in the United States.

Mr. MOONEY. OK, so you have it covered, then.

Mr. SMITH. We have it covered.

Mr. MOONEY. They have all been designated, one way or another, for sanctions, then. OK.

Second then, what is the real impact of blocking a North Korean bank's property in the United States? What is the magnitude of their assets? How would they have access to them under existing U.S. trade restrictions?

Mr. SMITH. So the impact of sanctions can be different, depending on the entity that is sanctioned. A North Korean bank would likely not have had assets in the United States, because we had already prohibited that activity.

But when I say the impact of sanctions is freezing the assets in the United States. It is putting on them on our blacklist, so no U.S. person around the world can deal with them. But it is also, our SDN List is used around the world, by banks around the world, by major companies and conglomerates around the world. So that is the impact, is making sure that not just in the United States, but the rest of the world can follow suit and hit our alarm.

Mr. MOONEY. OK.

Mr. BILLINGSLEA. It is not just banks that use the OFAC SDN List. There are certain governments—and we don't talk much about this, but there are certain governments that actually will pursue parallel blocking actions on their own, based on an OFAC sanction. So we do get a magnifying effect from a number of key countries when OFAC takes action.

Mr. MOONEY. Thank you. Second question, still on North Korea, either one of you who has more information, try to answer this one.

I am going to cite a New York Times article. As a conservative, I don't often cite the New York Times articles, but in this particular case, I think they have done some good work.

In their article on September 8th, it was reported in this New York Times article that North Korea may now be exporting less to China, but North Korea may also be receiving trade credits from China to finance continued imports. Of course, these trade credits would help nullify the effect of sanctions, even if North Korea were having problems coming up with hard currency. So if Chinese entities, including banks, are negotiating the impact of trade sanctions, shouldn't the Treasury be designating them?

Mr. BILLINGSLEA. That is a great point, and I think we are seeing, as they evolve in response to U.N. Security Council resolutions, the constant effort to evade sanctions and barter is one of the ways they are—

So trade credits, or maybe just plain old barter is another way that they are trying to evade the effect of the financial hammerlock that we are endeavoring to put on them. So we are tracking that, and if you trade with North Korea—I don't care whether you are trading dollars, or won, or whatever, any barter relationship exposes you to U.S. sanctions.

Mr. MOONEY. OK. Thank you, Mr. Chairman. I will yield back. Yield my time to the Chair.

Chairman BARR. The gentleman yields back, and there is 1 minute left remaining from the gentleman's time, and if I could just ask one final question to our witnesses with respect to North Korea.

A lot of the questions today on North Korea focused on secondary sanctions on Chinese entities, and we have talked a lot about the fact that those secondary sanctions may not yet have been fully exhausted. To the extent that is the case, is that because of U.S. fear or concern that we may lose Beijing cooperation, or is it merely a resource issue for OFAC and Treasury?

Mr. BILLINGSLEA. It is not a fear in any stretch of the imagination. We have a game plan. We have a strategy, and we are executing that strategy, and that strategy involves a number of different prongs of activity, of which Treasury action is but one. We are maintaining synchronization with our activities in the United Nations, with our Ambassador there, with State Department, with law enforcement, intelligence, and the Department of Defense.

When it sometimes seems like you are not quite sure why we are synchronizing things the way we are, we would be happy to come up and explain to you, because there is a method to this full-on economic pressure campaign.

Chairman BARR. I would like to thank our witnesses not only for testimony today, but your service, and the work that you are putting in to keep the American people safe, and to advance the national security interests of our country.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

[Whereupon, at 3:54 p.m., the subcommittee was adjourned.]

A P P E N D I X

November 30, 2017

Testimony of Assistant Secretary for Terrorist Financing Marshall Billingslea
House Committee on Financial Services
Subcommittee on Monetary Policy and Trade
November 30, 2017

Chairman Barr, Vice Chairman Williams, Ranking Member Moore, and distinguished members of the Committee, as Treasury's Assistant Secretary for Terrorist Financing, thank you for inviting me here today to offer testimony on the effectiveness of sanctions, which are an important tool for safeguarding our security and protecting the U.S. financial system from abuse.

At the Treasury Department, under Secretary Mnuchin and Under Secretary Mandelker's leadership, we have deployed our tools and authorities strategically in order to counter the greatest threats to U.S. and global security. Our sanctions tools range from full trade embargoes to highly targeted financial measures against named individuals and entities who pose a threat to U.S. national security and to the U.S. and international financial systems. We target terrorists associated with al-Qa'ida, Hizballah, ISIS, and the Islamic Revolutionary Guard Corps-Qods Force (IRGC-QF) to name a few, and entities associated with Iranian and North Korean weapons of mass destruction and ballistic missile programs, among many others. Other recent examples include actions against Nicolas Maduro and other members of the dictatorial regime in Venezuela, drug kingpins, and last week – for instance – a currency counterfeiting ring associated with the IRGC-QF.

The Treasury Department has pioneered the use of targeted sanctions as a tool of statecraft, and we continually refine how we employ financial pressure. Our approach integrates agencies, authorities, and partners to ensure maximum economic pressure on sanctions targets and violators. In recent years, we have developed new methods for targeting malign actors, including restricting certain classes of business transactions with foreign entities and jurisdictions, instead of targeting transactions with specific entities. For instance, we have deployed sectoral sanctions to prohibit the provision of loans to state-run energy companies in Russia as a consequence of Russian aggression against Ukraine. Recently, we also severely restricted transactions in new debt or equity issued by the regime in Venezuela. We have found these types of targeted, sophisticated actions to be highly effective at imposing specific, selective consequences on regimes that pose a threat to international security.

I could name numerous examples in which our sanctions have been effective. This Administration has aggressively targeted ISIS leaders and operatives for their financial and operational support to ISIS around the world, resulting in sanctions against over 70 ISIS senior leaders, financial facilitators, recruiters, and affiliated money services businesses. U.S. and UN designations, along with close cooperation between the U.S. and Iraqi authorities, have effectively shut down exchange houses that were functioning as key nodes of ISIS's financial facilitation networks, both by exposing their ties to the group and freezing millions of dollars in tainted assets. Separately, we have also continued efforts to financially isolate al-Qa'ida and other terrorist groups through unilateral and multilateral sanctions. Secretary Mnuchin recently announced the opening of the Terrorist Financing Targeting Center (TFTC) in Saudi Arabia; in conjunction with that announcement, the six Gulf Cooperation Council member-states imposed sanctions on a network of al-Qa'ida in the Arabian Peninsula (AQAP) and ISIS-Yemen (ISIS-Y)

financiers and weapons brokers in Yemen. This Administration has targeted dozens of North Korean individuals and entities, including coal companies, banks, and individuals who help North Korea evade international sanctions, in order to constrict North Korea's revenue sources. Any revenue that North Korea generates can be used to support, directly or indirectly, its weapons development programs. Finally, sanctions were the dominant factor in forcing Iran's leaders to the negotiating table over their nuclear weapons program. Even Hizballah's leader, Hassan Nasrallah, has acknowledged that donors have been scared to continue remitting funds as a result of U.S. sanctions.

There are several reasons why sanctions are effective tools. First, we employ these tools against the backdrop of an international financial system that is increasingly attuned to the threats posed by illicit finance, and one that is better able to identify and counter illicit activity. Over the past many years, we have worked tirelessly to bolster the capacity of all countries to establish and enforce financial transparency obligations. By strengthening anti-money laundering/combating the financing of terrorism (AML/CFT) regimes across the globe, and by working with other countries to ensure strict and consistent implementation, we have created an environment in which UN sanctions have real effects on the targeted individuals and entities, rather than simply functioning as a list of bad actors. Separately, financial institutions around the world routinely voluntarily screen their customers and transactions against the U.S. sanctions list, which is widely considered to be a key resource for combating illicit finance. The private sector is therefore a critical partner in our efforts to detect and counter illicit activity. Further, as a preventative measure, our partners frequently address a wide range of threats before they ever reach the U.S. financial system.

Perhaps the most important intergovernmental partner we have in this endeavor is the Financial Action Task Force (FATF), the global standard-setting organization for national efforts to combat money laundering, terrorist financing, and proliferation financing. The FATF holds all countries accountable for establishing the infrastructure to prevent, detect, and investigate such activity, as well as to prosecute and punish the perpetrators. To accomplish this, the FATF and its global network continually evaluate all countries' AML/CFT regimes – including their laws and efforts to disrupt terrorist financing, combat corruption, and implement national and international sanctions – and then leverage the possibility of public identification to pressure those falling behind to fulfil their commitments. Because the international financial community closely follows the work conducted by FATF, and makes business decisions accordingly, finance ministries and central banks around the world take FATF assessments very seriously. The Treasury Department is a major participant in these assessments, and through the FATF process, we also build and maintain a network of relationships which are critical to employing and maintaining financial pressure on dangerous and irresponsible actors.

This leads me to a key reason that the U.S. government is so effective in countering illicit finance: “financial diplomacy.” A specific Treasury action is often preceded by, and almost always followed up with, engagement by the Treasury and State Departments with our allies and partners in the public and private sectors. We also use relationships painstakingly built over many years to coordinate with other countries, or pre-notify them of our actions. As a general proposition, sanctions can be more effective when they are implemented multilaterally. That said, this Administration will not hesitate to take unilateral action, as necessary, to combat

threats to our security or to the integrity of the international financial system. But when and where possible, we work with friendly nations to amplify our message and drive concerted action. For instance, Treasury, in coordination with the State Department, shares detailed information regarding North Korean activities with friends and allies to assist them in disrupting sanctions evasion and illicit trade. This engagement at multiple levels helps partner nations to conduct detailed forensic investigation and analysis and target North Korean financial networks where they exist.

The United States also pursues this financial diplomacy through multilateral organizations. We are the leading proponent of sanctions at the UN. This Administration's leadership at the UN to combat the threat posed by North Korea, for example, resulted in the unanimous passing of two UN Security Council resolutions that struck at the core of North Korea's revenue generation. These resolutions include embargoes on all importation of North Korean coal, iron, lead, seafood, and textiles; restrict North Korea's ability to acquire revenue from overseas laborers; cut off over 55 percent of refined petroleum products going to North Korea; and ban all joint ventures with North Korea to cut off foreign investments. These resolutions are central to our efforts to mobilize the international community and to deny funds to Kim Jong-Un's weapons programs.

As I mentioned earlier, we are also a co-chair of the newly-established TFTC in Riyadh, Saudi Arabia. In addition to the multilateral sanctions imposed on leaders, financiers, and facilitators of ISIS-Y and AQAP, the TFTC enhances information sharing, institutionalizes capacity-building to target terrorist financing networks that pose national security threats to the United States and the Gulf, and deepens existing cooperation by coordinating disruptive action such as designations. In fact, the United States is the most active sponsor of joint designations, whether with our allies in the Gulf, the European Union, or with the United Kingdom. And, we have strongly encouraged our partners to use their own unilateral and multilateral sanctions authorities when applicable. For instance, the European Union designated Hizballah's military wing in 2013, and in March 2016, the Gulf Cooperation Council designated the entire group. When our allies take leading roles in addressing threats to peace and security, as France recently did at the UN with respect to Mali, and as Canada has done with sanctions on Venezuela, we actively support them.

But an additional dimension to our financial diplomacy is that there are certain situations where an action other than U.S. financial sanctions may do more for our national security. In certain cases, we work with foreign partners to support their designations and enforcement actions. In others, while we may have ample grounds to take our own action, from a messaging standpoint it may prove to be more advantageous for another nation to lead. Or yet in other circumstances, merely providing financial intelligence to a trusted foreign partner is all it takes to shutter a terrorist exchange house or freeze a proliferator's bank account. Finally, there are times and places where certain individuals, fearing the threat of Treasury action, will voluntarily change their behavior. In all of these situations, the ability and the willingness of Treasury to impose financial sanctions is a factor in the deliberations of others. In other words, the effectiveness of U.S. sanctions is undeniable, given that even the implied threat of imposition can spur the results we want.

A third reason our sanctions are so effective is the clarity and consistency of our message. When engaging in designations, the U.S. Government leaves no doubt as to why we are imposing sanctions, and what change we expect. For example, our sanctions on corrupt and dictatorial Venezuelan officials, and our refusal to participate in the wholesale looting of the Venezuelan economy, are clearly aimed at the regime and not the Venezuelan people. We have made clear that sanctions will be removed once democratic order is restored, but we will not stand by as the Maduro kleptocracy drives the country into chaos.

A fourth important factor that influences the effectiveness of sanctions is the extent to which the target actually uses the international financial system, or has assets under the jurisdiction of the United States or friendly nations. Of course, even when this is not the case, there can be important value to a designation, particularly if it inhibits attempted transactions and other malign activity. However, sanctions cause the most immediate, tangible effect when they result in the blocking of attempted transactions and/or the freezing of assets. One could cite a number of examples of effectiveness, such as over \$30 billion in assets controlled by the regime of former Libyan dictator Mu'ammarr Qadhafi that were frozen, or more recently, the hundreds of millions that we blocked which were associated with Tareck El Aissami, the Venezuelan Vice President and a narcotics trafficker. It is standard practice at Treasury to work with our law enforcement and intelligence partners, both within and outside the U.S. Government, to identify any assets owned or controlled by designated persons. For example, Treasury just recently designated a Chinese coal company that was laundering money for North Korea. As part of our disruptive action, the Department of Justice filed a complaint to seize more than \$4 million related to the company.

A key element of Treasury's continued success in countering national security challenges is the collaboration of our various components in order to use our tools and authorities best suited for each challenge. We use intelligence to inform our strategies, effectively deploy our tools, ensure actions are calibrated for maximum impact, and measure effectiveness and inform follow-on strategies and actions. We are constantly thinking through which complement of tools is most effective to counter national security threats, requiring all of Treasury's components to work closely together to achieve strategic objectives. An example of such teamwork was our determination of the Bank of Dandong as a primary money laundering concern under Section 311 of the USA PATRIOT Act, which clearly explained the threat this bank posed to the U.S. financial system. We likewise explained to financial institutions both through formal guidance and through informal outreach how North Korea launders money and evades sanctions. This outreach has put financial institutions on notice to North Korea's illicit activities, and has made it harder for the Kim regime to raise revenue and move money. The message was clear, to quote Secretary Mnuchin: foreign financial institutions "can choose to do business with the U.S or North Korea, but not both."

In conclusion, Mr. Chairman, I believe it is clear that targeted financial sanctions have been, and will continue to be, effective. But their impact derives from a host of other actions that both precede, and follow upon, the act of designation. Sanctions are at the height of effectiveness when they are part of a broader, national security strategy that brings to bear the many different instruments of power available to the U.S. Government, our partners, and key multilateral organizations and initiatives.

I appreciate the opportunity to testify before the Committee today on this most important topic, and welcome any questions that you may have.

Testimony of John E. Smith
Director of the Office of Foreign Assets Control
U.S. Department of the Treasury
House Committee on Financial Services
Subcommittee on Monetary Policy and Trade
Thursday, November 30, 2017

Introduction

Chairman Barr, Vice Chairman Williams, Ranking Member Moore, and distinguished members of the Committee, thank you for inviting me to appear before you today to discuss the important role of sanctions in addressing some of our nation's most complex and challenging national security and foreign policy issues. As the Director of the Office of Foreign Assets Control (OFAC), I will speak to the sanctions my office has imposed against terrorists, proliferators of weapons of mass destruction, narcotics kingpins, human rights abusers, supporters of the destabilizing and provocative actions of governments such as North Korea, Iran, Syria, Russia, and Venezuela, and other actors engaged in conduct antithetical to our nation's ideals and interests.

When deployed strategically and with precision, sanctions are a highly effective way of pressuring regimes and malign actors to change their behavior. These regimes and actors ultimately rely on funding to operate and to carry out their activities, and our sanctions are high-impact. By freezing the assets of illicit actors, cutting them off from the U.S. financial system, and restricting their ability to interface with the international financial system, the choice to them becomes clear: either modify your behavior or accept the isolation and negative economic effects of remaining on our financial blacklist. At OFAC, we focus our targeting on those sanctions expected to generate the most impact in achieving our national security and foreign policy goals, denying illicit actors access to the U.S. and international financial systems, disrupting their revenue streams, and degrading their capabilities.

As noted by Under Secretary Mandelker before the House Financial Services Committee a few weeks ago, a key element of Treasury's continued success in addressing national security challenges is ensuring that the components of the Office of Terrorism and Financial Intelligence, including OFAC, are properly integrated, working closely together, and deploying the tools and authorities best suited to each challenge. Under the leadership of Secretary Mnuchin and Under Secretary Mandelker, OFAC is employing powerful sanctions in conjunction with the tools and authorities of the other offices, such as anti-money laundering measures, foreign engagement, PATRIOT Act Section 311 actions, and private sector outreach – in a strategic manner to address threats from rogue regimes, terrorists, weapons proliferators, and human rights violators, to name just a few.

As part of the Administration's approach, the career professionals at OFAC have been working tirelessly to fulfill our important responsibilities and address some of our greatest national security threats. And we are not slowing down.

North Korea

One of our highest priority efforts at OFAC is targeting the North Korean regime and its key financial vulnerabilities. This year, we have issued eight rounds of sanctions related to North Korea, adding 63 individuals and 49 entities to our Specially Designated Nationals and Blocked Persons List (SDN List). The regime requires revenue to maintain and expand its nuclear and ballistic missile programs, and we have focused our targeting efforts on areas where our measures will have the maximum disruptive impact, such as on those individuals and companies involved in generating significant amounts of revenue for the regime by trading coal, other commodities, and labor, and individuals and entities who have facilitated North Korea's wide-scale sanctions evasion. The regime needs to be able to move funds through the international financial system in order to acquire foreign currency and pay for goods and services. To counter that, we recently sanctioned dozens of North Korean financial representatives across the world, and nine of the country's banks.

To cite one example of the impact of these measures, this year OFAC designated several Chinese companies that were collectively responsible for importing nearly half a billion dollars' worth of North Korean coal between 2013 and 2016. These actions, combined with sustained diplomatic pressure from the United States and tough new United Nations Security Council Resolutions, helped to pressure China to announce that it would halt all coal imports from North Korea. This halt, if implemented fully and effectively, represents a significant blow to the regime's revenue-generation capabilities and demonstrates the positive effects sanctions can achieve. OFAC continues to closely monitor coal exports from, and other trade with, North Korea and identify and disrupt instances of sanctionable conduct, wherever we may locate it.

Just last week, OFAC sanctioned one individual, 13 trading, labor, and shipping companies, and 20 associated vessels in an action targeted at disrupting North Korea's illicit funding of its unlawful nuclear and ballistic missile programs. We designated several Chinese trading companies that were responsible for hundreds of millions of dollars of imports from and exports to North Korea over the last few years. We also sanctioned transportation networks that facilitate North Korea's revenue generation and operations, and we highlighted the deceptive shipping practices that North Korea engages in, despite prohibitions in United Nations Security Council Resolution 2375. As Secretary Mnuchin made clear, "we are steadfast in our determination to maximize economic pressure to isolate [North Korea] from outside sources of trade and revenue while exposing its evasive tactics."

OFAC's actions are a critical component in Treasury's campaign to restrict North Korea's ability to raise and move money through the international financial system, and we will continue aggressively enforcing these sanctions and ramping up economic pressure on the Kim regime.

Iran

Addressing the full range of threats from the Iranian regime is another top priority, and OFAC has significantly increased the pressure on Iran and the Islamic Revolutionary Guard Corps (IRGC) for its malign activities. Since this Administration took office, OFAC has issued

eight tranches of sanctions, designating 78 targets in Iran, China, Germany, Lebanon, and Ukraine in connection with the IRGC and Iran's ballistic missile program, support for terrorism, human rights abuses, cyber-attacks, transnational criminal activity, and other destabilizing regional activities.

Just last month, consistent with the Countering America's Adversaries Through Sanctions Act (CAATSA), OFAC designated the IRGC itself under our counter-terrorism authority, Executive Order 13224. Last week, OFAC sanctioned an IRGC-Qods Force counterfeiting ring that deployed deceptive measures to circumvent European export control restrictions and procure advanced equipment and materials to print counterfeit Yemeni bank notes potentially worth hundreds of millions of dollars for the IRGC-Qods Force. As part of the Administration's Iran strategy, and in particular our effort to deny Iran and especially the IRGC funding for its malign activities, OFAC continues to investigate networks vulnerable to disruption and aggressively target Iran's illicit conduct across the board.

We are focusing our energy and attention on Iran's threatening activities, which includes its continued development and testing of ballistic missiles. We have targeted key procurement networks supplying technology and goods used in Iran's ballistic missile program, and we have encouraged our partners and allies to join us in addressing these and other threats.

We have also consistently raised concerns with the private sector regarding the IRGC's malign behavior and its level of involvement in the Iranian economy. We have pointed out that the IRGC continues to be an integral part of the Iranian economy, including in the energy, construction, mining, and defense sectors. As we have urged the private sector to recognize that the IRGC permeates much of the Iranian economy, we have emphasized that those who transact with IRGC-controlled entities do so at their own risk.

Venezuela

The Administration remains deeply concerned about the situation in Venezuela, where the Maduro regime continues its assault on democracy in the country. In recent months, the Venezuelan government held elections for a Constituent Assembly that Venezuelans and democratic governments worldwide overwhelmingly opposed as undermining democracy and the rule of law. Likewise, in late October the regime held sham local elections that were neither free nor fair. The erosion of democracy in the country coincides with the continued collapse of the Venezuelan economy and a deepening humanitarian crisis exacerbated by Maduro's irresponsible economic policies.

As the Maduro regime destroys democratic order in the country, OFAC has sanctioned 40 individuals and entities this year for undermining democratic processes, engaging in media censorship, or otherwise supporting Maduro's dictatorial regime – as well as Maduro himself. Additionally, in February 2017 OFAC designated Tareck El Aissami, the Executive Vice President of Venezuela, for playing a significant role in international narcotics trafficking. The action also targeted his primary front man, Samark Lopez Bello, and a number of affiliated companies. Hundreds of millions of dollars in assets tied to El Aissami and Lopez Bello have

been blocked as a result of this action, and their ability to launder illicit proceeds has been significantly disrupted, highlighting the powerful impact of our authorities.

This summer, in conjunction with our other interagency partners, Treasury developed novel financial sanctions to pressure the Venezuelan regime via the measures included in Executive Order 13808. The sanctions include prohibitions on U.S. persons dealing in new long-term Venezuelan debt and bonds previously issued by the Venezuelan government. While continuing to allow for critical humanitarian imports, our sanctions play a significant role in disrupting the government's ability to conduct financial transactions and participate in international financial markets. As part of our efforts to target and calibrate our sanctions pressure, we published multiple rounds of guidance.

Our sanctions have galvanized partners and allies to respond with complementary measures. The European Union recently adopted its own restrictive measures, including banning arms sales to Venezuela and adopting a legal framework to impose travel bans and asset freezes. The EU's decision follows two rounds of targeted sanctions against Venezuelan officials by the Government of Canada.

We are continuously evaluating the situation in Venezuela and we will use all of our authorities to maintain pressure on the Maduro regime and its supporters to change their behavior. As Secretary Mnuchin has made clear, "we will maintain our vigorous efforts to sanction Venezuelan government officials who are complicit in Maduro's attempts to undermine democracy, violate human rights, inhibit the freedom of expression or peaceful assembly, or engage in public corruption, unless they break from Maduro's dictatorial regime."

Syria

OFAC continues to increase pressure on the Assad regime in Syria by designating its financial facilitators and restricting the regime's ability to procure materiel for its machines of war. We have sanctioned regime-based financial and procurement facilitators, front companies, their proxies, and others associated with the regime's chemical weapons attacks against Syrian civilians. In April of this year, in one of the largest sanctions actions in our history, OFAC sanctioned 271 employees of Syria's Scientific Studies and Research Center (SSRC), the government agency responsible for developing and producing non-conventional weapons and the means to deliver them. These sanctions are intended to hold the Assad regime and those who support it accountable for the regime's violations of the Chemical Weapons Convention and United Nations Security Council Resolutions.

Shortly afterwards, in May 2017 OFAC designated five individuals and five entities in response to continued acts of violence committed by the Government of Syria against its own citizens. We sanctioned a number of financial facilitators and supporters of the regime, as well as a contracts director for the SSRC and an entity subordinate to the Syrian Ministry of Defense. These actions demonstrate our resolve to target anyone who is enabling Assad and his regime, and we will continue to deploy our authorities to pressure the regime to end the conflict in Syria.

Russia

Another significant priority for OFAC is addressing Russia's destabilizing activities in Ukraine. This summer, we designated 38 individuals and entities involved in the ongoing conflict in Ukraine, including Russian government officials. More recently, OFAC has been hard at work implementing in a timely manner the multiple Russia-related statutory requirements of CAATSA. We modified OFAC Directives 1, 2, and 4, which target certain transactions in the energy and financial services sectors of the Russian economy, within the deadlines set by Congress, and we also published extensive guidance related to CAATSA and changes to existing authorities made pursuant to the law. This guidance is meant to help allies and industry better understand how OFAC intends to implement the relevant provisions.

I want to be clear and emphasize that Treasury has fully implemented every CAATSA requirement delegated to it within the statutory deadlines. We are committed to the full implementation of the law, and we are wholly aligned with Congress' goal of addressing the serious threats emanating from Iran, North Korea, and Russia.

Our sanctions against Russia are having an impact. In October, Russian oil company Rosneft announced a hold on a major South Black Sea oil project, citing sanctions as limiting its ability to obtain modern extraction technology and equipment. Rosneft is subject to our "sectoral" sanctions, which limit its ability to obtain financing, goods, technology, and non-financial services for a range of projects that have the potential to produce oil. This puts further pressure on the Russian government to re-consider its actions, and evaluate whether its involvement in Ukraine is worth the financial damage inflicted by our sanctions. We have coordinated our measures closely with the European Union, and other like-minded partners and allies have remained steadfast in their commitment to avoid backfilling U.S. and EU companies that exited certain Russian-related business, which further amplifies the impact of our measures.

Terrorism Financing

OFAC plays an important role in the coordinated U.S. government effort to combat terrorism, and has taken significant actions to target individuals and entities associated with ISIS, al-Qa'ida, and Hizballah, among others. Just last month, in conjunction with the launch of the Terrorist Financing Targeting Center (TFTC), a joint effort between the United States and the Gulf Cooperation Council countries to better share information and coordinate joint disruptive actions against terrorism, OFAC imposed sanctions against eight leaders, financiers, and facilitators of ISIS in Yemen and al-Qa'ida in the Arabian Peninsula, and one affiliated entity.

We continue to address the threat posed by ISIS, and use targeted sanctions as part of a whole-of-government effort to counter its capabilities and reach. Since 2014, the Departments of the Treasury and State have sanctioned more than 90 ISIS senior leaders, operatives, financial facilitators, recruiters, and affiliated money services businesses. In 2017, OFAC designated over 20 ISIS-affiliated individuals and entities, including an Iraq-based money exchange that was part of an ISIS financial facilitation network. These actions have inhibited ISIS' access to the international financial system, denying it the ability to use its money to expand its presence around the world or procure goods or fighters for its central operations in Iraq and Syria.

We are also targeting Hizballah and other terrorist actors. In February of this year, OFAC sanctioned a key Lebanon-based IRGC-Qods Force network that was working with Hizballah. As part of that action, we designated an IRGC-QF official that had facilitated cash transfers to Hizballah worth millions of dollars, including through a U.S.-designated Hizballah construction firm. We also sanctioned a related company that was used to launder funds and smuggle goods to Hizballah. We will continue to expose, block, and disrupt Hizballah's finances and deny it access to the U.S. and international financial systems.

OFAC also works closely with our partners within Treasury and the U.S. Government (USG), as well as internationally through bilateral or multilateral actions, to combat terrorism financing. Throughout 2017, we have partnered with the United Nations (UN) to increase designations under the UN's counter-terrorism regime. Such designations are important as all UN member states are required to block designated terrorists' assets and prohibit their travel. Other efforts included co-sponsoring a resolution under which the first two ISIS-related money services businesses were designated at the UN. In addition to these multilateral efforts, my office works closely with our law enforcement and interagency partners to support their investigations and work. This approach ensures that OFAC's actions complement and augment the impact of the broader USG's actions.

Narcotics Trafficking

Likewise, OFAC has targeted a number of major narcotics trafficking networks, with eight rounds of sanctions this year against individuals and entities located in Colombia, Mexico, Peru, and Venezuela. This includes the September 2017 designation of long-time Mexican cocaine trafficker Raul Flores Hernandez, the Flores Drug Trafficking Organization, and another 21 individuals and 42 entities that constituted his vast network. This action was the single largest Kingpin Act action against a Mexican drug cartel network by OFAC, and was the result of a multi-year investigation undertaken in coordination with the Drug Enforcement Administration, U.S. Immigration and Customs Enforcement Homeland Security Investigations, U.S. Customs and Border Protection, and the Government of Mexico.

Additionally, OFAC is closely coordinating with U.S. law enforcement to counter the heroin epidemic. In May 2017, OFAC sanctioned Mexican heroin trafficker Jose Luis Ruelas Torres and his criminal organization, including nine other individuals who supported his heroin trafficking into the United States. Since 2015, OFAC has targeted Mexico's Cartel Jalisco Nueva Generacion (CJNG) and its counterpart Los Cuinis with eight rounds of sanctions. CJNG is one of the largest and most violent Mexican poly-drug trafficking organizations and its leader Nemesio "Mencho" Oseguera Cervantes is one of the Drug Enforcement Agency's top three most wanted fugitives. In September 2017, OFAC continued its focused targeting of key CJNG assets when it sanctioned a popular restaurant and other businesses in Guadalajara, Mexico that were managed by key associates of Cervantes.

Human Rights Abuses

Treasury is committed to taking action, in conjunction with our interagency and international partners, to protect and promote human rights globally. To this end, OFAC

continues to identify and sanction those involved in human rights abuses across the world. Many of the sanctions programs administered by OFAC include criteria to designate persons for human rights abuses, and we have used these authorities to sanction human rights abusers in countries around the world, including through several actions this year.

In late October, we sanctioned seven individuals and three entities in North Korea in response to the regime's serious and ongoing human rights abuses, and in April of this year we sanctioned the Tehran Prisons Organization and a senior official within Iran's State Prison Organization in connection with serious human rights abuses in the country. We have also taken action against individuals in South Sudan and the Democratic Republic of the Congo whose actions included various human rights abuses, or who obstructed related investigations.

In a robust action on September 6, OFAC designated two South Sudanese government officials and one former official for their roles in destabilizing South Sudan. One of these officials, Malek Reuben Riak Rengu (Malek Reuben), was reportedly one of a group of senior security officials responsible for planning an April 2015 offensive that reportedly included widespread destruction, targeting of civilians, large population displacement, and numerous human rights abuses. In addition to designating Malek Reuben himself, we also targeted his network of business interests, designating three companies that are owned or controlled by him. We have heard from NGOs operating on the ground in South Sudan that these designations – together with a simultaneous advisory by the Financial Crimes Enforcement Network (FinCEN) regarding proceeds of corruption in South Sudan – were an impactful response to the atrocities ongoing in South Sudan.

We will continue to use our authorities, including the Global Magnitsky Human Rights Accountability Act and CAATSA, to target the parties responsible for serious human rights abuses worldwide. These actions are part of the U.S. government's overall efforts to stand up to human rights abuses throughout the world.

Enforcement and Compliance

OFAC is aggressively enforcing our sanctions, as designations and prohibitions must be supplemented by enforcement actions in order to be effective. In the last year, OFAC has finalized over 600 investigations – an increase of nearly 10% from the year before – including a number of public enforcement actions against individuals and entities that have violated our laws. These enforcement actions have focused on both bank and non-bank entities, here and abroad, that engaged in non-transparent transactions threatening the integrity of our sanctions programs, including foreign individuals and entities that cause U.S. businesses and financial institutions to process transactions in violation of our sanctions.

One particularly notable example this year was the settlement agreement for over \$100 million with the Chinese telecommunications firm ZTE that had, for years, surreptitiously supplied Iran and North Korea with U.S.-origin goods. This action was taken in conjunction with the Department of Justice, the Department of Commerce, and the Department of Homeland Security. This coordinated action is particularly important, showcasing not only OFAC's close

work with other agencies and partners to bring economic pressure on sanctions targets and violators, but also that we will pursue sanctions violators no matter where—or who—they are.

While adopting this aggressive enforcement posture, we also cooperate closely with the private sector, making our expectations as clear as possible through guidance and FAQs. We also encourage transparency and self-reporting, and consistent with our published Enforcement Guidelines, we provide a reduction in the potential penalty amounts for firms that voluntarily report potential violations. OFAC spends a significant amount of time conducting outreach to and responding to feedback from the private sector to ensure that they fully understand our sanctions and their implications, as the private sector is at the front lines of implementing these measures. This includes engaging in more than 70 outreach events to the financial and trade industries each year, including an OFAC-sponsored symposium attended by more than 800 representatives from domestic and foreign financial institutions, multinational companies, and foreign governments.

Balancing Priorities and Cooperation with Congress

Though I have touched on a number of important sanctions programs today, OFAC administers approximately 30 separate programs and maintains over 5,800 entries on our SDN List, a list that identifies persons subject to U.S. economic sanctions. The scope and frequency of our actions demonstrate the critical importance of sanctions in achieving U.S. national security and foreign policy goals and the extent to which policymakers rely on our targeted financial measures.

We are focusing the bulk of our resources and attention on the issues most pressing to our nation's security, while maintaining focus on the threats that may not be as high profile or in the news. OFAC – along with all of Treasury's Office of Terrorism and Financial Intelligence – has continued to accelerate the pace of our activity, and implement new authorities and respond to Congressional requirements, while operating under a relatively flat budget over the past few years. We have a cadre of extremely talented and dedicated career professionals who work tirelessly to protect our financial system and advance our national security interests. As OFAC Director, I have focused on maximizing our existing resources and deploying our sanctions authorities in an integrated and aggressive manner.

OFAC has broad powers under existing Executive Orders and statutes that enable us to target a variety of illicit conduct. We greatly appreciate Congress' partnership and continued efforts to ensure that OFAC is equipped with adequate tools and authorities. I will note that in order to adjust our strategy for maximum impact, we need flexibility in administering and enforcing our sanctions programs. Limitations on waivers, licensing, or de-listings can constrain this flexibility and unduly hamper us as we adjust our powerful economic pressure tools in line with developments on the ground. So too can the increased reporting requirements – with no expiration dates – contained in various statutes that mandate that we draft scores of reports to Congress every year, drawing substantial resources away from our primary sanctions activities.

Conclusion

Thank you again for the opportunity to speak with you today about this important topic. Our adversaries will continue to attempt to circumvent our measures, but OFAC will remain vigilant in stopping them at every turn. Targeted sanctions – when deployed strategically and in concert with other tools – can play a key role in keeping our country safe and secure. I look forward to working with the Committee and other Members of Congress as we further refine the implementation of our financial measures for maximum impact.

The Washington Post

Asia & Pacific

He ran North Korea's secret moneymaking operation. Now he lives in Virginia.

By Anna Fifield July 13

Efforts to sanction North Korea into submission won't work because there are too many ways around them, Ri Jong Ho says.

He should know.

For about three decades, Ri was a top moneymaker for the Kim regime, sending millions of dollars a year back to Pyongyang even as round after round of sanctions was imposed to try to punish North Korea for its nuclear defiance.

"We were never in pain or hurting in our trade business because of the sanctions. Instead, we conducted our first nuclear test in 2006," Ri said in an interview near Tysons Corner.

The 59-year-old, whose job had been to raise money for the North Korean regime, and his family live in Northern Virginia, having defected to South Korea at the end of 2014 and moved to the United States last year.

"I used to be sanctioned, as a North Korean who led trade at the front line, but I never felt any pain from the sanctions. The sanctions were perfunctory," Ri said.

He described being able to send millions of U.S. dollars to North Korea simply by handing a bag of cash to the captain of a ship leaving from the Chinese port city of Dalian, where he was based, to the North Korean port of Nampo, or by giving it to someone to take on the train across the border.

In first the nine months of 2014 — he defected in October that year — Ri said he sent about \$10 million to Pyongyang this way.

For more than two decades, the United States has been trying to convince North Korea to abandon its nuclear weapons program, alternating between inducements and punishments.

In both cases, American policy has relied on China, North Korea's erstwhile patron, using its economic power over its cash-strapped neighbor. But Beijing's implementation of sanctions, even those it backed through the United Nations, has been patchy at best. China's overwhelming priority is ensuring stability in North Korea.

President Trump has repeatedly called on China to support his policy of putting "maximum pressure" on Pyongyang to stop its nuclear and missile programs.

Efforts have not changed North Korea's behavior. This is partly because multilateral sanctions imposed through the United Nations must be watered down to avoid being vetoed by China or Russia, traditional backers of North Korea, and partly because other countries don't implement the tougher but unilateral U.S. sanctions.

"Unless China, Russia and the United States cooperate fully to sanction North Korea, it will be impossible to hurt them," Ri said.

China's interest in North Korea is well known, but Russia's role in supporting the former Soviet client state is often overlooked. Amid calls for China to limit oil exports to North Korea, Russia has dramatically increased the amount of oil it has sent — some reports suggest exports have quadrupled — to North Korea this year.

North Korea's financial networks, moreover, are intentionally murky. The U.S. Treasury has sanctioned more and more North Koreans and North Korean companies by name to try to cut them off from the American financial system, but few, if any, have any exposure to the United States.

For this reason, Ri's insights are widely sought after in Washington, where successive administrations have been trying to find North Korea's pressure points.

Ri worked for three decades in Office 39, the Workers' Party operation responsible for raising money for the North Korean leader. The office has long been associated with both legal trade and illicit activity, including counterfeiting dollars and drug smuggling.

Ri said he worked as president of a shipping company and was chairman of Korea Kumgang Group, a company that formed a venture with Sam Pa, a Chinese businessman, to start a taxi company in Pyongyang. Ri supplied a photo of him and Pa aboard a jet to Pyongyang.

He was awarded the title "hero of labor" in 2002 for his efforts, and said he lived the good life in Pyongyang, with a color TV and a car. "I was very loyal to Kim Jong Il, so I was rewarded by him," he said. "I was rich."

His last position was running the Dalian branch of Daeheung, a trading company involved in shipping, coal and seafood exports, and oil imports. The company was given targets to meet in terms of profits, he said, declining to go into details.

But in 2014, Ri grew increasingly disillusioned after Kim Jong Un suddenly denounced his uncle, Jang Song Thaek, as a “traitor for all ages” and had him executed at the end of 2013.

Jang had been leading economic cooperation efforts with China, and dozens of people who worked for him were also purged at the time, Ri said. He worried that his family would be next. They escaped to South Korea before moving to the United States, where his two children, now in their 20s, plan to go to college.

Experts said Ri’s arrival in the United States could be a boon for American efforts to crack down on North Korea.

“It’s always useful when a defector, especially one that knows the internal operations of Office 39 — and my assumption is that he knows the external operations too — can help us,” said Anthony Ruggiero, who worked on sanctions at Treasury and is now with the Foundation for the Defense of Democracies.

The United States has been trying to understand how North Korea uses banks in China in particular to finance its activities. “I hope that the Treasury and some other organizations with ‘agency’ at the end of their name are talking to him,” Ruggiero said.

Ri said North Korea has repeatedly found ways to circumvent whatever sanctions are imposed on it.

“North Korea is a 100 percent state enterprise, so these companies just change their names the day after they’re sanctioned,” he said. “That way the company continues, but with a different name than the one on the sanctions list.”

Ri’s Chinese counterparts weren’t bothered, either, he said.

“My partners in China also want to make a profit, so they don’t care much about sanctions,” he said. “When the Chinese government orders them to stop, they stop for a few days and then start up again.”

Growing impatient with Beijing, Washington is increasingly targeting Chinese companies that help North Korea with what are called “secondary sanctions.” At the end of last month, the Trump administration blacklisted the Bank of Dandong, located on the border between the two countries, for its dealings with North Korea.

But without knowing how to really hurt North Korea and teaming up to do it, it will be “impossible” to change Pyongyang’s calculus on the nuclear program, Ri said.

For that reason, the former money man advocates an approach that combines Trump’s “maximum pressure” with another idea that the president has at least flirted with: talks.

“I think there should be top-level talks between the U.S. and North Korea, so that they can both work together to solve the problem,” Ri said.

After last week's intercontinental ballistic missile test and last month's death of Otto Warmbier, the Ohio college student who returned from 17 months' detention in North Korea in a coma, talks seem a long way off.

But Trump, a businessman who prides himself on being a master negotiator, has said he would be "honored" to meet Kim, whom he called a "smart cookie."


At unofficial talks in Oslo in May, a North Korean delegation signaled to American representatives Kim's interest in talking, according to two people with knowledge of the discussions.

Previous diplomatic efforts to convince North Korea to give up its nuclear weapons have failed, and there is a great deal of skepticism in Washington about negotiations.

But that shouldn't stop the current administration from trying, Ri said: "Like they say in politics, yesterday's enemy can be today's friend."

 **63 Comments**

Anna Fifield is The Post's bureau chief in Tokyo, focusing on Japan and the Koreas. She previously reported for the Financial Times from Washington DC, Seoul, Sydney, London and from across the Middle East.

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Congressman Brad Sherman

Questions for the Record

Financial Services Subcommittee on Monetary Policy and
Trade Hearing on "Evaluating the Effectiveness of U.S.
Sanctions Programs,"

November 30, 2017

Questions for the Record:

The Honorable Marshall Billingslea, Assistant
Secretary for Terrorist Financing, U.S. Department of
the Treasury

AND

Mr. John E. Smith, Director, Office of Foreign Assets
Control, U.S. Department of the Treasury

Question 1: *Analysts estimate that there are about 800 entities or individuals linked to the Iranian Revolutionary Guard Corps (IRGC) that have yet to be sanctioned by the United States, and that the United States has sanctioned only about 80 such entities, not counting aircraft. Likewise, only a few companies and individuals that have done business with or provided significant assistance to the IRGC have incurred secondary sanctions. Why have your offices not imposed a greater number of sanctions on IRGC-linked entities and on entities who do business with the IRGC and IRGC-linked entities? Is it because your standard of proof is too high? Is it because your staffing is too low? How many Farsi-speaking individuals do your offices have working on these issues?*

Answer 1: Countering Iran's malign activity, including with respect to its human rights abuses, support for terrorism, WMD proliferation, support for al-Assad's murderous regime, and cyberattacks, is one of our top priorities. As we continue to implement the President's decision to cease the United States' participation in the Joint Comprehensive Plan of Action (JCPOA), we are imposing unprecedented financial pressure on the Iranian regime. We have already begun reimposing some of the sanctions that were relieved under the JCPOA following the end of the 90-day wind-down period. And, after the 180-day wind-down period ends on November 4, 2018, the remaining sanctions that had been lifted under the JCPOA will come back into effect. We will fully enforce the sanctions reimposed against Iran, and those who fail to wind down activities with Iran risk severe consequences.

We will also continue to enforce fully our authorities that have always been in place. Under this Administration, the Office of Foreign Assets Control (OFAC) has issued 18 rounds of sanctions targeting Iranian activity and designated 146 Iran-related persons. As part of our economic pressure campaign against Iran, in October 2017, Treasury designated Iran's Islamic Revolutionary Guard Corps (IRGC) pursuant to Executive Order (E.O.) 13224 (global terrorism) and consistent with the Countering America's Adversaries Through Sanctions Act. The IRGC was designated for its support of the IRGC-Qods Force (IRGC-QF), designated under the same authority in 2007 for providing support to terrorist groups such as Hizballah, HAMAS, and the Taliban. The IRGC continues to provide material support to the IRGC-QF, including training, personnel, and military equipment.

A major focus of our efforts is Mahan Air, an airline that provides material support to the IRGC-QF, which was designated under E.O. 13224. Via this airline, the Iranian regime attempts to covertly move weapons and explosives, terrorists and other fighters, and cash in support of regional malign activities. These activities have fueled Iran's proxies, such as Hizballah, and have given additional aid to the murderous Assad regime in Syria. In July, we designated Mahan Travel and Tourism, a Malaysia-based General Sales Agent (GSA), which is Mahan Air's sole GSA in Kuala Lumpur, Malaysia, and provides reservation and ticketing services for Mahan Air. In September, we designated My Aviation Company Limited, a Thailand-based GSA, for acting for or on behalf of Mahan Air. We will continue targeting individuals and entities supporting Mahan Air. In addition, we are warning airport operators and GSAs, whether in Europe, Asia, or the Middle East, that if they continue to transact with Mahan Air, they are at risk of our sanctions.

We are also working to disrupt and expose Iran's abuse of the international financial system. In May, for example, we sanctioned the then-Governor of the Central Bank of Iran (CBI) and the assistant director of the CBI's international department for conspiring with the IRGC-QF to conceal the movement of millions of dollars to enrich and support Hizballah. Likewise, we targeted a currency exchange network that Iran was using in Iran and the UAE to procure and transfer millions of U.S. dollars to the IRGC-QF, again facilitated by the CBI. These – and our many other actions – have been enormously impactful.

We have delivered direct messages to the private sector detailing how Iran is involved in extensive illicit business activities, including using front and shell companies, counterfeiting currency, and conducting cyberattacks to fund its support for terrorism. We continue to urge companies around the globe to toughen their financial networks and conduct extra due diligence to prevent them from being caught in Iran's deceitful web. Our engagements have highlighted the very real risks of conducting business with companies and people in Iran, as those engaging in prohibited business with Iran will be held to account. Additionally, we have continued to stress that even non-sanctionable trade with Iran may benefit the IRGC, as the IRGC has penetrated significant sectors of the Iranian economy. Therefore, conducting business with Iran may expose companies to Iran's deceptive financial practices. We have also continued to urge foreign governments to impress upon companies in their countries the importance of conducting the necessary due diligence to avoid ensnarement in Iran's illicit schemes, which often involve the IRGC.

We also work through the Financial Action Task Force (FATF) to pressure Iran to clean up its anti-money laundering/combating the financing of terrorism (AML/CFT) regime. For over a decade, the FATF has highlighted the terrorist financing risk emanating from Iran and the threat it poses to the international financial system. Yet, Iran has failed to fulfill its international obligations to clean up its financial system, crack down on illicit activity, and cease all financing of terrorism. We will continue to call for the FATF to re-impose countermeasures on Iran, including at its next meeting.

In response to your question on resources, Treasury employs a variety of foreign language speakers to carry out investigations, including Farsi speakers. Our evaluation process requires thorough review, including that of the interagency, before designations are issued. We remain

grateful to Congress for continued support through the increase of funds in recent years. Your support strengthens and improves the Office of Terrorism and Financial Intelligence's ability to protect more robustly the international financial system from bad actors such as the IRGC.

Question 2: *What is the United States government and Treasury doing to make sure that CITGO is not overpaying its Venezuelan affiliate for either refined or non-refined petroleum products? Further, what is the United States government and Treasury doing to prevent Venezuela's government from selling some, or a majority of, or all of, its stake in CITGO and taking the proceeds back to Caracas?*

Answer 2: We have taken steps to protect the U.S. financial system from abuse by corrupt Venezuelan officials and their support networks. We have issued a carefully calibrated set of prohibitions through a series of Venezuela-specific Executive Orders that deny the Maduro regime a critical source of financing, protect the U.S. financial system, and shield Venezuelans from punishingly expensive debts. Our measures target the regime without triggering unwanted collateral consequences.

Among other things, our measures prohibit the Maduro regime from earning money from the sale of entities in which it owns a 50 percent or greater interest, such as CITGO. Specifically, the equity-related prohibition in Subsection 1(a)(iii) of E.O. 13835 applies to any sale, transfer, assignment, or pledging as collateral by the Government of Venezuela of any equity interest in any entity in which the Government of Venezuela has a 50 percent or greater ownership interest; and any dealing in, including provision of services in support of, such transactions. Also, subsection 1(a)(iv) of E.O. 13808 prohibits engaging in transactions involving dividend payments or other distributions of profits to the Government of Venezuela by any entity owned or controlled, directly or indirectly, by the Government of Venezuela.

Treasury's Financial Crimes and Enforcement Network also issued an advisory in 2017 to alert financial institutions of widespread public corruption in Venezuela and methods Venezuelan senior political figures may use to move and hide corruption proceeds. The advisory mentioned several red flags related to Venezuelan corruption, including the use of invoices that include charges at substantially higher prices than market rates.