

Testimony of Assistant Secretary Marshall S. Billingslea Before House Foreign Affairs Committee on Threat Posed by North Korea

September 12, 2017

Prepared Testimony as Submitted to the Committee

WASHINGTON - Chairman Royce, Ranking Member Engel, and distinguished members of this Committee, thank you for the opportunity to update the Committee on the Treasury Department's efforts to counter the urgent threat posed by North Korea.

This is my first time testifying as Treasury's Assistant Secretary for Terrorist Financing. I am honored to represent the Department today. Under the leadership of Secretary Mnuchin and Under Secretary Mandelker, Treasury has developed and is actively implementing a campaign designed to impose maximum pressure on North Korea's finances and economy. We are working as part of the Administration's overall effort to eliminate the danger posed to the United States and our allies by Kim Jong-Un's nuclear and ballistic missile programs. I am here today to publicly share aspects of the plan, assess our progress thus far and describe the challenges we face.

The Threat Posed by North Korea

North Korea poses a grave and growing threat to the security of the United States, our friends and allies in Asia, and – indeed – the world as a whole. Kim Jong-Un has dramatically increased the pace of ballistic missile testing since coming to power. This year alone, North Korea has conducted sixteen missile tests, including two intercontinental ballistic missile (ICBM) tests. Just a few days ago, on August 28, North Korea launched a missile directly over Japan. Not only was this a violation of United Nations Security Council resolutions, it imperiled Japanese airspace and clearly was meant as a blatant threat to the people of Japan, and to us and our armed forces stationed there. North Korea's latest test of a nuclear device, conducted over the Labor Day weekend, marks an unacceptable provocation.

Kim Jong-Un has issued multiple threats to target American cities and territories. His recent pronouncements regarding the conduct of salvo missile launches at Guam are just one example. We take these threats with the utmost seriousness, and are determined to constrain Kim Jong-Un's capacity to act on such threats in the future. We will not allow North Korea to extort and threaten the world with its nuclear and missile programs.

In order to constrain Kim Jong-Un, the international community has unanimously enacted multiple United Nations Security Council resolutions. In fact, with each provocation by North Korea's dictator, the nations of the world have responded with steadily tightening constraints of sanctions and embargoes.

Under previous Administrations, the UN had prohibited trade in arms, luxury goods, minerals, monuments, and the maintenance of representative offices, subsidiaries or bank accounts in North Korea. While this clearly had inhibited North Korea's quest for weapons of mass destruction (WMD), it was not enough. On August 5, our Administration worked with the other Permanent Members of the Security Council to pass UN Security Council Resolutions 2371, striking at the core of North Korea's revenue generation. That resolution, drafted by the United States, embargoes all importation of North Korean coal, iron, lead and seafood and now requires nations to cap employment of North Korean citizens sent abroad as workers. Very importantly, last night, on September 11, the UN passed resolution 2375, targeting North Korea's ability to export textiles, further restricting North Korea's ability to acquire revenue from overseas laborers, cutting off over 55 percent of refined petroleum products going to North Korea, and fully banning all joint ventures with North Korea to cut off foreign investments. These two recent resolutions are central to our efforts to mobilize the international community and to deny funds to Kim Jong-Un's weapons programs.

The fact is, however, that North Korea has been living under UN sanctions for over a decade, and nevertheless has made significant progress toward its goal of building a nuclear-tipped ICBM. As is the case with any international agreement, the key to effectiveness of UN Security Council resolutions is *implementation*.

All nations must join us in implementing all relevant United Nations Security Council resolutions, including the most recently enacted ones. North Korea continues to defy the UN arms embargo and is continually engaged in efforts to evade the sanctions and prohibitions

adopted in nine separate UN Security Council resolutions. As both the UN and the U.S. sanctions regimes expand in response to Kim Jong-Un's reckless behavior, so too does the depth and breadth of North Korea's sanctions evasion efforts. Because of uneven, and sometimes nonexistent, international implementation, North Korea shrugs off the practical impact of many restrictions, and is still exporting prohibited goods such as weapons, minerals, and statues.

North Korea's leadership also continues to smuggle in luxury goods while neglecting the urgent, basic needs of its citizens. The humanitarian suffering of the North Korean people stands in stark contrast to the opulent lifestyle of Kim Jong-Un and North Korea's senior leaders. To finance their excesses, as well as the nuclear and ballistic missile programs, the regime is evading financial restrictions by using overseas financial representatives and a web of front and shell companies. North Korea has proven adept at using the interconnected global financial system to its advantage and employing deceptive financial practices to cover its tracks. North Korea is at times very sophisticated in how it sets up financial intermediaries. But in some countries where the will to fully implement and enforce sanctions has been lacking, North Korea can often be brazen in how it accesses financial networks.

Using all the information available to the U.S. government, the Treasury Department is mapping out North Korea's financial and revenue-generating mechanisms.

Applying Maximum Economic Pressure on North Korea

Kim Jong-Un has two key financial vulnerabilities. First, he needs revenue to maintain and expand his WMD and ballistic missile programs. Second, he needs access to the international financial system to acquire hard currency, transfer funds, and pay for goods for both licit and illicit purposes. We are therefore actively working to cut off Kim Jong-Un's ability to both raise and move money through the international financial system.

Targeting DPRK Revenue

There are only a finite number of ways that North Korea can raise significant amounts of foreign exchange. For many years, coal has been the center of gravity for North Korea's revenue generation. By our estimates, prior to the latest UN Security Council resolutions, coal shipments brought in \$1 billion in revenue annually for the regime. Prior to the latest UNSCR, North Korea

made another estimated \$500 million annually from iron, lead, and seafood. In the past, an important source of funding was the export of weapons and missile technology, but now North Korea acquires revenue from exporting commodities. That is why the August 5 UN Security Council Resolution 2371 is so important. It prohibits UN Member States from importing any of these items from North Korea.

But, as I noted, effective implementation of all UNSCRs is essential if we are to deny North Korea its current, principal sources of funds. Treasury, in coordination with the State Department, is working to accomplish just that. We do this in a number of ways. With friends and allies, we share detailed information regarding North Korean activities to assist them in disrupting sanctions evasion and illicit trade. The Treasury Department routinely engages at multiple levels with partner nations to help them conduct detailed forensic investigation and analysis to target North Korean financial networks where they exist.

For instance, on August 22, we struck at the heart of North Korea's illegal coal trade with China. Treasury designated 16 individuals and entities, including three Chinese companies that are among the largest importers of North Korean coal. We estimate that collectively these companies were responsible for importing nearly half a billion dollars' worth of North Korean coal between 2013 and 2016. These funds are used to support the Government of North Korea and the Workers' Party of Korea, including its nuclear and ballistic missile programs. On top of that, we know that some of these companies were also buying luxury items and sending an array of products back to the North Korean regime. On August 22 we sent two clear messages. The first was to North Korea: we intend to deny the regime its last remaining sources of revenue, unless and until it reverses course and denuclearizes. The second message was to China. We are capable of tracking North Korea's trade in banned goods, such as coal, despite elaborate evasion schemes, and we will act even if the Chinese government will not.

Importantly, our August actions were matched by swift legally-binding domestic designations in Japan, and by a public advisory from South Korea's Ministry of Strategy and Finance cautioning all South Korean nationals from conducting financial transactions with these U.S. designated individuals and entities. It strongly advised that South Korean nationals exercise particular caution against transactions with the designated individuals and entities. Our disruption efforts against North Korean networks are maximized when nations act forcefully, in concert. We appreciate the steps taken by Japan and South Korea, and we look to other friendly and allied nations in the region to do the same.

I also note, for the Committee, that our August actions followed two earlier rounds of domestic sanctions. On June 1 of this year, the Administration targeted a different type of North Korean revenue: labor. We designated three individuals and six entities, including the Korea Computer Center (KCC), a state-run IT research and development center that was operating in Germany, China, Syria, India, and the Middle East. Using overseas North Korean laborers, KCC was earning foreign currency for North Korea's Munitions Industry Department, which is responsible for overseeing the ballistic missile program. In addition to these sanctions, behind the scenes, both we and the State Department have aggressively engaged dozens of countries where North Korean workers were employed, often by so-called construction companies. I am pleased that in many cases, our efforts have led to the scaling back or outright expulsion of these workers – yet another financial blow to the regime.

Finally, recall that on March 1, Treasury designated twelve individuals and entities, including North Korea-based Paeksol Trading Corporation, which was selling coal and iron ore to China. The revenue from these sales supported the UN- and U.S.-designated Reconnaissance General Bureau, North Korea's premiere intelligence organization that is also involved in the government's conventional arms trade.

In total, under this Administration, the Treasury Department is engaged in a full court press on Kim Jong-Un's revenue generation networks. We have singled out 37 specific entities involved in the most lucrative types of trade remaining to the regime, such as coal, iron, and labor. These are just the companies and people that we have decided to designate publicly. As noted, other parts of the network we have chosen to disrupt through non-public measures, working with friends and allies. North Korea will certainly continue to morph its procurement and sales networks in response to our actions, and we will be relentless in our pursuit.

Shipping

As part of North Korea's efforts to acquire revenue, the regime uses shipping networks to import and export goods. North Korea employs deceptive practices to conceal the true origin of these goods. Pyongyang has been found to routinely falsify a vessel's identity and documentation, complicating the ability of governments to determine if a vessel docking in their ports is linked to North Korea. We are actively increasing our understanding of North Korea's shipping networks, and we will expose individuals and companies that are providing insurance, maintenance, or other services to North Korean vessels. In June, the Treasury Department designated Dalian Global Unity, a Chinese company that was reported to transport 700,000 tons

of freight annually between China and North Korea. Dalian Global Unity was also involved in smuggling luxury goods, with middlemen from the company giving specific instructions about how to evade the UN-mandated luxury goods ban. The Treasury Department has extensive experience mapping and dismantling illicit shipping networks, having worked for many years to uncover deceptive Iranian shipping practices. We are applying lessons learned in the Iran context to target commercial shipping moving in and out of North Korea.

Accordingly, I am pleased to offer for the Committee's consideration today several images, provided by the Intelligence Community, which clearly shows deceptive shipping practices used by the North Koreans. In the following images, you see examples that demonstrate that North Korea is using deceptive practices to mask the origin of exported coal to Russia and China. In the first example, the ship travels from China and declares that it is travelling to Russia. During its journey, the ship turns off its automatic identification system (AIS), probably stops in North Korea to load coal, travels to Vladivostok, Russia, and then returns to China probably to offload the coal.

We are making this information available today to the Committee and to the public, and are also sharing with other nations as we take steps to curtail these deceptive practices and enforce the UN embargoes on coal, iron and iron ore, and other commodities.

Preventing Access to the Global Financial System

North Korea also uses deceptive practices to access the global financial system. As we constrain North Korea's ability to generate revenue, we continue to disrupt the regime's attempts to access the U.S. and international financial systems. North Korea seeks to use the funds it earns abroad to pay its bills and purchase goods. Because of the robust international sanctions regime in place, it is difficult for North Korean individuals and entities to do business in their true names. So in order to access the international financial system, North Korea maintains representatives abroad who work on behalf of UN- and U.S.-designated North Korean banks and trading companies, helping North Korea conceal their overseas footprint.

These individuals are important to North Korean networks because they have expertise that they use to establish front companies, open bank accounts, and conduct transactions enabling North Korea to launder funds. Without them, Kim Jong-Un's regime will find it much harder to develop the layers of obfuscation necessary to evade our steadily constricting campaign. We

urge the private sector, particularly in Asian financial hubs, to stay vigilant. North Korean financial facilitators are violating both international and U.S. law. Those who collaborate with them are exposing themselves to enormous jeopardy. So too are the bankers, accountants, tax advisors, and notaries who participate in North Korean deception. It is incumbent on those in the financial services industry who might be implicated in the establishment of shell or front companies for the DPRK, and anyone who is aware of such entities, to come forward with that information now, before they find themselves swept up in our net.

We are committed to stopping this activity wherever it occurs. Treasury is working with foreign governments, U.S. law enforcement, and the private sector to expose North Korea's deceptive practices, prevent them from conducting international transactions, and freeze these funds.

This year, Treasury designated North Korean bank and trading representatives who were operating in China, Cuba, Russia, and Vietnam. These designations prohibited these individuals from accessing the U.S. financial system, alerted banks to the risk they posed, and pressured governments harboring these facilitators to abide by their UN Security Council obligations, expel these representatives, and freeze their assets. We expect more actions to come.

North Korea's illicit financial activity is not just conducted in dollars. Nor is it limited to a handful of legal jurisdictions. We also are concerned about North Korea's use of euros and other currencies. Once a North Korean trade representative successfully places revenue into a nation's financial system, that revenue often then flows indirectly through global banks, who are unwittingly conducting currency clearing operations for North Korean front companies. Obviously, financial institutions conducting transactions or clearing funds for North Korean front companies are likely violating UN sanctions. The challenge, however, is how to identify the North Korean front companies in the first place. Treasury is working with governments around the world, particularly those with banks engaged in euro-clearing, to share typologies of North Korean sanctions evasion. This includes the sharing of specific information with Ministries of Finance, Central Banks, and Financial Intelligence Units to assist in protecting their currency clearing processes from abuse by North Korea.

Similarly, Treasury is also closely coordinating with the Department of Justice to target North Korean networks transferring money through the U.S. financial system. In June and August, Treasury designated a Russian network selling petroleum to North Korea. The Independent Petroleum Company (IPC), a Russian company, has reportedly shipped over \$1 million worth of

petroleum products to North Korea. In order to pay for the petroleum, North Korea set up front companies that could transfer funds on behalf of the UN- and U.S.-designated Foreign Trade Bank. Treasury designated the three individuals and two front companies involved in the scheme and froze the funds moving through the U.S. financial system. On the same day, the Department of Justice issued a civil forfeiture complaint against the companies to seize almost \$7 million held by U.S. banks, belonging to those entities and individuals.

Similarly, on June 29, Treasury took action against a Chinese bank: Bank of Dandong. Pursuant to Section 311 of the USA PATRIOT Act, Treasury found the bank to be of “primary money laundering concern” and issued a notice of proposed rulemaking, which, if finalized, would essentially cut Bank of Dandong off from the U.S. financial system. Among other things, Bank of Dandong is believed to act as a financial conduit for North Korea to access the U.S. and international financial systems, including by facilitating millions of dollars of transactions for companies involved in North Korea’s WMD and ballistic missile programs.

This was the Treasury Department’s first action in over a decade that targeted a non-North Korean bank for facilitating North Korean financial activity. It clearly demonstrates the Administration’s commitment to protecting the integrity of both the U.S. and international financial systems. Financial institutions in China, or elsewhere, that continue to process transactions on behalf of North Korea should take heed. We will continue to target North Korea’s illicit activity, regardless of location.

Challenges and Opportunities

It is essential that the international community work together to increase economic pressure on North Korea. North Korea is a threat to global peace and security. Moreover, Kim Jong-Un’s regime operates globally, and therefore we need global cooperation to constrain its finances. All UN Member States must, at minimum, implement and enforce UN Security Council Resolutions, which are binding.

But we can, and should, do more. We are working bilaterally with key partners to coordinate our domestic sanctions programs. We are pleased that, this year, Australia expanded its sanctions programs to target additional sectors of the North Korean economy, and that Japan and South Korea – as I noted – have issued domestic actions targeting North Korea. Under Secretary Mandelker is currently in Europe discussing our work with our European allies to

increase sanctions and combat North Korea's sanctions evasion, and Treasury's leadership is engaged with leaders from Southeast Asia and Africa on the importance of implementing UNSCRs. We are also working bilaterally with governments and through the Financial Action Task Force to ensure that countries have the regulatory framework in place to detect and freeze assets linked to North Korea.

But challenges remain. Certainly China and Russia are to be recognized for supporting adoption of the most recent Security Council Resolution. Nevertheless, both countries must do much more to implement and enforce the sanctions called for by the United Nations. Russian companies continue to provide support to North Korea. DPRK bank representatives operate in Russia in flagrant disregard of the very resolutions adopted by Russia at the UN. This summer, for instance, Treasury designated Russian companies Gefest and Ardis Bearings, as well as their directors, for providing support directly to North Korean entities involved in WMD and ballistic missile procurement. This activity is unacceptable, and we will continue to target those entities and individuals anywhere, including Russia, who provide any support to North Korea's procurement networks.

China is even more central to a successful resolution of the crisis caused by Kim Jong-Un. China accounts for at least 90 percent of North Korea's exports. North Korea is overwhelmingly dependent upon China for both trade and access to the international financial system. China's full and effective enforcement of UN sanctions is therefore essential. Unfortunately, I cannot assure the Committee today that we have seen sufficient evidence of China's willingness to truly shut down North Korean revenue flows, expunge the North Korean illicit actors from its banking system, and expel the North Korean middlemen and brokers who are establishing webs of front companies. We will continue to work with the Chinese to maximize economic pressure on North Korea, but we will not hesitate to act unilaterally. If China wishes to avoid future measures, such as those imposed on Bank of Dandong or the various companies sanctioned for illegal trade practices, then it urgently needs to take demonstrable public steps to eliminate North Korea's trade and financial access.

Conclusion

Mr. Chairman, Ranking Member Engel, and Members of the Committee: I reiterate my appreciation for the opportunity to testify before you today on this administration's efforts to combat the threat posed by North Korea's deadly weapons programs. Treasury is engaged on a

daily basis in “hand-to-hand” financial combat with North Korea’s illicit networks. We do this with the full recognition that our success in curtailing North Korea’s revenue streams and shutting off its access to financial systems is essential to a peaceful resolution of the growing crisis. As I have indicated, we will target North Korea’s economic activities and sanctions evasion schemes regardless of where they occur. We are approaching the problem strategically, but given the urgency of the threat, we will continue to apply maximum pressure on North Korea, and on those countries where the DPRK operates, at every turn.

Thank you and I look forward to your questions