

Testimony of Sigal Mandelker Under Secretary, Terrorism and Financial Intelligence U.S. Department of the Treasury Senate Banking Committee Thursday, September 28, 2017

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Opening

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Chairman Crapo, Ranking Member Brown, and distinguished members of this Committee, as the Under Secretary for Treasury's Office of Terrorism and Financial Intelligence, I am honored to appear before you to discuss the Treasury Department's strategy to combat one of the gravest national security threats we face today: the provocative, destabilizing, and repressive actions of North Korea.

Just this year, North Korea has conducted a nuclear test and multiple ballistic missile tests, including two intercontinental ballistic missile (ICBM) tests and two missile launches that overflowed Japan. Kim Jong Un continues to utter threats against American cities and territories and those of our allies. We are determined to constrain Kim Jong Un's capacity to act on such threats in the future. We must not allow North Korea to extort the United States and our allies with its nuclear and missile programs.

The Administration is applying maximum economic and diplomatic pressure to counter this threat. Treasury's tools are central to this campaign and have become among this Administration's top non-kinetic tools of choice. We have the unique ability to map out and target North Korea's trade and financial networks. We are doing so at an unprecedented pace by executing a comprehensive campaign designed to impose maximum pressure on North Korea's finances and economy. Today, I will share aspects of our strategy.

Under the leadership of Secretary Mnuchin, my mandate is to make sure that we are strategically and smartly deploying all of our economic authorities – including sanctions, anti-money laundering (AML) measures, enforcement actions, actions under Section 311 of the USA PATRIOT Act, foreign engagement, private sector partnerships, among other tools – to identify and disrupt the regime’s ability to generate revenue and move funds in support of its weapons programs. I have directed each component within the Office of Terrorism and Financial Intelligence to prioritize the North Korea threat; to be innovative and strategic in our approach; to assess the impact of our actions so that we adapt our strategy as circumstances dictate; and to stay agile as we calibrate to ensure maximum impact against the regime’s finances.

In the last nine months, we have targeted dozens of individuals and entities facilitating North Korea’s weapons programs, including coal companies, banks, and individuals who help North Korea evade international sanctions. This, along with our other actions and those of our international partners, is intended to have a significant impact on North Korea’s ability to continue raising and moving funds.

Actions taken just this past week further illustrate our seriousness of purpose. On September 21, the President announced a new Executive order that provides Treasury with the most robust set of North Korea-related sanctions authorities yet. Executive Order 13810 authorizes Treasury to impose a range of sanctions, such as suspending U.S. correspondent account access to, or designating and freezing the assets of, any foreign bank that, going forward, knowingly conducts or facilitates significant transactions tied to trade with North Korea or certain persons blocked in connection with North Korea. We can also freeze assets of anyone conducting significant trade in goods, services, or technology with North Korea and of anyone supporting North Korea’s textile, fishing, and manufacturing industries.

We are already using these new authorities to maximize our leverage. Just this week, we took action on a number of North Korean banks and designated 26 financial facilitators acting as representatives for North Korean banks across the globe. These individuals were part of North Korea’s ongoing attempts to evade sanctions in order to help the regime raise and move funds. We are calling them out and working tirelessly to put an end to this practice.

We have an incredibly dedicated team at Treasury focused around the clock on countering these threats. We will not relent until the danger posed to the United States and our allies by Kim Jong Un’s nuclear and ballistic missile programs is eliminated.

Identifying and Targeting North Korea's Financial Vulnerabilities

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Our strategy is focused on attacking North Korea's key financial vulnerabilities: (i) the regime requires revenue to maintain and expand its nuclear and ballistic missile programs, and (ii) the regime needs to move funds through the international financial system in order to acquire foreign currency (such as dollars and euros), transfer funds, and pay for goods.

All components of my office are working in concert toward this objective. Underpinning these efforts is our ability to rely on financial intelligence and analysis. Treasury's Office of Intelligence and Analysis (OIA) – a member of the Intelligence Community – provides expert analysis of North Korea's financial networks, identifying key nodes that enable us to take disruptive action and build impactful strategies. The Office of Foreign Assets Control (OFAC) – the beating heart of Treasury's sanctions programs – tirelessly investigates and targets individuals and entities that support North Korea's weapons of mass destruction (WMD) and ballistic missile programs. The Financial Crimes Enforcement Network (FinCEN) exercises its information gathering and analytical tools in novel ways to track the financial flows of North Korean entities and front companies, and has used Section 311 of the USA PATRIOT Act to further restrict North Korea's access to the U.S. financial system. The Office of Terrorist Financing and Financial Crimes (TFFC), our policy coordination office, leads our international engagement efforts to work with partner countries, thereby hardening the defenses worldwide and depriving North Korea of alternative financial avenues.

Our goal is to strategically and tactically choke off North Korea's revenue sources and safeguard the international financial system from North Korea's illicit financial activity.

Targeting North Korea's Sources of Revenue

Any revenue that North Korea generates can be used to support, directly or indirectly, its weapons development programs. As such, President Trump and Secretary Mnuchin have made clear that all countries must stop trading with North Korea. A key part of our strategy to suffocate North Korea financially is to target the regime's most profitable industries, including coal, exportation of overseas labor, and sale of weapons and other goods.

Coal (\$1 billion annually): By our estimates, prior to the latest UN Security Council resolutions (UNSCRs), coal exports brought in \$1 billion in revenue annually for the regime. We are constricting this revenue source by targeting North Korean coal networks and the individuals and entities that support them, as well as by working multilaterally so that other countries also sever this economic lifeline.

OFAC designations are a central part of this effort. On August 22, OFAC 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.

We are also working with the United Nations to dry up North Korea's coal revenues. On August 5, 2017, the UN implemented a full coal ban under UNSCR 2371. Of course, the success of this and other UNSCRs depends on effective implementation. We will continue working with the State Department to engage multilaterally and share detailed information to assist other countries in disrupting sanctions evasion and illicit trade.

Exportation of Overseas Labor (\$500 million a year): North Korea sends its people to countries across the globe, many of whom work in slave-like conditions, in order to generate revenue for the regime. Countries around the world employ North Korean overseas labor, which entails the exploitation of tens of thousands of individuals. Despite toiling for long hours under squalid conditions, most of their wages are siphoned off directly to the North Korean regime.

This is unacceptable. We must put a stop to this inhumane practice. UNSCR 2375, adopted on September 11, 2017, prevents the regime from generating revenue for its weapons program through the exploitation of its people. We call on all nations to implement their obligations and put an end to this practice. Treasury and the State Department have actively engaged a number of countries where North Korean workers were employed, often by construction and information technology companies, restaurants, textile manufacturers, and companies in other industries. And we have used our authorities to counter this practice.

As an example, on June 1 of this year, we designated three individuals and six entities, including the Korea Computer Center (KCC), a state-run information technology 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. On August 22, 2017, Treasury also designated Mansudae Overseas Projects Architectural and Technical Services (Proprietary) Limited, which is linked to a U.S. and UN-designated entity that has engaged in, facilitated, or been responsible for the exporting of workers from North Korea.

Exportation of Additional Goods, Including Weapons and Missile Technologies: Treasury is also tracking and targeting North Korea's exports of textiles (about \$800 million a year); iron, lead, and seafood (about \$500 million a year); and additional revenue from the sale of weapons and missile technologies, among other areas. On June 29, 2017, Treasury designated Dalian Global Unity Shipping Co. Ltd., which reportedly transports 700,000 tons of freight annually, including coal and steel products, between China and North Korea. According to a 2013 United Nations report, Dalian Global Unity was actively involved in at least eight cases of luxury goods smuggling incidents. Middlemen from Dalian Global Unity gave specific instructions about how shipments and transactions could evade the UN-mandated luxury goods ban.

Shipping Networks: Our targeting of Dalian Global Unity also highlights our focus on targeting the shipping networks that enable the Kim regime to move goods in and out of North Korea. These shipping networks engage in deceptive practices and circuitous routes to avoid international sanctions. We are also actively increasing our understanding of North Korea's shipping networks, and we will expose individuals and entities that are providing insurance, maintenance, or other services to North Korean vessels. Our experience mapping and dismantling illicit shipping networks in the Iran context enables us to effectively target commercial shipping moving in and out of North Korea.

New authorities in the recent Executive order highlight the importance of targeting North Korea's shipping networks. The new Executive order directly targets North Korea's shipping and trade networks and issues a 180-day ban on vessels and aircraft that have visited North Korea from visiting the United States. This ban also targets vessels that have engaged in a ship-to-ship transfer with a vessel that has visited North Korea within 180 days. The Executive order also allows Treasury to impose sanctions on persons involved in the ownership, control, or operation of any port in North Korea, including any seaport, airport, or land port of entry.

Countries should aggressively implement UNSCR 2375, which provides member states new tools to stop high seas smuggling of prohibited products (e.g., conventional arms, coal, textiles, seafood, etc.).

Restricting North Korea's Access to the International Financial System

Despite our relentless efforts and many years of UN Security Council Resolutions, North Korea continues to evade sanctions and generate and move money in support of its WMD and ballistic missile programs. The regime accesses the international financial system through front companies and other deceptive financial practices in order to buy goods and services abroad. We are working to map out and untangle these complex and opaque financial webs and target those individuals and entities that facilitate them.

Financial Facilitators: 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 operatives have expertise that they use to establish front companies, open bank accounts, and conduct transactions that enable North Korea to move and launder funds. Targeting these financial facilitators strikes at the heart of North Korea's ability to continue abusing the financial system for its illicit aims. That is why earlier this week, Treasury took action on a number of North Korean banks and designated 26 individuals who act as representatives of North Korean banks. These representatives operate around the world, including in China, Libya, Russia, and the United Arab Emirates. We call on all countries that host these representatives to expel these individuals.

Foreign Banks: Banks that facilitate North Korean illicit financial activity are another key node that we are focusing on. In my first week on the job, Treasury acted for the first time in over a decade against a non-North Korean bank for facilitating North Korean financial activity through the U.S. financial system. On June 29, 2017, pursuant to Section 311 of the USA PATRIOT Act, FinCEN found China-based Bank of Dandong to be of "primary money laundering concern" and issued a notice of proposed rulemaking, the finalization of which would essentially sever Bank of Dandong's access to the U.S. financial system.

Bank of Dandong is believed to have acted 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.

FinCEN assesses that at least 17 percent of Bank of Dandong customer transactions conducted through the bank's U.S. correspondent accounts from May 2012 to May 2015 were conducted by companies that have transacted with, or on behalf of, U.S.- and UN-sanctioned North Korean entities, including designated North Korean financial institutions and WMD proliferators.

FinCEN also exercised its Section 311 authority in 2016 to identify the entire jurisdiction of North Korea as a primary money laundering concern. Under this authority, FinCEN imposed a rule prohibiting U.S. banks from maintaining correspondent accounts with North Korean banks, and requiring U.S. banks to undertake special due diligence to ensure that North Korean financial institutions do not access the U.S. financial system indirectly through banks in other countries.

Banks worldwide should take note that we are acting to protect the U.S. financial system from North Korean illicit financial activity. The new authorities granted to the Treasury Department by the Executive order issued last week give us even greater ability and leverage to target foreign banks that support the Kim regime. We now have the ability to suspend correspondent account access to, or designate and freeze the assets of, any foreign financial institution that knowingly conducts significant transactions in connection with any trade with North Korea or on behalf of any North Korea-related designated person. These new financial sanctions will be forward looking, and will apply to behavior that occurs following the date of the Executive order. These types of sanctions were used to great effect in the Iran context, and present a stark choice to banks around the world.

Interagency Collaboration: At Treasury, we work in close partnership with other departments and agencies, including those within the Intelligence Community, the Defense Department, the Justice Department, the State Department, the Department of Homeland Security, and the Commerce Department. This Administration's maximum pressure campaign requires that we collaborate closely to detect and disrupt evasive tactics by North Korea.

As just one example, Treasury has been working closely with the U.S. Department of Justice (DOJ) to disrupt the ability of a Chinese coal company, Dandong Zhicheng Metallic Co., to launder money for North Korea. The Dandong Zhicheng case perfectly illustrates North Korea's evasive tactics. Dandong Zhicheng imported coal from North Korea, brokered the sale of this coal around the world, and moved the proceeds from these coal sales into its front company accounts. North Korea subsequently sent payment instructions to Dandong Zhicheng for items the regime wanted to purchase from foreign suppliers, and Zhicheng used its front companies

and the proceeds from the brokered North Korea coal sales to purchase the items that North Korea wanted. Once the front companies had executed the payments, the foreign suppliers shipped the items to the North Korean regime. These items included bulk commodities (sugar, rubber, petroleum products, soybean oil), cell phones, luxury items, and dual-use technology. By using a front company outside of North Korea to help it to sell and buy goods, the regime was able to make and spend money on goods that indirectly or directly support its weapons programs. As part of our disruptive activities, on August 22, 2017, Treasury designated Dandong Zhicheng, and on the same day, DOJ filed a complaint to seize more than \$4 million related to the company.

Public-Private Partnerships: The private sector also plays an essential role in identifying and disrupting illicit North Korean financial activity. The safeguards that our banks put in place, and the information they provide us about terrorist financiers, proliferators, and criminals, is what helps prevent malign actors from abusing our financial system. In this case, information provided by U.S. banks has been critical to our efforts to map out and disrupt the illicit financial networks upon which North Korea relies.

We are enhancing the ways that we communicate with our banks and how they communicate with each other. We are sharing information with U.S. financial institutions in a more targeted manner in order to facilitate a more dynamic and iterative dialogue between the public and private sectors. We also encourage banks to share information with each other under Section 314(b) of the USA PATRIOT Act, which provides banks with safe harbor when sharing certain information. This is particularly important when combating North Korean illicit financial activity, where a single network can cut across multiple institutions.

Two weeks ago, while in Europe, I held roundtable meetings in London, Paris, and Berlin with global banks to discuss the urgent threat posed by North Korea and to share with them typologies that they can use to identify and stop the illicit flow of North Korea's finances. We discussed the aggressive measures that we in the United States have taken to protect our U.S. banks, and what else European banks could be doing to ensure that they are not unwittingly clearing euro transactions for North Korean representatives and their enablers.

International Cooperation

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The success of Treasury's strategy to maximize pressure on North Korea also depends on close collaboration with international partners. In the last two months, our Administration worked with other Permanent Members of the Security Council to unanimously pass UN Security Council Resolutions 2371 and 2375. Both strike at the core of North Korea's revenue generation and include embargoes on all importation of North Korean coal, iron, lead, seafood, and textiles. They also 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.

But UNSCRs should be the floor, not the ceiling. Despite years of increasingly restrictive UNSCRs, North Korea has been able to generate the revenue it needs to make progress towards the goal of building a nuclear-tipped intercontinental ballistic missile. As both the UN and the U.S. sanctions regimes expand, North Korea remains adept at sanctions evasion. All nations must join in implementing and rigorously enforcing UN Security Council Resolutions. We are keeping close track of North Korea's trading partners, and we will not hesitate to act when we believe we must take additional measures to stop the flow of funding.

Our strong bilateral and multilateral partnerships are critical in ensuring that this is a global effort. When I was in Europe, I also discussed with our European allies how we can increase our collective pressure so that no person or entity that facilitates North Korean financial activity has a safe place to operate. I stay in close contact with my European counterparts and continue to share information about North Korean illicit finance so that they can identify the activity themselves and take their own disruptive actions.

We are also working closely with partners in Asia. In particular, we appreciate the efforts of Japan and South Korea to match our actions with actions of their own. Following one of our actions this past August, Japan issued its own domestic designations on some of the same persons, and South Korea issued a public advisory cautioning all South Korean nationals from conducting financial transactions with the U.S. designated individuals and entities. These types of joint actions maximize the impact of our collective efforts to pressure North Korea. We are also pleased that, this year, Australia expanded its sanctions programs to target additional sectors of the North Korean economy.

China and Russia are to be recognized for supporting adoption of the most recent UN Security Council Resolutions. Nevertheless, both countries can do much more – and with greater urgency – to implement and enforce the sanctions called for by the United Nations. Their enforcement and pressure are critical to stopping the North Korean threat.

Finally, we work through multilateral fora such as the G7 and the Financial Action Task Force to ensure that countries have the regulatory frameworks in place to detect and freeze assets linked to North Korea. Kim Jong Un must realize that he faces a united international front.

Partnership with Congress

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I want to emphasize the importance we place on working with Congress to combat the threat posed by North Korea. I am grateful for the Committee's work to counter the threats we face and for your great appreciation of the importance of imposing maximum economic and financial pressure on North Korea. I look forward to working with this Committee and other Members of Congress as we seek to fulfill our shared responsibility to keep Americans safe and secure.

Conclusion

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We all recognize that time is not on our side. Treasury is pursuing this pressure campaign against North Korea with utmost urgency. Our success in curtailing North Korea's revenue streams and severing its access to financial systems is essential to a peaceful resolution of this growing crisis. We will not yield until our work is done.