

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

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.