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

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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'ammar 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.