Statement of Assistant Secretary Marshall Billingslea Before the U.S. House Committee on Foreign Affairs

September 13, 2018

Chairman Royce, Ranking Member Engel, and distinguished Members of the Committee, I am pleased to appear before the Committee today to discuss how the Treasury Department is using the full range of its authorities and tools to address three unique – yet in many ways related – challenges in Iran, Russia, and North Korea.

Each of these countries poses its own particular challenge to the United States, our allies, and the international order, yet there are also common threads linking them together. Iran, the world's leading state sponsor of terrorism, continues to fund groups like Hizballah and Hamas and bankroll the Syrian regime's slaughter of its people, while advancing its missile program and sowing regional instability. Russia provides weaponry and defense materiel to Iran, and extensive support to the Syrian regime enabling Assad's brutal targeting of his own citizens. Further, Russia continues its occupation of Ukraine and Crimea and subversion of Western democracies, and remains a permissive environment for North Korean procurement efforts and circumvention of United Nations (UN) Security Council resolutions. Finally, North Korea continues to evade international sanctions and has not yet abandoned its weapons of mass destruction and missiles programs.

On the one hand, all three countries use some similar tactics to exploit the global financial system, particularly by establishing and employing front and shell companies to mask the origin and beneficial ownership of illicit financial flows, to disguise the nature of – and intent behind – transactions.

But on the other hand, these three countries are dissimilar in terms of size of their respective economies, the extent to which they have businesses intertwined within global supply chains, and in the degree to which their financial sectors are connected to the global system.

For these various reasons, our Iran, Russia, and North Korea sanctions programs are among our most active and complex. To account for the differences in challenges we face, under the leadership of Secretary Mnuchin and Under Secretary Mandelker, we have developed tailored strategies to employ the full suite of Treasury's powerful tools and authorities to maximum effect. This also means that in every case, we must closely examine and take into account each country's distinct economic characteristics in addition to our broader foreign policy and national security objectives to ensure that the financial impact we seek is achieved, our national security objectives served, and disruption to the supply chains of friendly nations is minimized and international cohesion is maintained to the maximum extent practicable.

Beyond sanctions, Treasury possesses multiple other tools and authorities that are used in conjunction with sanctions actions by the Office of Foreign Assets Control (OFAC). This includes reporting and analysis of financial intelligence provided by U.S. financial institutions, Financial Crimes Enforcement Network (FinCEN) authorities under the Bank Secrecy Act and USA PATRIOT Act, extensive private sector engagement both at home and abroad, and financial diplomacy conducted globally by our attaché offices and the Office of Terrorist Financing and Financial Crimes. On a daily basis, we work bilaterally and multilaterally to strengthen the anti-money laundering/countering the financing of terrorism (AML/CFT) regimes worldwide, including with those countries exposed to Iranian, Russian, and North Korean illicit financial flows.

Today I will share with you a brief overview of the steps Treasury has taken to counter each challenge. Across all of our efforts, we have been clear and consistent in our message; we have left no doubt as to why we are imposing sanctions, and what changes we expect. These are all complex and highly dynamic issues, and we continuously refine and adapt our approach to each problem against the ever-evolving nature and manifestation of the threat. As we have demonstrated, we will continue to tailor the use of our financial tools as necessary, in close coordination with all of our interagency partners.

IRAN

The President's decision on May 8 has now set in motion the reimposition of a wide range of sanctions. These measures are designed to greatly reduce Iran's capacity to continue its malign activities, including its support for terrorism, its aggressive development of ballistic missiles and proliferation of missiles to militant groups such as the Houthis in Yemen, and negotiate a new more comprehensive deal to replace the fatally flawed Joint Comprehensive Plan of Action (JCPOA).

The U.S. nuclear-related sanctions on the Iranian regime that were relieved under the JCPOA are being reimposed in two phases. We structured this process to occur over a 180-day period to allow for the global business community to wind down any transactions initiated before our withdrawal from the JCPOA that would be prohibited after the reimposition of sanctions. On August 6, the first phase of sanctions reimposition occurred, with the President's issuance of Executive Order (E.O.) 13846 reimposing relevant provisions of the E.O.s that were revoked or amended on JCPOA Implementation Day in January 2016.

As of August 7, sanctions came back into full effect on:

1. the acquisition of U.S. dollar banknotes by the Government of Iran;
2. Iran's trade in gold and precious metals;
3. the provision of graphite, raw or semi-finished metals, and software for integrating industrial processes;
4. transactions related to the Iranian rial;
5. activities related to the issuance of Iranian sovereign debt; and
6. Iran's automotive sector.

Once the second phase ends on November 4, 2018, we will reimpose the remaining sanctions that were lifted under the JCPOA. These sanctions include far-reaching sanctions on Iran's energy and shipping sectors, and on foreign financial institutions conducting transactions with the Central Bank of Iran and designated Iranian banks. We will aggressively enforce these authorities. We intend to hold Iran accountable for its lethal and destabilizing actions, and to leave no doubt that it must return to the negotiating table.

In addition to these actions, under this Administration Treasury has issued 17 rounds of sanctions, designating 145 Iran-related persons for a range of activities related to terrorism, proliferation, and human rights abuses, and to thwart Iran's exploitation of the global financial system.

For instance, a major focus of our efforts is Mahan Air, an airline that provides material support to the Islamic Revolutionary Guard Corps-Qods Force (IRGC-QF), which was designated under our counter-terrorism authorities. 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. We will continue targeting individuals and entities supporting Mahan Air, and we are warning airport operators and GSAs, whether in Europe, Asia, or the Middle East, that if they continue to transact with Mahan, 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. We simultaneously worked with the Government of Iraq to take action against the operations of a major bank that was deeply involved in routing money on behalf of the IRGC-QF to terror networks. This is just one example of how Treasury used a combination of sanctions and financial diplomacy to disrupt a significant terror financing network through close collaboration with partner nations.

We are also wielding our authorities to go after Iran's human rights abuses. We've designated Ansar-e Hizballah, which has been involved in the violent suppression of Iranian citizens; the head of Iran's judiciary, who facilitated torture and cruel and inhumane treatment of prisoners; and, human rights abusers at Evin Prison, where prisoners are subject to brutal tactics inflicted by prison authorities.

As we reimpose sanctions on Iran for its destabilizing behavior, we enjoy strong support from friends and allies throughout the Middle East and North Africa. Those countries who bear the brunt of Iranian malign activities have been outstanding partners in helping us reimpose costs on the regime in Tehran. An excellent example of this is the Terrorist Financing Targeting Center (TFTC) based in Riyadh, Saudi Arabia. Through the TFTC this spring, we achieved the unprecedented multilateral designation of members of Hizballah's Shura Council. We also partner closely with our ally Israel to cooperate on threats posed by Iran and Hizballah, and on a number of other counterterrorism initiatives. Additionally, we have had important cooperation from a number of countries which have either initiated their own disruptions of Iranian proxy groups or followed up on U.S. efforts. Many countries around the world, and particularly those in the region, agree with us that Iran's deadly activities cannot go unchecked. We are grateful for their steadfast support.

To continue to galvanize international efforts to constrain Iran, the Treasury and State Departments have deployed delegations around the world. We have visited over 30 countries for the express purpose of highlighting Iran's malign activities and to explain the rationale for reimposing sanctions; I personally have been to 13 countries as part of this effort, and Treasury leadership has had countless additional conversations with our foreign counterparts on this topic.

In addition to talking with governments, during these engagements we also 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 cyberattacks to fund their 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.

Treasury's efforts are already generating results. In recent months, we have seen evidence of our economic pressure taking hold. Since April, the Iranian rial has lost more than two-thirds of its value. While the Iranian regime continues to maintain an official exchange rate of 42,000 rials per U.S. dollar, the true market rate is closer to 140,000 (as of September 5, 2018), and we see it continue to drop further on a nearly daily basis. We've welcomed our partners' efforts to wind down imports of Iranian crude oil ahead of the November deadline and encourage others to follow suit. Foreign direct investment and business activity within Iran is also decreasing as the private sector recognizes the risk of doing business with Iran. Approximately 100 international companies have indicated they will leave Iran, and we expect to see more follow in their footsteps.

However, let me be clear: Iran's own economic mismanagement is also responsible for its economic situation, as it is busy squandering its wealth through corruption and terrorism instead of prioritizing the Iranian people. For only the second time in the regime's nearly 40-year history, the Iranian President was called before the Iranian Parliament, the Majlis, to answer for the failure of the regime's economic policies. Instead of investing money wisely, the Commander of the IRGC-QF, Qasem Soleimani, travels far and wide – despite being subject to a United Nations travel ban – to spend extravagant amounts to fuel terrorism. The Iranian regime provides over $700 million per year to Hizballah alone – money that could be used to aid its ailing economy. Domestically, the IRGC has hijacked trillions of rials from legitimate use by the local government in Tehran: more than $5 billion of Tehran's municipal funds were unaccounted for during the IRGC's governance of the city, and tens of billions more are owed to the municipality by IRGC-owned and/or affiliated companies. Members of the Iranian Parliament also tried to cover up attempts to investigate this large scale corruption scheme.

The Iranian people deserve better. We urge the world to work with us to seek a better future for the Iranian people.

RUSSIA

The Treasury Department has a clear understanding of the continued threat posed by Russia's wide-ranging malign activities. Russia's continuing occupation of Crimea, human rights abuses, malicious cyberattacks, illicit procurement of sensitive defense and intelligence technologies, election interference and other influence efforts, as well as their support to the Assad regime's massacre of its own citizens, are unacceptable and demonstrate Russia's complete disregard for acting as a responsible member of the international community. Countering these threats is one of Treasury's top priorities, which is clearly evidenced by the actions we have taken to impose an unprecedented level of financial pressure against those working on behalf of the Kremlin and in key sectors of the Russian economy targeted by U.S. sanctions.

First, I will put the Russia challenge into context, especially as we also discuss Iran and North Korea. For decades, Russia has been developing complex and resilient networks to raise, transfer, hide, and obscure the origin and movement of proceeds generated through illicit financial activity, including corruption, sanctions evasion, and arms sales. This highly sophisticated system combines both state and non-state agents and proxies to extend its influence. As an example, Russian oligarchs leverage their wealth, international networks, and perceived status as legitimate businessmen to advance the Kremlin's malign agenda at home and abroad.

Russia, however, also stands apart from other countries subject to broad U.S. sanctions in several important ways, and we have tailored our approach accordingly. We cannot, for example, counter Russian aggression in the same way we approach countries like North Korea or Iran. Russia's economy is large and well-integrated into the global economy, international financial system, and global supply chains. North Korea and Iran, on the other hand, have been largely or almost entirely isolated from the global financial system for decades. Accounting for this stark contrast, we've surgically deployed Treasury tools to maximize pressure on Russia while minimizing unintentional spillovers to the United States, our European allies, and the global economy.

To discuss one particularly insightful example, a number of Russia's state-owned entities and oligarch-owned businesses are intricately integrated into global economies and supply chains, including those of some of our closest NATO allies. Despite these challenges, on April 6, we designated RUSAL, the second-largest producer and supplier of aluminum in the world, for being owned or controlled by EN+, which is owned or controlled by the Russian oligarch Oleg Deripaska. As a result of our designations, Deripaska's estimated net worth has dropped by more than 50%, and the share price of EN+ fell from $12.20 to $5.40 on the London Stock Exchange following its designation. On the same day, we also designated the oligarch Viktor Vekselberg, as well as other companies he owns or controls. Viktor Vekselberg's net worth has dropped an estimated $3 billion, foreign governments have launched investigations in response to his designation, and he has had assets frozen across multiple jurisdictions. Furthermore, Vekselberg's Renova Group was forced to divest from ventures in Switzerland and Italy.

Since January 2017, Treasury has sanctioned 212 Russian-related individuals and entities for a broad range of sanctionable conduct. Of those, 136 were designated under Ukraine/Russia-related sanctions authorities codified by the Countering America's Adversaries Through Sanctions Act, or CAATSA. We have aggressively targeted key sectors of the Russian economy, as Treasury has imposed blocking sanctions on 14 Russian banks and sectoral sanctions on 124 Russian financial institutions and 50% or more-owned subsidiaries. In the energy sector, Treasury has imposed blocking sanctions on 20 Russian firms and sectoral sanctions on additional 80 Russian entities.

While our Russia sanctions program is among our most active, sanctions are not and cannot be the only tool on which we rely. The scale and sophistication of Russian malign activity is far more advanced than that of other states currently subject to broad U.S. sanctions. Accordingly, in certain circumstances, other tools will either complement or far more effectively advance our national security interests in countering Russian aggression.

As an example, as Treasury works aggressively to deter and prevent illicit Russian financial activity abroad, we are simultaneously protecting the U.S. financial system. On February 13, 2018, Treasury's FinCEN issued a finding pursuant to Section 311 of the USA PATRIOT Act that Latvia-based ABLV Bank AS (ABLV) was a financial institution of primary money laundering concern. In its public notice of proposed rulemaking, FinCEN cited multiple instances of institutionalized money laundering in which ABLV management solicited high-risk shell company activity that enabled the bank and its customers to launder funds. ABLV's facilitation of shell company activity typically benefitted illicit actors engaged in an array of illicit conduct, including transnational organized criminal activity, corruption, and sanctions evasion, emanating mostly from Russia and former Commonwealth of Independent States, but notably also for the benefit of the North Korean regime. The reporting of U.S. financial institutions of suspicious activity involving ABLV was important to FinCEN's understanding of the bank's AML and customer due diligence failures. Pursuant to this finding, FinCEN proposed the imposition of a prohibition on U.S. financial institutions from opening or maintaining correspondent accounts for, or on behalf of, ABLV. This action not only safeguards U.S. financial institutions, but effectively shuttered a key access point being exploited by illicit Russian actors to access the European and international banking system.

NORTH KOREA

President Trump and Chairman Kim Jong-un have taken a bold first step to transform United States-North Korea relations, and there is important momentum now for positive change. Treasury is supporting President Trump's goal of the final, fully verified denuclearization of North Korea, as agreed to by Chairman Kim Jong-un. Treasury coordinates closely with the State Department to ensure our actions support the broader diplomatic effort.

We are supporting the denuclearization process by maintaining pressure on North Korea's finances and economy. It is clear that these efforts are having the desired effect. The President's Maximum Pressure Campaign created the conditions necessary for the historic Singapore Summit, and it is continued pressure that will avoid the mistakes of the past. As the President has said, implementation of existing sanctions will continue until North Korea denuclearizes. Our continued designations demonstrate our commitment to implementing North Korea-related UN Security Council resolutions, and countries must not backslide on their UN obligations. We will continue to hold accountable through our sanctions programs third country individuals and entities that, despite the Security Council resolutions, facilitate the DPRK's illicit activities. Sustained pressure and sanctions implementation are crucial to achieving our objective of denuclearization.

Treasury is deploying all of our authorities – including sanctions, AML/CFT measures and reporting requirements, enforcement actions, regulatory actions under Section 311 of the USA PATRIOT Act, foreign engagement, and private sector partnerships – to identify and disrupt North Korea's ability to generate revenue and move funds in support of its weapons programs.

Under this Administration, Treasury has sanctioned more than 200 individuals, entities, and vessels related to North Korea. Overall, Treasury has now sanctioned approximately 400 individuals, entities, vessels, and aircraft related to North Korea since 2005.

Furthermore, in 2016, Treasury identified North Korea as a jurisdiction of "primary money laundering concern" under Section 311 of the USA PATRIOT Act, prohibiting U.S. financial institutions from maintaining correspondent accounts for, or on behalf of, North Korean financial institutions and requiring them to ensure they do not process North Korea-related transactions through correspondent banking relationships with other foreign banks. Treasury took a similar 311 action in 2017 against the China-based Bank of Dandong for serving as a gateway for North Korea to access the U.S. and international financial systems, despite U.S. and UN sanctions. 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.

Reporting from U.S. financial institutions were important sources of information in developing our understanding of the risk that Bank of Dandong posed to the U.S. financial system. And more broadly, the public-private partnership of FinCEN Exchange brings law enforcement, FinCEN, and financial institutions together to exchange targeted information on priority illicit threats, including North Korea. These types of exchanges enable the private sector to better identify risks and provide FinCEN and law enforcement with critical information to disrupt money laundering and other financial crimes.

One particular area of focus for us is that North Korea does little business in its own true name and uses a network of agents, front and shell companies, and complex ownership structures to access the international financial system. The UN 1718 Committee Panel of Experts has portrayed how these North Koreans are based in countries like China and Russia, and they are the key financial enablers for the Kim regime's weapons of mass destruction and ballistic missile development programs. 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. Since the beginning of this Administration, we have designated 60 of these operatives acting on behalf of U.S.- and UN-designated banks and weapons trading companies. These operatives are located both overseas and in North Korea. Many of these individuals are also listed by name at the UN.

We further illuminated the roles of North Korean financial facilitators and associated financial networks in a comprehensive advisory issued by FinCEN to financial institutions in November 2017. The advisory provided U.S. and financial institutions across the globe with specific financial red flags of illicit North Korean schemes being used to evade U.S. and UN sanctions, launder funds, and finance the regime's weapons of mass destruction and ballistic missile programs. This includes the use of overseas financial representatives and the use of China-based front or shell companies, trading companies, and financial institutions operating in areas bordering North Korea.

We are very focused on North Korea's use of deceptive shipping practices to evade sanctions, including ship-to-ship transfers. On February 23, Treasury issued its largest North Korea-related sanctions tranche related to shipping, trading companies, and vessels, as well as an advisory to the maritime sector to highlight sanctions evasion tactics used by North Korea that could expose businesses to sanctions compliance risks under U.S. and/or UN sanctions authorities. In recent weeks, we have issued additional designations against shipping companies, a port service provider, and vessels for enabling and supporting illicit ship-to-ship transfers on behalf of North Korea.

Our focus on depriving North Korea of its ability to conduct trade and to earn and move revenue through the international financial system means that we must work with other countries to achieve this goal. Not only do we work bilaterally with key partners to coordinate our domestic sanctions programs, we engage with leaders around the world to stress the importance of implementing United Nations Security Council resolutions. We also work bilaterally and multilaterally with like-minded governments to ensure that countries have the regulatory framework in place to detect and freeze assets linked to North Korea.

CONCLUSION

In conclusion, Treasury has aggressively targeted the wide range of malign activities conducted by Iran, Russia, and North Korea. While each financial pressure campaign has led to varying levels of diplomatic openings to achieve U.S. national security goals, we will continue to employ all of our authorities in close coordination with our partners across the interagency.

Again, Mr. Chairman and Ranking Member, I appreciate the opportunity to testify today, and welcome your questions.

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