

U/S Mandelker Speech on Impact of Sanctions at Center for Strategic and International Studies (CSIS)

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UNDER SECRETARY OF THE TREASURY

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WASHINGTON, DC

Thank you, John, for inviting me here as part of today's important discussion about the impact of sanctions.

The economic authorities of the Office of Terrorism and Financial Intelligence, or TFI, play an increasingly central role in countering the nation's most critical national security and illicit finance threats. Our tools have been so effective that we frequently find ourselves at the tip of the spear as new security threats and challenges emerge around the globe. I spend my days and nights working to ensure that our powerful authorities are always deployed strategically.

In the last two years, we have, among many other achievements:

- Cut off billions of dollars in revenue that would have otherwise flowed to the world's largest state sponsor of terror, Iran;
- Disrupted major networks that had provided Bashar al-Assad with oil and other resources he has used to brutalize the Syrian people, destabilize the region, and fund terror;
- Choked off funds to Hizballah, causing the terrorist organization to undertake an unprecedented plea for funding;

- Expanded sectoral and other sanctions in response to Russia's continued aggression, leading to major western firms abandoning joint exploration ventures with Russian companies and a drop in foreign direct investment;
- Exposed and disrupted the malign activity of Russian oligarchs, such as Oleg Deripaska, who are closely linked to the Kremlin, forcing them to divest ownership in large corporations and rendering them pariahs to the international business community;
- Disrupted North Korean shipping, financial, and export networks and worked in concert with our allies and the UN to create a diplomatic opening for discussion;
- Led the Financial Action Task Force (FATF) in adopting comprehensive measures for how countries must regulate and supervise digital assets, including digital currencies, to address and mitigate the associated money laundering and terrorist risks;
- Targeted and disrupted networks of human rights abusers and corrupt officials all over the world, including the illegitimate Maduro regime in Venezuela and kleptocrats in the Democratic Republic of the Congo; and

Exposed and disrupted numerous illicit finance schemes around the world, from ISIS to Al-Qaeda, from drug kingpins to transnational criminal organizations.

The daily pace is intense. Since the beginning of this Administration, we have issued close to 190 tranches of sanctions, targeting more than 2,600 individuals, entities, vessels, and aircraft. We have issued scores of advisories and convened engagements with banks, the maritime and aviation industries, the energy and real estate sectors, and many others. In just this calendar year, we have issued nearly \$1.3 billion in civil monetary penalties and settlements for financial institutions and corporate actors related to violations of our sanctions programs.

HISTORY OF OFAC / CREATION OF TFI

Given the prevalence of economic statecraft in addressing so many of today's most significant national security challenges, we are constantly evaluating the impact and effectiveness of our programs. In doing so, I draw upon our great history.

It is an honor to be the Under Secretary of TFI during our 15th anniversary year. Although TFI itself is a relatively recent creation, the foundation of our programs was laid in 1940 out of an effort to prevent Hitler and the Nazis from seizing U.S.-held assets from the countries that they invaded. In those days, Treasury Department officials ensured that billions of dollars were kept

out of the grasp of the Nazis. Tragically, this did not stop the genocide that was underway. But imagine how much worse it could have been if Hitler had access to these billions of dollars.

Treasury moved swiftly then. We move swiftly now as we constantly innovate and develop new strategies to keep funds out of the hands of dangerous actors around the world.

No other government in the world has an organization like TFI. It includes the Office of Foreign Assets Control (OFAC), which is the beating heart of our sanctions programs; the Financial Crimes Enforcement Network (FinCEN), which safeguards the financial system from illicit use and money laundering; the Office of Intelligence and Analysis (OIA), which is a member of the intelligence community and has a cadre of talented threat finance analysts; and the office of Terrorist Financing and Financial Crimes (TFFC), which develops policy and conducts extensive international outreach. This organizational structure integrates unparalleled insight into the financing of emerging global threats with powerful economic authorities to counter them.

THE STRENGTH OF OUR PEOPLE

I hope you'll indulge me as I take a moment to talk about the career professionals of TFI, who are the best in the world at what they do. These dedicated women and men work tirelessly to protect our national security and our financial system. They are among the smartest, most determined and indefatigable public servants that I have had the honor to work with. They believe in creativity, innovation, teamwork, and great ideas.

I like to say that TFI is a small but mighty organization. We draw upon the diversity of background and experiences of our people – collaborating with one another with a spirit and history of collegiality – to punch well above our weight over, and over again.

Every single day I'm struck by the fascinating life stories and diverse family histories of those who work at TFI. I am the first in my immediate family born in this great country, the proud child of immigrants who came to the United States to study and ultimately pursue the American dream. We have professionals who also grew up overseas and came to the United States, just like my parents, to go to college, as well as those who grew up in rural America and were the first in their families to attend college. Our TFI family includes those whose families have suffered directly at the hands of cruel and authoritarian regimes, including in places like Europe during the Holocaust and Armenia. We have those whose families were forced to flee their countries due to persecution, losing everything, including many family members. I recently traveled to Europe with a TFI'er whose grandfather was part of the Belgian resistance during World War II but was captured and sent to the concentration camp Buchenwald.

We have TFI'ers who have made tremendous sacrifice to serve their country. There are those who have served in the military and suffered significant injury, and those who still serve in the reserves. Every single person I've encountered at TFI has a unique perspective, a story that has driven them to public service. Each and every one of them influence the collective tapestry of TFI.

TAKING A STRATEGIC APPROACH

TFI has achieved great things in its history. Prior to 9/11, our nation's sanctions authorities were largely embargo based – think of Cuba, Libya, Sudan, and the early Iran sanctions programs. Starting in 1995, Treasury first imposed targeted sanctions on Colombian drug cartels, and five years later, the Kingpin Act provided similar authorities on a global basis. These new sanctions authorities set the stage for the effective use of targeted sanctions on terrorists focused first in the Middle East, and then out of tragic necessity expanded globally after 9/11.

When I took the oath as Under Secretary, it became my mission to build upon Treasury's experiences and successes by ensuring all of our efforts are strategic and intelligence driven, focused on achieving specific national security and illicit finance objectives, and calibrated to take maximum advantage of the myriad tools and authorities at our disposal. In short, my challenge was to make certain that we are not merely responding to the increase in calls for action, but that our economic statecraft is agile, strategic, and impactful.

Sanctions, as well as other economic authorities and measures, are tools – very powerful tools to be sure – used in support of a broader strategy to achieve a U.S. policy goal or objective. Sanctions alone will rarely, if ever, comprise the entire solution to a national security threat or human rights or corruption crisis. Sanctions often, however, play an enormously important role in achieving these strategies and an equally important role in disrupting money from going to malign actors who seek to do bad things around the globe. Every time we utilize these tools to disrupt that flow of money, we keep our country safer.

Within TFI, we are laser-focused on predicting and achieving an intended impact against a specific actor or actors to effect a broader goal. We are constantly thinking through which complement of tools –sanctions, anti-money laundering (AML) measures, enforcement actions, foreign engagement, intelligence and analysis, and private sector partnerships among others – are most impactful when countering specific challenges. We then carefully orchestrate and sequence the application of these tools to build off of each other and nest them in a broader strategic approach.

To enhance our integration, I established Strategic Impact Units, comprised of representatives from each TFI component, who work together to develop strategies and implementation plans that are:

- intelligence driven
- in support of specific domestic or foreign policy priorities
- using each component's authorities
- in conjunction with the larger interagency community.

Before and after applying economic measures, we assess the expected and actual impact of that action. These impacts may be:

- The disruption of funds going to a national security threat or illicit activity;
- The isolation of an illicit actor from the US and global financial system;
- Direct economic or financial loss to an illicit actor or regime;
- A decreased capability for an adversary to conduct further illicit activity;
- The hardening of our financial system against illicit finance threats;
- An improvement in meeting global standards in high-risk jurisdictions;
- A fundamental change of behavior.

This pre- and post- action analysis requires discipline and diligence, which can be tough given the workload we face. But understanding the impact of our actions is critical to determining effectiveness in achieving our objectives and making any necessary adjustments to our strategies in the future.

Our decision-making also includes taking great care to understand and address any potential unintended impacts of each sanctions action. Treasury and State have many tools to mitigate, where appropriate, these unintended consequences of our actions, while maintaining the pressure on the target of our sanctions, including through our licensing authority, waivers, and calibrated actions such as sectoral sanctions, FAQs, guidance, and advisories. We use general and specific licenses to ensure that humanitarian transactions, including the provision of food and medicine, are authorized in sanctions programs such as Iran, Syria, and Venezuela. This is particularly important in countries where kleptocrats or regime officials use humanitarian goods as a political weapon, to line their own pockets, or as a cover for nefarious activities.

NETWORK SANCTIONS

One way in which we have maximized the impact of our actions is by prioritizing network sanctions. Network sanctions recognize that a bad actor rarely acts alone. Instead, they frequently rely upon complicated structures that include shell companies, business partners, facilitators, enablers, and middlemen to disguise the nature of their activity and launder their money.

When we focus on these broader networks and their assets, we can more effectively block a bad actor's ability to access their ill-gotten gains, making it more difficult for them to use the global marketplace or continue in their business arrangements.

We can also have a significant impact on these facilitators' reputations, which can result in dismissal from formal commercial or official positions, and trigger the initiation of investigations or legal proceedings abroad. When we designated Dan Gertler, for example, for using his relationship with then-President Kabila of the DRC to secure grossly underpriced mining contracts, depriving the Congolese people of more than a billion dollars in lost revenue, we also designated 33 entities in his network. We then followed up by designating 14 additional entities a few months later. These designations came at a critical time as the US applied concerted pressure on Kabila and his enablers to abide by the terms of their constitution to hold elections, which he ultimately did.

Similarly, last month we designated Samer Foz, a Syrian oligarch, and 15 individuals and entities who leveraged the atrocities of the Syrian conflict into a profit-generating enterprise. Foz directly supported the murderous Assad regime and built luxury developments on land stolen from those fleeing Assad's brutality. Our action included the Four Seasons Hotel in Damascus as being owned or controlled by Foz, and within days of this action, the Four Seasons cut ties with the property, as should others around the world. These kind of actions have a chilling effect on those who think they can profit off the backs of the innocent.

Network sanctions take longer to investigate and develop, but through their use, we are sending the message that there are real consequences to engaging in illicit or corrupt behavior.

I have had the humbling opportunity to meet with victims of atrocities and violent repression from Syria, Burma, South Sudan, the DRC and elsewhere. They talk about how when we use these kinds of sanctions, they see the impact on the ground. Military and police officials who

have been removed or changed their behavior out of fear that they too would be sanctioned. Less fuel for Assad to put into the tanks and planes that kill civilians. And the list goes on.

ENGAGING OUR PARTNERS

Another part of our strategic approach is close coordination with our partners. That includes coordinating with international partners to amplify our actions or working with those in the trenches of the economic battlefield – banks and other financial institutions – to maintain robust anti-money laundering/countering the financing of terrorism (AML/CFT) safeguards.

The private sector's vigilance likewise makes our tools and authorities that much more effective, and we have prioritized strengthening those partnerships with the private sector by providing them with the vital information they need to track, disrupt and report illicit activity. We have been doing this increasingly over the last two years by issuing more detailed press releases, increasing the number of advisories, directly engaging with financial institutions, and issuing specific guidance to help the private sector disrupt illicit finance and build robust compliance programs that harden their networks against the latest threats from around the globe. Just this year, OFAC - for the first time ever - outlined the essential components of an effective sanctions compliance program, which we are incorporating into our settlement agreements and are actively monitoring and enforcing for compliance.

We have adopted this collaborative, integrated, impact-focused approach across the board. Today, I'd like to discuss with you how we have done so with one of our programs, Iran.

IRAN

As the world's leading state sponsor of terrorism, Iran prioritizes funding for brutal regimes and terrorists over supporting its own people. It provides billions of dollars to terrorist groups like Hizballah and Hamas, funds Bashar Al-Assad's campaign against his own citizens, and sends vulnerable refugees and child soldiers to die in Syria fighting for Iran's Islamic Revolutionary Guard Corps (IRGC) and its Qods Force. Iran is also a country with zero financial transparency, as groups funding terrorism like the IRGC and its Qods Force remain deeply embedded in the Iranian economy. The Central Bank itself — the banker of the Iranian government and supervisor of all Iranian banks — has funneled hundreds of millions of dollars to the Qods Force, Hizballah, and Hamas.

To meaningfully counter this national security challenge, we have engaged in a comprehensive approach, using every tool in our toolbox, to tactically and strategically apply maximum

economic pressure and build international coalitions.

The President fully re-imposed sanctions on the greatest revenue generating sectors of Iran's economy – energy, financial, shipping, precious metals, aviation, and automotive – and we have added more than 1000 individuals, entities, aircraft, and vessels to our list of Specially Designated Nationals and Blocked Persons (SDN List).

We have further increased this economic pressure by targeting Iran's most profitable entities, most notably its oil sector. The U.S. government has severely limited the flow of oil by ending the SREs, or Significant Reduction Exceptions. To further disrupt the regime's illicit oil revenue, we have taken action after action against vast international networks attempting to illicitly supply the regime with revenue for its destructive behavior. This includes an action against a network that provided millions of barrels of Iranian oil to the Syrian government and facilitated the movement of hundreds of millions of U.S. dollars to the IRGC-Qods Force, Hamas, and Hizballah. In that action, we designated two Central Bank of Iran officials, a subsidiary of the Russian Ministry of Energy, and a Syrian businessman and his companies.

This summer, we designated Iran's largest petrochemical holding group, Persian Gulf Petrochemical Industries Company, for providing financial support to the engineering conglomerate of the IRGC. Together with its designated subsidiaries, this company controlled 40% of Iran's total petrochemical production capacity and is responsible for 50% of Iran's total petrochemical exports.

If you look at the sanctions we have issued, time and again we are targeting networks that support the IRGC, the Qods Force, and other terrorist organizations.

But the tools we've employed to apply maximum pressure on Iran have not been limited to just sanctions. We have also done extensive international engagement and education to enhance our collective ability to identify the threats posed by Iran and cut off their illicit financing. Last year, through FinCEN, we published a comprehensive advisory on Iran, alerting financial institutions of the ways in which the Iranian regime uses front companies, forged documents, and other deceptive practices to circumvent sanctions and deceive private and public actors. And to counter Iranian efforts to evade our sanctions on oil shipments, OFAC issued a lengthy maritime advisory describing for shipping companies, insurers, vessel owners, managers, and operators the deceptive shipping practices and risks associated with dealing with Iranian oil and facilitating oil shipments to Syrian Government-owned and -operated ports.

We have also done extensive international engagement and education around the globe with key partners and allies to enhance our collective ability to disrupt illicit funds going to Iran's malign activities. And we are now seeing action at the Financial Action Task Force (FATF) to reimpose consequences on Iran for their severe AML/CFT deficiencies.

IMPACT

This multi-pronged maximum economic pressure campaign is working.

Iran's military spending has decreased significantly. Since the end of April 2018, Iran's total trade has declined markedly, including its oil exports, which have decreased substantially in recent months. In fact, the Iranian President has declared that the economy is the worst it's been in 40 years. All of this means the regime has far less revenue to divert towards terrorism and malign activities.

Our actions targeting Hizballah and its financial facilitators are also having real financial impact, which means Hizballah has less revenue to fund its destructive activities. In a January media report, employees of Hizballah's media and military systems complained of deep pay cuts and in March, Hizballah leader Hassan Nasrallah made an unprecedented call to his supporters to increase donations, pleading that fundraising efforts must be "stepped up." This is the direct result of our pressure on Iran and its proxies.

ADJUSTING BASED UPON IMPACT

Determining impact and overall effectiveness is a complex and complicated process that requires both patience and flexibility. Why patience? Because while we continually monitor for these impacts, we must acknowledge that some impacts may change or dissipate over time. Our adversaries are determined in achieving their malign objectives, and sanctions targets adopt mitigation strategies of their own. It may also be that some impacts are cumulative, or only reveal themselves after a longer period of time. We must take care against reading too much into the immediate reactions to a designation and instead focus on the long term effectiveness of our strategies and plans.

Why flexibility? Because as carefully as we plan, the very nature and global scope of our actions means that there may be unintended impacts that require adjustments to our plans through the use of licensing and waivers to prevent harm to innocent parties or allies. As we ramp up powerful economic pressure to achieve impact, these authorities allow us to fine tune that

pressure as situations develop. We need the ability to quickly adjust our efforts to focus on the most high-value targets.

CONCLUSION

Over the last two years, TFI has built upon the tremendous history and work of this organization to mature and evolve how we think about impact, and how that thinking drives our actions. We have become ever more sophisticated and stronger as we build out our comprehensive approach, we utilize all of the tools in our economic toolbox in a calibrated fashion, and we wisely apply the economic leverage we have to protect our national security.

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