



**DATE:** September 29, 2017

**SUBJECT:** Sanctions, Diplomacy, and Information: Pressuring North Korea | The House Foreign Affairs Committee

**MAIN POINTS:**

- The Honorable Ed Royce emphasized that strategies toward NK need to be implemented aggressively to be effective and that the US need to do much better at getting information to N. Koreans.
- Susan Thornton presented current US policy toward NK, signs of progress, and suggestion for the next step, stressing that we should not lose sight of the plight of the US citizens detained by NK nor of the regime's egregious human rights violations.
- Marshall S. Billingslea presented the threat posed by NK and economic pressure strategies toward NK such as targeting DPRK Revenue, dismantling NK's shipping networks, preventing access to the global financial system, and global cooperation.

The event can be viewed at: <https://youtu.be/b1S8XwNpnq0>, accessed 09/12/2017.

---

**EVENT OVERVIEW**

**Date:** Tuesday, September 12, 2017

**Time:** 10:00 a.m. - 12:35 p.m.

**Location:** Rayburn House Office Building, Room 2172 – 45 Independence Avenue SW, Washington, DC 20515

**Attendees:**

**Committee for Human Rights in North Korea (HRNK)**  
1001 Connecticut Avenue, NW · Suite 435 · Washington, DC 20036  
(202) 499-7970 · Fax (202) 758-2348 · [www.hrnk.org](http://www.hrnk.org)

## HRNK Report

- **Rep. Ed Royce (R-CA)**, United States Representative, House of Foreign Affairs Committee, Chair
- **Susan A. Thornton**, US Department of State, Acting Assistant Secretary
- **Honorable Marshall Billingslea**, Office of Terrorism and Financial Intelligence in the US Department of Treasury, Assistant Secretary
  
- **Rep. Adam Kinzinger (R-IL)**, United States Representative
- **Rep. Brad Schneider (D-IL)**, United States Representative
- **Rep. Dana Rohrabacher (R-CA)**, United States Representative
- **Rep. David Cicilline (D-RI)**, United States Representative
- **Rep. Gerald Connolly (D-VA)**, United States Representative
- **Rep. Michael McCaul (R-TX)**, United States Representative
- **Rep. Steve Chabot (R-OH)**, United States Representative

---

## SUMMARY

### Opening Statement of the Honorable Ed Royce (R-CA), Chairman

On September 3, North Korea detonated a nuclear device that, according to news reports, was stronger than all its previous tests combined. If true, this represents the latest advancement in NK's long-running nuclear and intercontinental ballistic missile programs – which now pose an urgent threat to the United States. Moreover, the apparent speed in which these North Korean advancements have occurred are challenging the security architecture in Northeast Asia, creating dangerous instability in the region that we will likely be dealing with for decades.

The Honorable Ed Royce said that this Committee will discuss the tools that must be deployed and fully utilized to address these threats. He emphasized that the response from the United States and our allies should be supercharged and that we need to use every ounce of leverage including sanctions, diplomacy, and projecting information to put maximum pressure on NK. Sanctions can still have an important impact. NK's advanced weapons programs rely on foreign-sourced technology. This requires hard currency. Unfortunately, years have been wasted, as sanctions have been weak, allowing NK to access financial resources and build its nuclear and missile programs. Any sanction that crimps NK's access to technology is urgently needed. Congress has done its part to ramp up economic pressure. The US passed a NK Sanctions bill

**Committee for Human Rights in North Korea (HRNK)**  
1001 Connecticut Avenue, NW · Suite 435 · Washington, DC 20036  
(202) 499-7970 · Fax (202) 758-2348 · [www.hrnk.org](http://www.hrnk.org)

## HRNK Report

last February. In July, the US increased the tools at the administration's disposal as part of the big sanctions package, including targeting N. Korean slave labor exports. In August, the administration secured a major victory with the unanimous adoption of UN Security Council Resolution 2371, which Ambassador Haley called "the strongest sanctions ever imposed in response to a ballistic missile test." Last night, under her leadership, the Security Council passed another resolution, further upping the pressure on the regime in response to its recent nuclear test.

The Honorable Ed Royce said that these tools need to be implemented aggressively to be effective. He stressed that the Administration deserves credit for increasing the pace of designation. He asserted that we need to dramatically ramp up the number of NK related designations and these designations do not require Beijing's cooperation. The US can designate Chinese banks and companies unilaterally, giving them a choice between doing business with NK or the US. Earlier this year, Treasury sanctioned the Bank of Dandong, a regional Chinese bank. That is a good start, but the US should target major Chinese banks such as China Merchants Bank and even big state owned-banks like the Agricultural Bank of China that have significant presences in the US if they do not stop doing business with NK. It is not just China. The US should go after banks and companies in other countries that do business with NK the same way. Just as the US press China to enforce UN sanctions banning imports of N. Korean coal and iron, we should press countries to end all trade with NK. This grave nuclear risk demands it. Sanctions are not the only way to apply pressure on the regime. The US must maintain a united front with our allies. President Trump is strengthening regional deterrence through additional US arms sales to Japan and SK.

Finally, the US need to do much better at getting information to N. Koreans so they better understand the brutality and corruption of the self-serving Kim regime. These efforts are already pressuring the regime, creating some unrest and increasing defections. While we should take a diplomatic approach to North Korea, the reality is that this regime will never be at peace with its people, neighbors or us.

**Statement of Susan Thornton, Acting Assistant Secretary, US Department of State***North Korea Policy*

The threat posed by NK's ballistic missile and nuclear weapons and other weapons of mass destruction (WMD) program is gravely serious, and one that warrants immediate and urgent attention, as this Administration has provided. The test of a nuclear device on September 3, NK's sixth nuclear test, is an unacceptable provocation that ignores repeated calls from the

**Committee for Human Rights in North Korea (HRNK)**  
1001 Connecticut Avenue, NW · Suite 435 · Washington, DC 20036  
(202) 499-7970 · Fax (202) 758-2348 · [www.hrnk.org](http://www.hrnk.org)

## HRNK Report

international community for a change in NK's behavior. It followed the August 28 ballistic missile launch that overflowed portions of Hokkaido, which underscored the direct threat posed by Pyongyang's missile and nuclear programs. It is the first declared ballistic missile over flight of Japan, and represents a clear and tangible threat to the security of Japan and the entire East Asia region. She emphasized that we continue to stand with our allies, Japan and SK, in the face of this escalating threat. Since the beginning of 2017 alone, NK has launched more than fifteen ballistic missiles into the seas around it, including two ICBMs. In 2016, it tested two nuclear devices. And of course, NK has made a number of dramatic threats regarding its ability to hit specific targets including Guam and other parts of the US. Secretary of Defense Mattis has made clear that we have the ability to defend ourselves and our allies, SK and Japan from any attack and that our commitments to our allies remain ironclad. She asserted that we cannot allow such flagrant violations of international law to continue and that we must hold Pyongyang to account.

This administration has developed a clear strategy that involves in forging an all-encompassing international coalition to apply diplomatic, economic, and political pressure on NK to bring the regime to understand the only path to peace, prosperity and international acceptance is to cease its provocative actions and to abandon its destabilizing missile and nuclear programs. We have used different monikers for this strategy, "maximum pressure," "peaceful pressure," and "strategic accountability," but the strategy's components are the same:

- 1) We continue to push for strong multilateral sanctions against the DPRK at the UN. Through this forum, we are galvanizing the international community to stand together in rebuke of NK's belligerent acts and to pressure Pyongyang to abandon its unlawful programs.
- 2) We are using the authorities granted in our domestic law under the N. Korean Sanctions and Policy Enhancement Act and the new authorities under the Countering America's Adversaries through Sanctions Act to impose sanctions on individuals and entities that enable the DPRK's illicit activities, deterring such conduct and sending a strong signal to the regime that we're watching their movements.
- 3) We continue to press countries around the world to fully implement UN Security Council Resolutions against NK including UNSCRs 2270, 2321, 2356, and 2371, and to consider harmonizing their domestic sanction regimes with our designations on N. Korean and third-country entities
- 4) Likewise, we continue to urge the international community to cease normal political interactions with the DPRK, including by suspending or downgrading diplomatic relations with NK and ending diplomatic visits and exchanges.

**Committee for Human Rights in North Korea (HRNK)**  
1001 Connecticut Avenue, NW · Suite 435 · Washington, DC 20036  
(202) 499-7970 · Fax (202) 758-2348 · [www.hrnk.org](http://www.hrnk.org)

## HRNK Report

- 5) Finally, we continue to call for all countries to cut trade ties with Pyongyang to increase NK's financial isolation and choke off both licit and illicit revenue sources that finance the regime's weapons programs.

Even as we pursue denuclearization, deterrence is also a central part of our DPRK strategy. We are fully committed to the defense of the US and our allies and are ready to respond to any DPRK attack. We have partially deployed THAAD to the ROK and continue to take other measures to prepare ourselves, South Korea, and Japan to respond to any DPRK attack with overwhelming force. We must be unequivocal in our messaging to NK that any attack on the US or our allies will be met with an overwhelming response. Throughout our execution of this strategy, we have been clear about what our strategy is not: We are not seeking regime change or collapse. Nor do we seek an accelerated reunification of Korea, or an excuse to send troops north of the Armistice Agreement Military Demarcation Line. We have no desire to inflict harm on the long-suffering N. Korean people, whom we view as distinct from the hostile regime in Pyongyang. We recognize that the success of the pressure strategy will depend on cooperation from international partners, especially Beijing. We are working closely with China to execute this strategy and are clear-eyed in viewing the progress that China has made on this front. We are conferring closely with our Chinese counterparts to ensure strict implementation of China's commitment to curb imports of N. Korean coal, iron, iron ore, lead and lead ore, and seafood. If fully implemented UNSCR 2371's ban on these items could substantially reduce DPRK revenues this year from the \$1.5 billion NK earned from the export of these items to China in 2016.

We continue to work with China and Russia to improve the implementation of sanctions, but there is more to be done. Secretary Tillerson said it best when he called China's support for the pressure campaign "notable, but uneven." We hope to work with China and Russia to resolve this issue and will continue to engage in a dialogue on how to further pressure the DPRK. We have also made clear that if China and Russia do not act, we will use the tools we have at our disposal. Just last month we rolled out new sanctions targeting Russian and Chinese individuals and entities supporting the DPRK. We will continue to take action multilaterally and unilaterally to disrupt NK's illicit activities wherever they are located.

*Signs of Progress*

While there is more work to be done, we see encouraging signs of progress from our partners around the globe on increasing pressure on NK:

- 1) Countries spanning all regions of the globe issued strong statements against the DPRK's July 3 and July 28 intercontinental ballistic missile (ICBM) tests, as well as the most

**Committee for Human Rights in North Korea (HRNK)**  
1001 Connecticut Avenue, NW · Suite 435 · Washington, DC 20036  
(202) 499-7970 · Fax (202) 758-2348 · [www.hrnk.org](http://www.hrnk.org)

## HRNK Report

recent launches and the September 3 nuclear test. These include countries that have not traditionally aligned with the United States on this matter – countries like Mexico and Sudan.

- 2) We have seen countries expel sanctioned North Korean officials and North Korean diplomats engaged in illicit commercial or arms-related activities, and prevented certain North Korean individuals from entering or transiting their jurisdictions.
- 3) Countries have reduced the size of the North Korean diplomatic mission in their countries, and canceled or downgraded diplomatic engagements or exchanges with North Korea. For example, Peru and Kuwait are two of several countries that reduced the size of the North Korean embassies they host.
- 4) Across the globe, countries are beginning to view visiting North Korean official delegations with caution, recognizing that welcoming these delegations not only lends tacit support to North Korea's nuclear and ballistic missiles programs, but comes at a cost to their international reputation and relations with the United States and others.
- 5) Countries in the Middle East, Europe, and Southeast Asia halted visa issuances to North Korean laborers and are phasing out the use of these workers, whose wages are garnished to fund the regime and its unlawful nuclear and missile programs. Malaysia deported hundreds of DPRK workers and suspended issuing further work permits.
- 6) Other countries, such as the Republic of Korea (ROK), Japan, and Australia have implemented their own unilateral sanctions on entities violating UN sanctions. EU partners are augmenting autonomous restrictive measures to implement UN Security Council resolutions, and key European partners, particularly the UK, France, and Germany, are collaborating with us on maximizing pressure on the DPRK.
- 7) Countries have tightened restrictions on the DPRK's ability to use its diplomatic missions to generate revenue. For example, Germany is shutting down a hostel located on DPRK embassy grounds in Berlin.
- 8) On August 5, ASEAN Foreign Ministers issued their strongest statement to date in response to the DPRK's ICBM launch. Their joint statement expressed "grave concern" over the escalation of tensions and recent missile tests, expressed commitment to a denuclearized Korean Peninsula, and urged the DPRK to comply immediately with all relevant UNSC resolutions. We welcomed this strong, principled statement ahead of UNSCR 2371.

*Next Steps*

**Committee for Human Rights in North Korea (HRNK)**  
1001 Connecticut Avenue, NW · Suite 435 · Washington, DC 20036  
(202) 499-7970 · Fax (202) 758-2348 · [www.hrnk.org](http://www.hrnk.org)

## HRNK Report

Unfortunately, despite the way the international community has come together to pressure the DPRK, we have yet to see a notable change in DPRK's dangerous behavior or any signs that it is willing or interested in credible talks on denuclearization at this stage. Our military, together with our allies, remains prepared to respond immediately and resolutely to any attack or threat of attack. There should be no doubt about our resolve to defend our allies and our homeland. We will not ape Pyongyang's well-honed practice of carelessly and needlessly escalating tensions, but we are ready to respond if necessary. Meanwhile, we remain open to diplomacy, but the DPRK must show it is ready for serious engagement. We have not seen any such indication. In fact, each ballistic missile launch from NK only signals the opposite. As a result, we will continue to urge countries around the world to take actions to make clear to the DPRK that its behavior is intolerable, and continue to build pressure.

We will step up efforts to sanction individuals and entities enabling the DPRK regime, irrespective of location or nationality. Following the nuclear test, we are pressing hard for a new Security Council Resolution, which we hope will include new sectoral sanctions, including oil, textiles, and workers. Countries like China and Russia must continue to exert their unique leverage over the DPRK. We will never recognize NK as a nuclear state. We will continue to stand with our allies in the region and will work with Japan and SK. We are enhancing US-Japan-ROK trilateral diplomatic and security cooperation. We will continue to work within our alliances to develop additional defense measures to answer the threat posed by the DPRK's nuclear and ballistic missile programs, and to protect the people of the US, Japan, and the ROK. Third parties will not deter us from taking appropriate defensive measures in the face of the DPRK's growing security challenge.

While addressing the nuclear and ballistic missile threat is our most pressing issue, we have not and will not lose sight of the plight of the three remaining US citizens who have been unjustly detained by NK nor of the regime's egregious human rights violations. Due to mounting concerns over the serious risk of arrest and long-term detention, the Department imposed a travel restriction on all US nationals' use of a passport to travel in, through, or to NK which went into force September 1. We seek to prevent the future detentions of US citizens by the N. Korean regime to avoid another tragedy like that which Otto Warmbier and his family endured. We will continue to press for accountability for those involved in such deplorable abuses. We will also continue to reiterate our willingness to solve this issue through diplomacy. If the DPRK indicates an interest in serious engagement, we will explore that option, but we will do so with clear eyes about the DPRK's past track record of violating the spirit and the letter of negotiated agreements.

**Testimony of Assistant Secretary Marshall S. Billingslea House Foreign Affairs Committee**

**Committee for Human Rights in North Korea (HRNK)  
1001 Connecticut Avenue, NW · Suite 435 · Washington, DC 20036  
(202) 499-7970 · Fax (202) 758-2348 · [www.hrnk.org](http://www.hrnk.org)**

## HRNK Report

Billingslea said that he would publicly share aspects of the plan, assess our progress thus far and describe the challenges we face.

*The Threat Posed by North Korea*

NK poses a grave and growing threat to the security of the US, our friends, allies in Asia, and the world as a whole. Kim Jong-Un has dramatically increased the pace of ballistic missile testing since coming to power. This year alone, NK has conducted sixteen missile tests, including two intercontinental ballistic missile (ICBM) tests. Just a few days ago, on August 28, NK launched a missile directly over Japan. Not only was this a violation of UNSCR, it imperiled Japanese airspace and clearly was meant as a blatant threat to the people of Japan, and to us and our armed forces stationed there. NK's latest test of a nuclear device, conducted over the Labor Day weekend, marks an unacceptable provocation. Kim Jong-un has issued multiple threats to target American cities and territories. His recent pronouncements regarding the conduct of salvo missile launches at Guam are just one example. We take these threats with the utmost seriousness, and are determined to constrain Kim Jong-un's capacity to act on such threats in the future. We will not allow NK to extort and threaten the world with its nuclear and missile programs.

In order to constrain Kim Jong-un, the international community has unanimously enacted multiple UNSCRs. In fact, with each provocation by NK's dictator, the nations of the world have responded with steadily tightening constraints of sanctions and embargoes. Under previous Administrations, the UN had prohibited trade in arms, luxury goods, minerals, monuments, and the maintenance of representative offices, subsidiaries or bank accounts in NK. While this clearly had inhibited NK's quest for weapons of mass destruction (WMD), it was not enough. On August 5, our Administration worked with the other Permanent Members of the Security Council to pass UNSCR 2371, striking at the core of NK's revenue generation. That resolution, drafted by the US, embargoes all importation of N. Korean coal, iron, lead, and seafood and now requires nations to cap employment of N. Korean citizens sent abroad as workers. Very importantly, last night, on September 11, the UN passed resolution 2375, targeting North Korea's ability to export textiles, further restricting NK's ability to acquire revenue from overseas laborers, cutting off over 55 percent of refined petroleum products going to NK, and fully banning all joint ventures with NK to cut off foreign investments. These two recent Resolutions are central to our efforts to mobilize the international community and to deny funds to Kim Jong-un's weapons programs.

The fact is, however, that NK has been living under UN sanctions for over a decade, and

**Committee for Human Rights in North Korea (HRNK)**  
1001 Connecticut Avenue, NW · Suite 435 · Washington, DC 20036  
(202) 499-7970 · Fax (202) 758-2348 · [www.hrnk.org](http://www.hrnk.org)

## HRNK Report

nevertheless has made significant progress toward its goal of building a nuclear-tipped ICBM. As is the case with any international agreement, the key to effectiveness of UNSCRs is implementation. All nations must join us in implementing all relevant UNSCRs, including the most recently enacted ones. NK continues to defy the UN arms embargo and is continually engaged in efforts to evade the sanctions and prohibitions adopted in nine separate UNSCRs. As both the UN and the US sanctions regimes expand in response to Kim Jong-Un's reckless behavior, so too does the depth and breadth of NK's sanctions evasion efforts. Because of uneven, and sometimes nonexistent, international implementation, NK shrugs off the practical impact of many restrictions, and is still exporting prohibited goods such as weapons, minerals, and statues.

NK's leadership also continues to smuggle in luxury goods while neglecting the urgent, basic needs of its citizens. The humanitarian suffering of the N. Korean people stands in stark contrast to the opulent lifestyle of Kim Jong-Un and NK's senior leaders. To finance their excesses, as well as the nuclear and ballistic missile programs, the regime is evading financial restrictions by using overseas financial representatives and a web of front and shell companies. NK has proven adept at using the interconnected global financial system to its advantage and employing deceptive financial practices to cover its tracks. NK is at times very sophisticated in how it sets up financial intermediaries. But in some countries where the will to fully implement and enforce sanctions has been lacking, NK can often be brazen in how it accesses financial networks. Using all the information available to the US government, the Treasury Department is mapping out NK's financial and revenue-generating mechanisms.

*Applying Maximum Economic Pressure on North Korea*

Kim Jong-un has two key financial vulnerabilities. First, he needs revenue to maintain and expand his WMD and ballistic missile programs. Second, he needs access to the international financial system to acquire hard currency, transfer funds, and pay for goods for both licit and illicit purposes. We are therefore actively working to cut off Kim Jong-un's ability to both raise and move money through the international financial system.

- 1) Targeting DPRK Revenue: There are only a finite number of ways that NK can raise significant amounts of foreign exchange. For many years, coal has been the center of gravity for NK's revenue generation. By our estimates, prior to the latest UN Security Council resolutions, coal shipments brought in \$1 billion in revenue annually for the regime. Prior to the latest UNSCR, NK made another estimated \$500 million annually from iron, lead, and seafood. In the past, an important source of funding was the export

of weapons and missile technology, but now NK acquires revenue from exporting commodities. That is why the August 5 UNSCR 2371 is so important. It prohibits UN Member States from importing any of these items from NK. However, effective implementation of all UNSCRs is essential if we are to deny NK its current, principal sources of funds. Treasury, in coordination with the State Department, is working to accomplish just that. We do this in a number of ways. With friends and allies, we share detailed information regarding N. Korean activities to assist them in disrupting sanctions evasion and illicit trade. The Treasury Department routinely engages at multiple levels with partner nations to help them conduct detailed forensic investigation and analysis to target N. Korean financial networks where they exist.

For instance, on August 22, we struck at the heart of NK's illegal coal trade with China. Treasury designated 16 individuals and entities, including three Chinese companies that are among the largest importers of N. Korean coal. We estimate that collectively these companies were responsible for importing nearly half a billion dollars' worth of N. Korean coal between 2013 and 2016. These funds are used to support the Government of NK and the Workers' Party of Korea, including its nuclear and ballistic missile programs. On top of that, we know that some of these companies were also buying luxurious items and sending an array of products back to the N. Korean regime. On August 22, we sent two clear messages. The first was to NK: we intend to deny the regime its last remaining sources of revenue, unless and until it reverses course and denuclearizes. The second message was to China. We are capable of tracking NK's trade in banned goods, such as coal, despite elaborate evasion schemes, and we will act even if the Chinese government will not.

Importantly, our August actions were matched by swift legally-binding domestic designations in Japan, and by a public advisory from SK's Ministry of Strategy and Finance cautioning all S. Korean nationals from conducting financial transactions with these US designated individuals and entities. It strongly advised that S. Korean nationals exercise particular caution against transactions with the designated individuals and entities. Our disruption efforts against N. Korean networks are maximized when nations act forcefully, in concert. We appreciate the steps taken by Japan and SK, and we look to other friendly and allied nations in the region to do the same.

On June 1 of this year, the Administration targeted a different type of N. Korean revenue: labor. We designated three individuals and six entities, including the Korea Computer Center (KCC), a state-run IT research and development center that was operating in Germany, China, Syria, India, and the Middle East. Using overseas N. Korean laborers, KCC was earning foreign currency for NK's Munitions Industry Department, which is responsible for overseeing the ballistic missile program. In addition to these sanctions, behind the scenes, both we and the State Department have aggressively engaged dozens of countries where N. Korean workers were employed, often by so-called construction companies. I am pleased that in many cases, our efforts have led to the scaling back or outright expulsion of these workers, yet another financial blow to the regime.

Finally, on March 1, Treasury designated twelve individuals and entities, including NK - based Paeksol Trading Corporation, which was selling coal and iron ore to China. The revenue from these sales supported the UN- and US-designated Reconnaissance General Bureau, NK's premiere intelligence organization that is also involved in the government's conventional arms trade. In total, under this Administration, the Treasury Department is engaged in a full court press on Kim Jong-un's revenue generation networks. We have singled out 37 specific entities involved in the most lucrative types of trade remaining to the regime, such as coal, iron, and labor. These are just the companies and people that we have decided to designate publicly. As noted, other parts of the network we have chosen to disrupt through non-public measures, working with friends and allies. NK will certainly continue to morph its procurement and sales networks in response to our actions, and we will be relentless in our pursuit.

- 2) Shipping: As part of NK's efforts to acquire revenue, the regime uses shipping networks to import and export goods. NK employs deceptive practices to conceal the true origin of these goods. Pyongyang has been found to routinely falsify a vessel's identity and documentation, complicating the ability of governments to determine if a vessel docking in their ports is linked to NK. We are actively increasing our understanding of NK's shipping networks, and we will expose individuals and companies that are providing insurance, maintenance, or other services to N. Korean vessels. In June, the Treasury Department designated Dalian Global Unity, a Chinese company that was reported to transport 700,000 tons of freight annually between China and NK. Dalian Global Unity

was also involved in smuggling luxury goods, with middlemen from the company giving specific instructions about how to evade the UN-mandated luxury goods ban. The Treasury Department has extensive experience mapping and dismantling illicit shipping networks, having worked for many years to uncover deceptive Iranian shipping practices. We are applying lessons learned in the Iran context to target commercial shipping moving in and out of NK.

Accordingly, the ship travels from China and declares that it is travelling to Russia. During its journey, the ship turns off its automatic identification system (AIS), probably stops in NK to load coal, travels to Vladivostok, Russia, and then returns to China probably to offload the coal. We are making this information available today to the Committee and to the public, and are also sharing with other nations as we take steps to curtail these deceptive practices and enforce the UN embargoes on coal, iron and iron ore, and other commodities.

- 3) Preventing Access to the Global Financial System: NK also uses deceptive practices to access the global financial system. As we constrain NK's ability to generate revenue, we continue to disrupt the regime's attempts to access the US and international financial systems. NK seeks to use the funds it earns abroad to pay its bills and purchase goods. Because of the robust international sanctions regime in place, it is difficult for N. Korean individuals and entities to do business in their true names. So in order to access the international financial system, NK maintains representatives abroad who work on behalf of UN- and US-designated N. Korean banks and trading companies, helping NK conceal their overseas footprint. These individuals are important to N. Korean networks because they have expertise that they use to establish front companies, open bank accounts, and conduct transactions enabling NK to launder funds. Without them, Kim Jong-Un's regime will find it much harder to develop the layers of obfuscation necessary to evade our steadily constricting campaign. We urge the private sector, particularly in Asian financial hubs, to stay vigilant. N. Korean financial facilitators are violating both international and US law. Those who collaborate with them are exposing themselves to enormous jeopardy. So too are the bankers, accountants, tax advisors, and notaries who participate in N. Korean deception. It is incumbent on those in the financial services industry who might be implicated in the establishment of shell or front companies for the

DPRK, and anyone who is aware of such entities, to come forward with that information now, before they find themselves swept up in our net.

We are committed to stopping this activity wherever it occurs. Treasury is working with foreign governments, US law enforcement, and the private sector to expose NK's deceptive practices, prevent them from conducting international transactions, and freeze these funds. This year, Treasury designated N. Korean bank and trading representatives who were operating in China, Cuba, Russia, and Vietnam. These designations prohibited these individuals from accessing the US financial system, alerted banks to the risk they posed, and pressured governments harboring these facilitators to abide by their UNSC obligations, expel these representatives, and freeze their assets. We expect more actions to come. NK's illicit financial activity is not just conducted in dollars. Nor is it limited to a handful of legal jurisdictions. We also are concerned about NK's use of Euros and other currencies. Once a N. Korean trade representative successfully places revenue into a nation's financial system, that revenue often then flows indirectly through global banks, who are unwittingly conducting currency clearing operations for N. Korean front companies. Obviously, financial institutions conducting transactions or clearing funds for N. Korean front companies are likely violating UN sanctions. The challenge, however, is how to identify the N. Korean front companies in the first place. Treasury is working with governments around the world, particularly those with banks engaged in euro-clearing, to share typologies of N. Korean sanctions evasion. This includes the sharing of specific information with Ministries of Finance, Central Banks, and Financial Intelligence Units to assist in protecting their currency clearing processes from abuse by NK.

Similarly, Treasury is also closely coordinating with the Department of Justice to target N. Korean networks transferring money through the US financial system. In June and August, Treasury designated a Russian network selling petroleum to NK. The Independent Petroleum Company (IPC), a Russian company, has reportedly shipped over \$1 million worth of petroleum products to North Korea. In order to pay for the petroleum, NK set up front companies that could transfer funds on behalf of the UN- and US-designated Foreign Trade Bank. Treasury designated the three individuals and two front companies involved in the scheme and froze the funds moving through the US financial system. On the same day, the Department of Justice issued a civil forfeiture

**Committee for Human Rights in North Korea (HRNK)**  
1001 Connecticut Avenue, NW · Suite 435 · Washington, DC 20036  
(202) 499-7970 · Fax (202) 758-2348 · [www.hrnk.org](http://www.hrnk.org)

complaint against the companies to seize almost \$7 million held by US banks, belonging to those entities and individuals.

Similarly, on June 29, Treasury took action against a Chinese bank: Bank of Dandong. Pursuant to Section 311 of the USA PATRIOT Act, Treasury found the bank to be of “primary money laundering concern” and issued a notice of proposed rulemaking, which, if finalized, would essentially cut Bank of Dandong off from the US financial system. Among other things, Bank of Dandong is believed to act as a financial conduit for NK to access the US and international financial systems, including by facilitating millions of dollars of transactions for companies involved in NK’s WMD and ballistic missile programs. This was the Treasury Department’s first action in over a decade that targeted a non-N. Korean bank for facilitating N. Korean financial activity. It clearly demonstrates the Administration’s commitment to protecting the integrity of both the U.S. and international financial systems. Financial institutions in China, or elsewhere, that continue to process transactions on behalf of North Korea should take heed. We will continue to target NK’s illicit activity, regardless of location.

- 4) Challenges and Opportunities: It is essential that the international community work together to increase economic pressure on NK. NK is a threat to global peace and security. Moreover, Kim Jong-un’s regime operates globally, and therefore we need global cooperation to constrain its finances. All UN Member States must, at minimum, implement and enforce UNSCRs, which are binding. But we can, and should, do more. We are working bilaterally with key partners to coordinate our domestic sanctions programs. This year, Australia expanded its sanctions programs to target additional sectors of the N. Korean economy, and that Japan and SK have issued domestic actions targeting NK. Under Secretary Mandelker is currently in Europe discussing our work with our European allies to increase sanctions and combat NK’s sanctions evasion, and Treasury’s leadership is engaged with leaders from Southeast Asia and Africa on the importance of implementing UNSCRs. We are also working bilaterally with governments and through the Financial Action Task Force to ensure that countries have the regulatory framework in place to detect and freeze assets linked to NK.

But challenges remain. Certainly China and Russia are to be recognized for supporting adoption of the most recent SCR. Nevertheless, both countries must do much more to

## HRNK Report

implement and enforce the sanctions called for by the UN. Russian companies continue to provide support to NK. DPRK bank representatives operate in Russia in flagrant disregard of the very resolutions adopted by Russia at the UN. This summer, for instance, Treasury designated Russian companies Gefest and Ardis Bearings, as well as their directors, for providing support directly to N. Korean entities involved in WMD and ballistic missile procurement. This activity is unacceptable, and we will continue to target those entities and individuals anywhere, including Russia, who provides any support to NK's procurement networks.

China is even more central to a successful resolution of the crisis caused by Kim Jong-Un. China accounts for at least 90 percent of NK's exports. NK is overwhelmingly dependent upon China for both trade and access to the international financial system. China's full and effective enforcement of UN sanctions is therefore essential. Unfortunately, we have not seen sufficient evidence of China's willingness to truly shut down N. Korean revenue flows, expunge the N. Korean illicit actors from its banking system, and expel the N. Korean middlemen and brokers who are establishing webs of front companies. We will continue to work with the Chinese to maximize economic pressure on NK, but we will not hesitate to act unilaterally. If China wishes to avoid future measures, such as those imposed on Bank of Dandong or the various companies sanctioned for illegal trade practices, then it urgently needs to take demonstrable public steps to eliminate NK's trade and financial access.

*Conclusion*

Treasury is engaged on a daily basis in "hand-to-hand" financial combat with NK's illicit networks. We do this with the full recognition that our success in curtailing NK's revenue streams and shutting off its access to financial systems is essential to a peaceful resolution of the growing crisis. We will target NK's economic activities and sanctions evasion schemes regardless of where they occur. We are approaching the problem strategically, but given the urgency of the threat, we will continue to apply maximum pressure on NK, and on those countries where the DPRK operates, at every turn.

**Discussion**

*Military Option is the Last Resort and Not a Solution to the Problem*

**Committee for Human Rights in North Korea (HRNK)**  
1001 Connecticut Avenue, NW · Suite 435 · Washington, DC 20036  
(202) 499-7970 · Fax (202) 758-2348 · [www.hrnk.org](http://www.hrnk.org)

## HRNK Report

Representative Rohrabacher urged that putting more troops in SK is not the solution to this problem. We must prefer use of force without major loss of life as we want to avoid the alternative of murdering millions of people.

*Keeping the Military Option, However, is Essential to Empower Multilateral Diplomacy and Economic Sanctions*

Both Representatives Lieu and Zeldin stressed that diplomatic economic options depend on whether you have a good military option, so it would not be wise to take off military option from the table. Representative Kinzinger added that retaining a passive attitude of relying on missile defense alone to deter NK will lead to massive proliferation around the world. For example, Representative Rohrabacher urged that US should use its defensive forces such as anti-missile system available to shoot down any additional North Korean rockets launched to US ally such as Japan as a message to the N. Koreans and to our allies who are counting on us.

*Decisions to Bring Aids to NK by Previous Administration had Little Effect on the Conflict*

Representative Rohrabacher said that President Clinton's decision to give N. Koreans billions of dollars of American assistance only paid "bloodthirsty tyrants" to aid their program. Sanctions alone will not have an impact on tyrants. Representative Poe also added that Clinton administration's decision to give aid to NK only sent a message that the US can be bought off. Representative Connolly instead urged that we also reflect on the US-Iran experience of JCPOA to provide some reward for compliance and cooperation at the end of the day.

*Sanction is Something Worthwhile to Pursue*

Representative Torres brought up another issue of increasing efficiency of sanctions by engaging consumers. She shared that she and Congresswoman Wagner have introduced the North Korea Follow the Money Act HR 3261, which would direct the director of national intelligence to produce a national intelligence estimate of the revenue sources of the N. Korean regime. The representatives strongly believed that this bill will make US sanction policy more precise and effective.

*China is at the Center of the Gravity to this Problem*

Representative Chabot urged that trade with the US and the possibility of nuclear capability in Japan and SK will incentivize China to take concrete actions against NK.

*The Reality of N. Korean Threat to US*

**Committee for Human Rights in North Korea (HRNK)**  
1001 Connecticut Avenue, NW · Suite 435 · Washington, DC 20036  
(202) 499-7970 · Fax (202) 758-2348 · [www.hrnk.org](http://www.hrnk.org)

## HRNK Report

Representatives Schneider and Royce shared consensus in that there is great conflict between the US goal to eliminate the nuclear threat by NK and NK's goal to unify SK under the Kim dynasty. Furthermore, Representative McCaul reminded that N. Korean capability of delivering an ICBM with the nuclear warhead either to Guam or the US mainland would constitute one of the biggest threats to the homeland.

*Consideration of Using Cyber-Attack*

Representatives Rohrabacher and McCaul recommended conducting a cyber-attack on NK, which seems effective against a small country.

---

**Q&A**

**Q (Rep. Rohrabacher):** So, what is the solution to the NK problem? Am I mistaken that I have heard quotes from the official head of the North Korean government threatening to rain mass destruction of some kind upon the US? Has he made actual threats to in some way kill millions of Americans with a nuclear attack?

**A (Thornton):** I don't know if he said those specific words, but there's certainly been a litany of threats including at Guam including videos showing bombs raining on American cities.

**Q (Rep. Connolly):** South Korea with abrogation of the FTA, which we worked so hard to get, President Trump accused the new South Korean president of appeasement. He threatened to cut off trade with any country that trades with North Korea. Well, that list is 80 including allies like India, Germany, Portugal, France, Thailand, the Philippines... Are we in fact going to cut off economic relations or trade with 80 nations? It's an empty threat he talked about a response by the US of fire and fury, but frankly the policy looks more like recklessness and failure. Ms. Thornton, is it the policy of the US government to abrogate the FTA with South Korea? And has anyone at the State Department looked at the negative consequences of such an action, especially at this time?

**A (Thornton):** Thank you. Yes, we have looked very carefully at the Korea free trade agreement chorus. We are currently undergoing a very rigorous review of all the provisions the USTR recently held.

## HRNK Report

**Q (Rep. Connolly):** My question is direct, is it the position of the US Department of State to abrogate FTA with Korea, Korea would be helpful in our diplomatic efforts and in our efforts to respond to the North Korea threat at this time?

**A (Thornton):** No, I think what we'd like to do is work to improve the trade agreement at the same time that we work with South Korea, obviously on facing North Korea.

**Q (Rep. Connolly):** Is it the policy of State Department that the new president Moon of South Korea is engaged in a policy of appeasement in any respect with respect to the North?

**A (Thornton):** No, I think we've been working very hard to get the South Korea to come around and be on the same page as we and the rest of our allies and they've come around very nicely.

**Q (Rep. Connolly):** Thank you. Mr. Billingslea, like you I also served on the FRC and worked with your former boss miss Downes I was on the other side of the aisle but we actually made a lot of music together sometimes which always surprised the Reagan administration and the Bush Administration afterwards. You talked about China, so China's been violating and you provided some graphic evidence of that with impunity violating sanctions you know under other flags shipping coal and providing badly needed foreign exchange for the North Korea regime. They just signed unanimously on in this new round of sanctions do we have any reason to believe that that would signal a change in Chinese behavior for the better or is it another empty promise that will be violated with impunity and to be determined?

**A (Billingslea):** It's to be determined the reason I wanted to highlight for you the evasion scheme is that maritime enforcement now becomes crucial with the two UNSC resolutions that are in effect. Not sanctions but embargoes complete embargoes at least on paper of coal, iron, lead, now textiles seafood gasoline. Maritime enforcement of those UNSC resolution decisions which are building on all members of the UN that's going to be crucial going forward.

**Q (Rep. Connolly):** And if the chair would just indulge me with follow up question – Let's say we by tightening sanctions which I favor we get North Korea to the table saying uncle what do we give them in return? What are we prepared to do to entice North Korea that there's a pile of something at the end of the rainbow? If you freeze the program and start to reverse it under international observation...

**A (Thornton):** I think the Secretary of State has been pretty clear in public remarks that we'd be willing to look at economic enticements at development opportunities for their economy

## HRNK Report

at their security concerns and other things that we've talked about during negotiations with them in the past. I think all of that would be on the table. We don't want to pay for negotiations or negotiate to get to the negotiating table. That's where we're right now at the end of the day.

**Q (Rep. Chabot):** Sanctions is something worthwhile to pursue. Obviously, China's the key has been for a long time, continues to be. It seems to me there are two things which could get China's attention.

- 1) Trade with the US. Some sanctions on banks may help, but it's not going to have the result we all want. And that's to avoid military action and get North Korea to back off this march to madness and their nuclear program. So, if we did cut off trade, would it have an adverse impact on the American economy? Of course, it would; however, I'd say that pales in comparison to the impact on the American economy if we see a thermonuclear device go off in Seattle or SF or LA or NY or Washington. So that's one thing that I think could get China's attention.
- 2) Keeping Japan or South Korea without their own nuclear programs. And I have thought for a long time that we should at least be discussing that with them, and I think the discussions alone could have gotten their attention to get them to put pressure on North Korea to back off.

It may be too late for that now, but could you comment on those two items which perhaps could get China to put sufficient pressure on North Korea to back away from this madness?

**A (Thornton):** I think we are certainly looking at every option to put more pressure on China. We're also using all of our global partners to speak up in it from their perspectives to put pressure on China because we do see China as the key to the solution of this problem. If we can get there, cutting off trade obviously would be a huge step. And there are a lot of ramifications of that. I think going after entities and banks is our way of going more directly after the North Korean angle here, but I agree with you that trade is preferable to seeing any kind of military confrontation, especially one that would involve people in the US. But on the issue of defenses in Japan and South Korea, we've certainly been talking to Japan and South Korea about beefing up their defenses and their ability to themselves take action in the event of an attack, and even those discussions have gotten China's attention. You probably know Chinese have been very vocal about their opposition to the THAAD deployment in South Korea, which we have moved ahead on now and deployed over and above their objections. And we have made clear that Japanese are seeking additional defensive systems to enable them to ward off any direct attack from North Korea, and I think it is quite clear already to the Chinese that this is an area that is going to be

## HRNK Report

further developed if we can't rein in the threat from North Korea.

**Q (Rep. Chabot):** It's my view that short of one of those two actions we're going to continue down this path where Kim Jong Un will continue to move forward on this nuclear program, and that'll leave only the military option, which there's no good to come from that. We know if we take that action they can target Seoul and literally tens, hundreds, and maybe thousands of lives could be lost including American lives, so that's the last resort - although it may ultimately come to that. Or the alternative that some people are suggesting now that we have a nuclear China, we have a nuclear Russia, and we don't like that. So maybe we end up with a nuclear North Korea, which why can't we not allow that to happen? How are they different?

**A (Thornton):** A lot of times people talk about the North Koreans needing a nuclear program for their own defenses, the fact of the matter is that there's been basically a mutual deterrence in effect since the end of the Korean War. They have a conventional position that allows them to target Seoul, so the idea that they need nuclear weapons for their own defense when there's never been a retaliation for any of their provocative or hostile or even kinetic actions that they've taken is a bit of a bridge too far. So, I think the concern is that they are pursuing a nuclear program in order to use that program to conduct blackmail and hold other countries hostage and continue to undertake even worse steps in their behavior. Proliferation is another major concern, of course. It undermines the entire global non-proliferation system and would be, we presume, ripe for sale and sort of proliferation around the world.

**Q (Rep. Cicilline):** Ms. Thornton, you said we will never accept North Korea as a nuclear state. What did you mean by that? I mean, aren't they already a nuclear state?

**A (Thornton):** No, we do not recognize them as a nuclear state.

**Q (Rep. Cicilline):** And what does that mean?

**A (Thornton):** That means we do not recognize them as nuclear weapon state. We don't recognize their program, and we won't consider them to have nuclear weapons. We're pursuing denuclearization.

**Q (Rep. Cicilline):** Well the fact that you don't, we can't imagine it away - either they're a nuclear state or they're not. The recognition of one, I am not understanding that point. We have to have realistic context in order to shape policy options. But okay. Let's move on to Mr. Secretary, you said that UN resolution 2371 prevents 55 percent of refined petroleum products from coming into North Korea and the new sanctions prevent half billion dollars of coal, which

## HRNK Report

leaves another half billion dollars of coal and about 45 percent of petroleum products. What am I understanding that our sanctions don't reach the balance of that and if not, why not so?

**A (Billingslea):** So, congressman, a couple of things. All coal is prohibited to be transacted that was under the prior secretary. It is not allowed to trade in North Korea coal period. Nor iron, lead...

**Q (Rep. Cicilline):** So those percentages relate to non-compliance.

**A (Bilingslea):** 55 percent number I gave you is kind of the fuzzy math done on how much gasoline versus crude oil is imported today into North Korea from China.

**Q (Rep. Cicilline):** The UN experts of North Korea in February found that China was using livelihood exemption to trade banned goods and allow companies to send rocket components to North Korea, and you both said that we need to see that happen – that is, compliance by the Chinese. You describe the Chinese as the center of gravity, and then Ms. Thornton you said if China doesn't comply with the sanctions we will use all the tools at our disposal. What are those tools, and why aren't we already using them? These sanctions sound good in a press release, but if they're not actually being honored by the parties they're not effective. What are the tools that you intend to use and why aren't we already using them?

**A (Thornton):** One of the things to remember, as assistant secretary mentioned, is that North Korea has been under sanctions for many decades. So, they're networked; it's a criminal enterprise, and their networks are deeply embedded. And they have designed them to escape detection. So, it is a little bit complicated to go after these things. But what I meant when I say using our tools, we have these international sanctions regimes, the international community has signed up to it and is obliged to enforce that. We have a running discussion with many of the countries around the world on information. We have about what we find is illicit networks and ask them to go after those. If they don't then we will use our domestic authorities to sanction those entities.

**Q (Rep. Cicilline):** I guess my question is, I think most military experts would acknowledge that there is not a good military option. So, if we surrender the use of the sanctions regime to produce the result that we want by not using every tool that's available to us, we in the end are acquiescing to North Korea's nuclear capabilities.

**A (Thornton):** Well, I think our strategy is to ramp up the sanctions and that's exactly what we've been doing. We've had two unanimous UN Security Council resolutions in two

## HRNK Report

months, and that's unprecedented.

**Q (Rep. Cicilline):** I understand that, but they have to be implemented fully in a meaningful way. Otherwise they're nice resolutions, but it sends the wrong message. If North Korea doesn't see that there's real engagement by the Chinese, these sanctions won't work.

**A (Thornton):** Right. But that's exactly what we're working on, and I think on sanctions a lot of people say the sanctions won't work either. But in past cases where we've used sanctions, I just want to note you're a chump if you're implementing sanctions and they're not working until you're a genius when they do.

**Q (Rep. Cicilline):** No, I think sanctions do work if you implement. My last question is this – it seems to me that this suggestion that China is the center of gravity is right, and that the only way that will get China to fully implement the sanctions is for them to conclude that it's in their own interest to do that. And that will only happen when they arrive at the point that their fear of a unified Korean Peninsula aligned with the US is outweighed by their fear of a military conflict on the Korean Peninsula. I mean, I think that's the calculation. What are the strategies that the administration is pursuing that bring China to that point – where they conclude that it is in their interest to enforce the sanctions because the danger of a conflict on the peninsula is greater than their fear of some alignment by a unified cram pool in some of the US? Or do you agree or disagree with that?

**A (Thornton):** I think that's right. And I think we've seen the Chinese moving in their system for them pretty swiftly toward a recalculation of what they're worried about on the Korean Peninsula. They see North Korea's actions undermining their own security through the beefing up of defenses in their region, and they're certainly very alarmed at North Korea's behavior and the explosion of the sixth nuclear test. A hydrogen bomb right on their border is very concerning to them. So, I think we see them moving in this direction – it's not fast enough or deep enough for us to be satisfied. But we're certainly pushing them that and that direction and we have an ongoing conversation with them about this at the highest levels.

**A (Billingslea):** I would also add that the Banco Delta Asia sanctions had a crippling effect on the regime, but that was more than a decade ago. We have for the first time in more than a decade taking action against a case a Chinese bank. This bank of Dandong that was a very clear warning shot that the Chinese understood, and we are in repeated discussions with them that we cannot accept continued access to the international financial system by North Koreans through their financial networks.

## HRNK Report

**Q (Rep. Yoho):** Do you guys have enough tools in your arsenal to make sure that the world community – because it can't be just us – and that's why sanctions haven't worked in the past, it has to be a buy-in from the world community, because this is something that's affecting all of the world community to get to a point where we have diplomacy that works, so that we don't have any kinetic conflicts. Certainly, this world does not want to see a nuclear device go off in a homeland of anybody's and this is this generation's fight to make sure this doesn't happen. Thornton, is there anything else that you need that would make these other countries complicit with the sanctions?

**A (Thornton):** We definitely believe that the UNSC actions are the most significant actions that we can take on the sanctions front, and that's because every country in the world is obligated to enforce its sanctions. It gives them the legal authority to do so, and it obliges them to do so. And it opens up a whole sphere of enforcement for us to work with other countries on. I think the most significant actions in the UN, which UNSC our representative ambassador Haley has undertaken, have been really key. The other key I think is our domestic enforcement authorities which back up the UN scheme.

**Q (Rep. Yoho):** You know North Korea was on the state sponsor of terrorism and certainly we can look at their acts that they've done, in fact you said that North Korea was using acts of intimidation, the word you used to describe terrorism, so when we took them off that the state sponsor of terrorism list, do you feel it would be important to put them back on that, and would it help toughen the sanctions and get compliance by the other countries?

**A (Thornton):** I think that state sponsor of terrorism is another statutory tool that we have, and certainly the secretary is looking at that in the context of North Korea.

**Q (Rep. Schneider):** I'd like to ask you if you could succinctly describe what our North Korea's goals is.

**A (Thornton):** I think it's pretty hard to get inside the mind of the North Korean leader, but I think he's been fairly clear in public statements that he seeks to complete his nuclear weapons program in order to be able to sit down at the table with us as a sort of nuclear weapons fully developed state and that seems part of the strategy.

**Q (Rep. Schneider):** But they're their long-term goals. Mr. Deputy Secretary, I really do have to defer to State Department on this my job is to drag them to the table through economic pressure but I defer to Department of State on how we got.

**A (Thornton):** I think that most experts on Korea would say that the main overarching goal, and I think one of the members mentioned the Juche philosophy, Representative Smith, I think that regime survival regime perpetuation is pretty much an overarching purpose and goal.

**Q (Rep. Schneider):** Okay, they can share collective wisdom, but how about China – because they have different goals obviously than ours in many ways. How would you describe their goals in this?

**A (Thornton):** I think dynamic China has been also clear in their public comments they don't want chaos, war, or nukes on the Korean peninsula. Those are their stated three main goals in this particular issue. Of course, they're also looking to maintain stability in their region and to create the conditions for further economic development.

**Q (Rep. Schneider):** Okay, so it seems that there's this shared perspective at least between the US and China that achieving each of our respective goals – denuclearization, elimination of that nuclear threat. We should have sanctions. Sanctions are the path to put pressure on Korea. But how do we create a clear message for North Korea that the only path for survival, the only path for them to achieve their goals, is through denuclearization, that they are taking the wrong path - what off-ramps, what mechanisms can we provide to show them that the way they're headed is a risk to their regime, a dire risk to their regime and every option being on the table and that there is a different path and that path is open to them?

**A (Thornton):** Well, it's difficult to do this when they're shooting ICBM's threatening Guam and exploding hydrogen bombs on the border of China. But I think we've been very clear in our public statements that denuclearization is the goal, we have used both words and actions to try to drive them in the direction that we want them to go. Public statements by US, by many of our partners and allies in messages directly to the North Korean regime, through public messaging, which the North Koreans are definitely picking up on to tell them that denuclearization is the only path to the survival for the regime. And we've been quite explicit about that. We're trying to show them that through our deterrence actions, sanctions, and diplomatic actions. And I think they're there. They have a different view so far, but we're continuing to press on that.

**Q (Schneider):** Is it better to have a clear consistent message that this is what how you take these steps, this is what we do, or is it better in your mind to leave uncertainty and perhaps having a mix of messages?

**A (Thornton):** I think it's good to have consistent clear messages especially for a regime

## HRNK Report

like North Korea that has a very opaque communication system and difficulty probably for information to reach the top leader, which is why we use public messaging in some cases so that we can be sure that he can get it directly. But I think it's also important not to take any options off the table so that there is sufficient motivation for them to move toward the negotiating table.

**Q (Rep. Kinzinger):** I think how do you tell Iran that they can't have a nuclear weapon when the JCPOA is up actually, fairly soon when in fact you've just given North Korean de-facto access to nuclear weapon? Let me ask Mr. Billingslea, when people go out and they say there really is no military option, even though it is unthinkable by the way military should be used in doomsday scenarios of which I think this ranks up there with doomsday scenarios. Does that strengthen diplomatic hand, does that strengthen your ability to get North Korea to the bail or doesn't weaken it?

**A (Billingslea):** I think we would be exceedingly unwise to take anything off the table. I was a Senate staffer up here on a committee on the Foreign Relations committee when the agreed framework was negotiated, and that was designed to freeze the Yongbyon reactor and so on and we gave all kinds of heavy fuel oil under the Clinton administration, and look, where we are now so this administration has made very clear at the cabinet level at the president himself that we're not going to kick this can down the road, we can't he's testing advanced nuclear designs and ICBMs, it is a matter of time now before he mates the warhead to the missile and poses an existential threat. Not just to our friends and allies but to us.

**Q (Rep. Kinzinger):** If we say as long as we have missile defense, we're unwilling to do what's difficult for North Korea, and we're unwilling to engage in economic actions against the Chinese, push the Chinese back in their territorial disputes in the South China Sea, whether if we do that can you talk about what the rest of the world will look? Will we de facto accept North Korea, what does that do to the JCPOA, what does that do to South Korea, Japan, other countries' nuclear ambitions, and what does that do to our moral authority to enforce the nuclear non-proliferation?

**A (Billingslea):** I'll defer to the Department of State on the broader implications, but I would tell you we are not willing to live with a nuclear North Korea. North Korea has proven that they are certainly willing to share nuclear technology with all manner of pariah regimes to sell capabilities, and as Basinger Bolton just had an op-ed where he pointed out, it was a recent anniversary of Israel strike a Syrian nuclear facility which was alleged to have been constructed with North Korean support for instance, so these are big issues. We are determined to induce the Chinese to help solve this problem.

## HRNK Report

**Q (Rep. Torres):** I'd like to ask if you would agree we need to have a better, clear picture of North Korean revenues in order for our sanctions to be more effective?

**A (Billingslea):** Congresswoman, you are always going to find that I and the Treasury Department are interests in more intelligence not less. We are an intelligence driven organization. And the more precise information that can be generated, the better. I would say that we're at the point now where enforcement is crucial, and we have the various UNSC resolutions in the past where it was sometimes very difficult to judge the proper enforcement of these different provisions because they weren't complete embargoes.

**Q (Rep. Torres):** So you could get into arcane arguments about past embargo. That you can get is for the consumer to be more informed and for the consumer to say I will no longer purchase any good that comes from this country because they are failing to support us in ensuring that we have a nuclear safe world.

**A (Billingslea):** I agree a hundred percent, and I would highlight two particular areas you talked about labor. One of the successes that ambassador Haley has had at the UN is getting past the idea that we would just cap North Korean labor at whatever level it is to sale labor in these various countries. We're now under the new resolution passed last night. This is going to be wound down, that's important. Seafood is the other thing talk to consumers about to make sure that we go after any efforts to smuggle North Korean food in.

**Q (Rep. Torres):** Can you give me an estimate of what percentage of North Korean revenues are from illicit sources at this stage?

**A (Billingslea):** Virtually all revenue is now illicit and illegal because the UNSC has banned just about every single...

**Q (Rep. Torres):** What are our options in dealing with that maritime enforcement?

**A (Billingslea):** The single most important thing we can do is to enforce a complete prohibition on the sale of North Korean raw materials.

**Q (Rep. Poe):** I want to know what our options are, not just one, I want to know where we're going, we all want sanctions, well sanctions – What if Kim Jong-un doesn't stop? What's the US's plan and the contingency plan? Sure, we want sanctions, we want to cripple the economy, we want them to stop the slave trade, we want to do all those things, but what if he doesn't because little Kim he doesn't think like we do, so what's the rest of the options?

## HRNK Report

**A (Thornton):** We have a strategy, and you all have heard from the secretary from other secretaries what strategy it is, it's the pressure strategy. We want to solve this through a negotiated settlement. Peacefully, but we are not taking any options off the table.

**Q (Rep. Poe):** We only have a minute so you have to kind of cut to the chase. What are the other options?

**A (Thornton):** Options to use force, sanctions, pressure to choke off the regime revenues, etc. to get them to come to the negotiating table. And we've been very clear about the strategy. We're not going to pay for negotiations, a has been one previously as you mentioned in history. When we've dealt with the regime, they've sought payoffs and we've made it very clear – the president and the secretary – that we're not going down that road this time, we're going to and together with the coalition of global partners choke off all of their economic revenue.

**Q (Rep. Poe):** And if so, we have a military option down the road if nothing works.

**A (Thornton):** Sure.

**Q (Rep. Poe):** Secretary Billingslea, would you agree with that?

**A (Billingslea):** Absolutely. And I've said we're not going to take any of those options off the table. I would additionally offer a much more precise level and you'll see in my full written remarks, but we're targeting two things here – we're targeting his access to hard currency because he needs these dollars for his WMD and missile programs, and we're targeting the way he still has access to the international financial system. We need to rip that out, root and stem, and that's what we're focused on – shutting down his access to hard currency through these new UN embargoes that ambassador Haley has successfully gotten in place. These are total cut-offs. You can't trade in North Korean coal; that is a huge percentage of the revenue left to this dictator given that we actually have relatively well shut off his arms trade in number of the other things he was trading in. He's basically been reduced to high volume, low margin commodities minerals and things like that, and we have to choke that off. But secondly, because of lack of enforcement in the international system by countries estimate about China today, we've Russia who still has access to the international financial system because he has North Korean brokers and agents operate with impunity brazenly abroad in foreign jurisdictions. That has to stop, and that is our next step.

**Q (Rep. Liue):** The trouble administration's goal is to denuclearize North Korea. That's correct, right? But we don't know how many nuclear weapons they have isn't that correct? You say that

## HRNK Report

again and we also don't know where all those nuclear weapons are. Correct? They're pretty good at hiding them. So, in order to get rid of those weapons to get the trouble nuclear go through military force, we would need a ground invasion find those weapons and destroy them, is that correct?

**A (Thornton):** Right.

**Q (Rep. Lieu):** Since we don't know where the nuclear weapons are, we don't know how many they have in order to denuclearize North Korea, through a military option, we would need a ground invasion to find those weapons and destroy them, isn't that correct?

**A (Billingslea):** I suspect we'd need our Department of Defense colleagues here answer that.

**Q (Rep. Lieu):** No, for you to do your job you need to understand the military option, right? So, let me just go on. North Korea also has the knowledge to build nuclear weapons, isn't that correct?

**A (Billingslea):** Yes.

**Q (Rep. Lieu):** They've also got about 5000 tons of chemical weapons, isn't that correct? And then they have this massive conventional arsenal of rockets and artillery, and so on, correct? And they can launch all that at South Korea, they can use missiles against Japan, they can use missiles against Guam, where we've got hundreds of thousands of Americans in those three areas, correct? And where millions of civilians in all those areas correct? So, with any military option, we wouldn't be able to contain escalation, isn't that correct?

**A (Thornton):** I think there depends on... You're telling the story...

**Q (Rep. Lieu):** So, US defense secretary Mattis has said basically here are no good military options and the options would be very ugly which then leads me to believe that your job is very critical. We essentially have diplomacy and economic sanctions, it seems like if we're going to pursue diplomacy might not be a good idea to have an ambassador to South Korea that can help us. Why hasn't the president nominated an ambassador to South Korea?

**A (Thornton):** We're working on it, I know the secretary spoke to this the other day I think. We're working on it.

**Q (Rep. Zeldin):** Has the administration taken a public position on a red line? Do you believe

## HRNK Report

we should have one? What does it look like? For me the red line should be that North Korea should not have the ability to deliver a nuclear warhead to the US, and there's still a component of their development that appears to not be there. So, we're pursuing it the diplomacy angle, we're pursuing the economic angle and the information angle, thinking of military options is the last possible option preparing the whole state of conventional to unconventional military options. What's that red line?

**A (Thornton):** Secretary and I are here representing the economic sanctions lever and the diplomatic levers in this, and I've said that we're determined to pursue a peaceful resolution through a negotiated settlement. Of course, we're not taking any options off the table. We realize this is a very difficult problem. So, what I would say about red lines is that we and the Secretary of State are determined to use this pressure campaign to get the North Korean regime to change its path and to come to the negotiating table with a serious set of proposals on denuclearization. How we verify that complete verifiable, irreversible denuclearization is what we're seeking through a negotiated settlement. We think we have a lot more room to go to squeeze them and increase the pressure of the international community, and I think we're continuing to see that strategy is working that the North Koreans are feeling that pressure. We are focused on getting them back to the table, so as far as red lines go for a military option, I would certainly want to defer that question to some future point.

**Q (Rep. McCaul):** Kim Jong-un has this North Korean Office 39 that raises revenue with drugs and illegal exports of minerals, as you mentioned, counterfeit cigarettes, and a lot of other things. What are we doing to try to counteract that? And, also, when it comes to proliferation and the sales of arms, can you tell me how much do you estimate North Korea is making of proliferation to countries like Iran and Syria?

**A (Billingslea):** One of the things that's very important to underscore is that they're not just sanctions; sanction is one of many tools we have. What we use to in effect collapse the bank of Dandong was not a sanction. It was a patriot section 311 under the PATRIOT Act action to root out the North Koreans in that Bank. In terms of the proliferation of weaponry, because of previous UNSC resolution we have been able to dry up much of the illicit sales that they were engaged in to various African regimes and so on. There are still several transactions that they would periodically float. We are actively engaging in various countries to deter signing of contracts and going down that road. It would be very unwise for them to take these actions. We are on a full-court press on this. Because of the success that ambassador Haley and the State Department have had at the UN, in effect you're asking about sort of illicit transactions, in effect nearly every export coming out of North Korea today as of last night, nearly every export is not

## HRNK Report

illicit. Textiles are now illicit. You cannot trade in North Korean textiles. You cannot trade any basic minerals anymore. Under the previous administration, talking about Bureau 29 [39], one of the things they would do is sell these huge overpriced bronze statues and then the weapons were the kicker on the side as a little sweetener for paying six times the going rate for a bronze statue. So, that organization the Mansudae Fine Arts studio was sanctioned. And under our administration we started rooting out the rest of that particular arts and monuments, revenue generating schema. Korean labor is another category that they're getting significant money from, and with the results last night, there's now not a freeze or cap on North Korean laborers. There's a requirement to wind it down. I'm not a big fan of wind downs because it's really hard to verify that, but that is nevertheless a big step forward; and we intend to enforce that as well. I have reiterated on multiple occasions with counterparts in the Gulf and elsewhere that we need to see the North Koreans gone; the Department of State has been very active on this front, and we are seeing a drying up of revenue associated with the slave labor that the North Koreans employ.

**Q (Rep. McCaul):** Actually, to my past question, North Korean proliferating weapons to Iran and Syria...

**A (Thornton):** We do track any kind of illicit proliferation networks from the North Korea and go after those transactions again with colleagues at Treasury and other agencies in the US government, when we find them we try to block them or deter them. And we've had some success, it's a continuing effort on our part, and we devote a lot of attention to that in our Bureau of nonproliferation.

**Q (Rep. McCaul):** But it is happening.

**A (Thornton):** I think there are transactions that we are worried about, yes.

*Report by: Huiwon Yun and Ayoung Kang, Research Interns*