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FINANCIAL TOOLS FOR U.S. POLICY  
TOWARD NICARAGUA AND VENEZUELA

A CONVERSATION WITH  
TREASURY ASSISTANT SECRETARY MARSHALL BILLINSLEA

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**Keynote:**

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**Discussion:**

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## P R O C E E D I N G S

MR. PICCONE: Good morning, everyone. I'm Ted Piccone. I'm a senior fellow here in the Foreign Policy program at Brookings, and we're here to talk about financial tools for U.S. policy toward Nicaragua and Venezuela. And I think we'll go beyond those two countries.

We often refer to money as the lifeblood of any enterprises for obvious reasons. One can't survive without capital. And in a globalized economy in which the dollar is the coin of the realm, the United States Treasury Department has a particularly important role to play in keeping that system healthy and strong.

What we want to discuss today is how to drain that lifeblood from corrupt and malicious actors who use our financial system to launder and hide illicit money or use it to bribe others. While this is obviously a question of U.S. economic security, it's also fundamentally a matter of national security, as in the case of financing for terrorists.

It is also a matter of human rights and democratic governance, especially when you consider the direct linkages between corruption on one hand and the denial of basic freedoms from wanton fear on the other.

Recent events in two countries in the Americas, Venezuela and Nicaragua, dramatically bring these lessons home. In both countries we see the terrible consequences of a toxic mix of corrupt behavior by senior government officials and the impunity associated with grave human rights abuses and repression.

To tackle these problems, we, at Brookings today, have released a new policy brief on Venezuela, which there are copies out front. It's available on line on our website. It's called "A Path out of Misery." It's coauthored by me and my Brookings colleagues, Dany Bahar and Harold Trinkunas. In the paper, we catalogue Venezuela's continued decline from democracy to kleptocracy and its harmful effects on the Venezuelan people and their neighbors.

We also propose a number of steps that Venezuelans, first and foremost,

and the United States and other international actors can take to stop the bleeding and restore democracy to the country.

Specifically, we argue for increasing costs to the Maduro regime for its actions by weakening the financial infrastructure that supports the regime's corruption and freezing the illicit assets of Venezuelan officials and their collaborators.

We will be issuing a similar policy brief on Nicaragua by our colleague, Richard Feinberg in the coming weeks. So it's very opportune to have a chance to hear this morning one of the leading U.S. government officials responsible for tackling these problems through the use of financial tools and other measures.

Marshall Billingslea is the assistant secretary for Terrorist Financing at the Treasury Department. He took up that position in June 2017, and he handles that office, how to address threats posed by illicit finance, money laundering, terrorist financing, proliferation of weapons of mass destruction, and other criminal activities, both domestically and across borders. Marshall brings to this position a tremendous amount of both public and private sector experience. He was managing director with Deloitte Financial Advisory Services running their Business Intelligence Services Group. He has many years of service at the Pentagon working for the secretary of the Navy and in the office that handles Special Operations, particularly after the attacks of 9/11. He also spent many years as assistant secretary general of NATO for defense investment and had a stint on Capitol Hill in the Senate Foreign Relations Committee. So we're very fortunate to have Marshall with us today to hear about what the Treasury Department is doing on these kinds of issues.

After his remarks, we will have a moderated discussion, and we'll be joined by my colleague, Suzanne Maloney. Suzanne is the deputy director of the Foreign Policy program here, and a senior fellow in our Center for Middle East Policy and Energy, Security, and Climate. Her work focuses in particular on Iran and Persian Gulf energy, so we'll have a chance to look at how some of these issues play in other parts of the world.

Suzanne also has experience both in the public and private sector and secretary of State's Office for Policy Planning and at ExxonMobil.

I call Marshall to the podium. Thank you.

MR. BILLINGSLEA: Good morning. It's great to be here at Brookings. Thanks for those kind words, Ted, for the introduction. And again, thank you to Brookings for hosting us today to talk about this most important issue. We had a look at your paper and I would commend it to your audience and to your readership. I think there's a number of really important ideas contained in the document that actually track very closely some of the directions that we're taking in the administration.

You know, it really shouldn't surprise us that Venezuela and its ally in Nicaragua are in the midst of a political and economic crisis both. It should sadden us but not surprise us. Historically, Venezuela's authoritarian government has provided the economic support to its ideological friend in the form of Daniel Ortega and to his dictatorial model of government. Its corruption buttressed by repression. And these governance models in Venezuela and Nicaragua are all too similar.

I think that relationship is most clearly illustrated by Alba de Nicaragua S.A. (Albanisa), which is the joint venture that was established by Chavez and Ortega to import and monetize Venezuelan petroleum products and which is a majority-owned by Venezuela state oil company, PDVSA. And it's widely known that senior officials within the Nicaraguan government and the Sandinista Party have used Albanisa to purchase various assets, including television and radio stations and electricity generation plants across the country. And it will not shock this audience that Treasury recently designated Albanisa's then-vice president for engaging in corrupt activities.

As Venezuela's corruption and mismanagement implode its economy, Maduro's ability to plunder his citizens in order to buy the loyalty of Ortega and to fund other regional political projects has been greatly diminished. And this in turn has limited the Ortega regime's ability to line the pockets of regime insiders while keeping the

government's finances a float. Instead of checking his regime's corruption, Ortega took the opposite route. He chose to cut his people's social security benefits, and in doing so, he unleashed long simmering resentments that have brought thousands of Nicaraguans onto the streets demanding an end to his authoritarian rule.

And the results have been tragic. They've been tragic and predictable. As we've seen with Maduro, Ortega and the first lady and Vice President Rosario Murillo will not hesitate to employ ruthless violence against those who dare speak out. These two regimes together have killed hundreds of their citizens for wanting a better country. Such serious human rights abuses and endemic public corruption undermine the foundation of stable, secure, and functioning societies. They devastate individuals. They weaken democratic institutions across the region and they degrade the overall rule of law. They perpetuate violent conflict and they undermine economic markets. And they also threaten the integrity of the U.S. and the international financial system.

As defending that system from abuse is one of Treasury's key missions, I want to discuss with you today how we are using Treasury's tools to pressure these dictators and their supporters in Nicaragua and Venezuela.

First, I want to give you a brief overview of the tools as they exist. In terms of combatting human rights abuses and corruption, something to discuss with financial tools, we view the authorities that Treasury has been given as a central element of our broader approach to pressuring these authoritarian regimes and imposing costs on regime insiders who are exploiting their official positions to commit human rights abuses and to enrich themselves through illicit activities.

We have a number of tools at our disposal in this connection, and those include both individual and financial sanctions, enforcement actions, advisories, a heavy amount of foreign engagement as we work with other countries, like-minded countries in the region and in Europe to marry our actions with theirs. And private sector partnerships, among many others.

Our efforts to target human rights abusers have been aided by our partners in Congress, the international community within the U.S. government, particularly State and Justice Departments. But civil society, human rights activist groups, nongovernmental organizations, and think tanks play just as important a role in documenting and shedding light on the atrocities being conducted in these countries. And in fact, around the world.

In addition to a number of other sanctions programs that focus on human rights abuses and corruption, I believe the single-most important addition to our toolkit has been the Global Magnitsky Human Rights Accountability Act of 2016. With that piece of legislation, which was signed into law and then an executive order was issued by President Trump to implement the law and authorize the Secretary of Treasury to sanction persons involved or complicit in serious human rights abuses and corruption around the world, we were given a most essential tool. Since the issuance of that executive order in December of 2017, the Treasury Department has designated 58 entities and 26 individuals under the Global Magnitsky Sanctions Authority. And this includes four senior Nicaraguan officials. For Venezuela, we've used other authorities to designate over 100 officials and entities and to impose targeted financial measures. These actions together are designed to send a clear message to those who are responsible for the suffering of others, who prey upon the weak and the innocent to enrich themselves. There will be a steep price to pay for abusing human rights, and we will prevent these individuals from using our financial system to further their ill-gotten gains.

In addition to freezing the assets of those people that are in the United States or come within U.S. jurisdiction, and prohibiting U.S. persons from transacting with them, our financial measures I think more broadly make it difficult for these people to engage and to conduct business abroad as many financial institutions across the world track the actions we take in the United States very closely and mirror our actions with

their own compliance programs.

What I'll now do is talk specifically about our efforts in the use of financial tools with respect to the ongoing crisis in Nicaragua. In this case, we have used financial tools to target many of the individuals who are engaged directly in violent repression of the Nicaraguan people. And our efforts are designed to complement those of the state departments in increasing pressure on the Ortega regime, to end its violent repression. We intend to disrupt the corruption networks that are propping up this regime and to drive Nicaragua to early, free, and fair elections.

Since April, the Ortega regime has killed more than 350 people, injured thousands, and jailed more who have been tortured or who have gone missing. Ortega and Murillo are ultimately responsible for the police and the parapolice forces that are acting together under their instructions to violently repress these protestors and to deter society from practicing and participating in legitimate public demonstrations.

There are numerous troubling examples of how the police and the parapolice have been used to brutalize peaceful protestors, opposition leaders, human rights defenders, the church, journalists, students, and others. One horrific incident in particular took place on June 16<sup>th</sup>, when masked gunmen, accompanied by individuals who were identified by witnesses as Nicaraguan police officers, set fire to a family home in Managua, burning six people alive, including a toddler and an infant. According to the reports that were given to the United Nation's High Commissioner for Human Rights, they set that house on fire simply because the family would not allow the police snipers to use the roof to target other peaceful demonstrators. And when neighbors attempted to help, they shot at them and drove them away.

This type of systemic repression and brutality is ongoing by the Ortega regime, as shown by their arbitrary arrest just this past week of 38 peaceful protestors that drew worldwide condemnation.

Our response to the grotesque attacks on these innocent people has

targeted those in leadership roles in the Nicaraguan regime, in their repression apparatus, and those who are exploiting their public positions for their personal financial benefit. As I mentioned before, Treasury included, Roberto Rivas Reyes, who was then-president of Nicaragua's Supreme Electoral Council, in the first-ever Global Magnitsky action last December. Rivas has been accused of amassing sizeable personal wealth, including multiple properties, private jets, luxury vehicles and a yacht, all while earning a government salary.

In July of this year, Treasury designated Nicaragua's National Police Commissioner, Francisco Javier Diaz Madriz, and Secretary of the Mayor's Office of Managua, Fidel Antonio Marino Briones, under the Global Magnitsky Act for being responsible for and leading entities involved in these serious human rights abuses in Nicaragua. We also designated Jose Francisco Lopez Centeno, who is the vice president of Albanisa and the then-president of Petronic, which is the Nicaraguan state-owned oil company for engaging in the kind of corrupt activities I've been describing.

After these designations were announced, Rivas resigned from the Supreme Electoral Council amid accusations of fraud, and Lopez resigned from Petronic.

We also issued an advisory this month as we continue to up the ante with Nicaragua to warn our financial institutions and other international financial institutions of the increasing risk that proceeds of political corruption are flowing from Nicaragua and may either enter the United States or traverse the United States onbound somewhere else. This advisory, which was issued this past month, focuses on alerting our financial institutions to the corruption of senior political officials and their financial facilitators.

As I mentioned, a key element of how we were tackling these human rights abuses is engagement with international counterparts, which is a feature of the Brookings paper. I've met with counterparts across the region repeatedly to urge them, in fact, just two weeks ago in Indonesia we had another round of discussions on this



topic, and urged them to investigate the Nicaraguan officials that we have designated and others that we are looking into. And to use their domestic authorities to freeze assets, as well as to share our advisory with their financial sector to help protect their financial systems from abuse. And we will continue to explore the use of financial tools as we monitor the situation in Nicaragua closely.

The crisis in Venezuela serves as a clear warning to the international community that we need to work together preemptively to support the Nicaraguan people's legitimate right to shape their future and to oppose the dictatorial regime of Ortega and Murillo.

Finally, I'll close with a few remarks on Venezuela. The tragic case of Venezuelan opposition council member, Fernando Alban, who I saw in New York at the U.N. Security Council meeting, he was arrested on October 5<sup>th</sup> and he died three days later in the custody of Venezuela's Intelligence Service. He leaped, apparently, from the tenth floor of the intelligence building. This illustrates the Maduro regime's resort to ruthless violence as they seek to systematically silence dissenting voices. This administration condemns the Maduro regime's involvement in his death and we call for the immediate release of all Venezuelan political prisoners.

Alban sadly is not alone. Since Maduro took office, hundreds have been tortured or killed. Thousands of Venezuelans have been arbitrarily detained. Thousands more have been injured by security forces during anti-government protests, and hundreds have been jailed for politically motivated reasons. These acts, just like the death of Fernando Alban, are not isolated and they are not spontaneous. They are premeditated atrocities. And although the Maduro regime is solely responsible for the human rights violations perpetrated by security forces, I have to underscore, Cuba's dictators are underpinning this entire exercise with their intelligence apparatus. And they've sought to export their failed ideology across the wider region and they continue to aid and abet the corrupt regime in Caracas.

The organization of American states, the General Secretariat, has recently issued a report that indicates that 12,000 Venezuelans have been arbitrarily detained by the Maduro regime since he took over in 2013. This is equivalent to approximately seven people a day being arrested, every day since Maduro was brought into power.

According to the OAS report, the number of political prisoners in Venezuela reached a high of 676 during the 2017 protests, and there are still more than 200 political prisoners there in Venezuela.

The Venezuelan people, however, face another type of violence. It is the violence created by the daily inhumanity of malnutrition and hunger that is driving thousands of Venezuelans to flee their country every day. The rampant public corruption fuels a manmade humanitarian crisis, the likes of which we have not seen in the Western Hemisphere. It is characterized by a shrinking economy. The economy is half the size today than it was when Maduro took power in 2013.

Hyperinflation. Two weeks ago the IMF briefed new hyperinflation numbers. When I spoke at the Security Council with Ambassador Haley, the number was pegged at a projected 1 million percent inflation by the end of 2018. The IMF has now revised that to be 2.5 million percent inflation in Venezuela by the end of 2000 (sic). That number boggles the mind. It's not even possible to contemplate inflation, that kind of hyperinflation.

The lack of food is contributing the unnecessary death of five to six children per week as we speak. We are seeing a kleptocracy in Venezuela that is operating on a mass scale. It has precipitated a humanitarian crisis that is now threatening regional stability. Threatening to drag down, for instance, our close ally in Colombia.

Under Maduro, embezzlement, graft, and fraud are the economic policy of the regime. There is no other economic policy. And it is solely aimed at maintaining

him in power and maintaining the loyalty of key regime insiders who will buttress his continued authoritarian rule.

The most widely known corruption scheme used by the regime has been embezzlement from PDVSA, which I mentioned earlier. This wholesale looting has been happening for some time and it's ongoing. And the cumulative effect of the theft from PDVSA has been the virtual collapse in oil production in that country. The result has been around a 50 percent drop in monthly oil production since Maduro took office.

But in addition to destroying the money-generating oil industry, Maduro's policies have led to the complete collapse of Venezuela's domestic food production. And as food shortages have worsened, the Venezuelan government, rather than allowing foreign assistance to come in weaponized food by politicizing dwindling food imports under the CLAP program, restricting access as a method of social control. The government uses its food program to provide subsidized aid to its supporters and to withhold food from those who do not support the regime.

In addition to serving as a method of social control, the food program serves as yet another method by which regime insiders enrich themselves. By destroying the oil sector and the food sector, well, that wasn't enough for Maduro, and now he's turned to the wholesale, rampant destruction of the environment through strip mining on a massive scale of gold and other precious metals in the Orinoco Belt.

In 2016, Maduro announced this Orinoco Mining Arc, which is about 12 percent of the entire country and awarded himself broad authorities to oversee its exploitation. And exploit it he has. Press reports indicate the regime has evicted all of the foreign mining companies and has replaced them with unregulated miners who now operate with the backing of senior military officials. And we're well aware of a wide range of reporting that indicates that criminal organizations, including the FARC and ELN are involved with the gold mines in the Orinoco Mining Arc. And without the approval of the National Assembly, and without regard for environmental, or even the local indigenous

populations, Maduro has promoted and promulgated a full-scale gold rush in Southern Venezuela.

In response, we are using a combination of diplomacy and carefully considered financial measures that are designed to assist the Venezuelan people in moving towards restoration of their democracy. As the situation has crumbled, the economy is in a complete death spiral. We have aggressively employed our Venezuela sanction authorities to target these key regime cronies and those who are undermining democracy and human rights in the country. In successive stages designed to incrementally and systematically apply pressure on the regime, we have designated, as I mentioned, over 100 individuals and entities, including Maduro and the First Lady, Celia Flores.

For instance, we have targeted and disrupted a major network that supports Dias Datto Caballo, including Caballo's front man, Rafael Ceria. And in September, we blocked further property as we discovered a \$20 million U.S.-based private jet that was here in the United States belonging to Ceria.

We've also issued an advisory, like we did with Nicaragua, to warn our financial institutions of the widespread endemic public corruption in Venezuela and the methods that Venezuelan officials are using to move and hide their illicit assets.

We also have imposed a series of carefully calibrated financial prohibitions that deny critical sources of financing to the regime, that also protect the U.S. financial system and aim to shield Venezuelans from punishingly expensive debts which will someday have to be repaid once Maduro is gone.

In addition to cutting these individuals off from the U.S. financial system and blocking their assets within the United States, we are working hand-in-hand with other countries with central banks, finance ministries, and financial intelligence units throughout the world, and particularly in the Western Hemisphere, to jointly identify their assets and to move against their support networks in tandem. And I think you've seen

some manifestations of that collaboration in recent days.

Earlier this month, Secretary Mnuchin met with finance ministers from throughout the region, Europe, and Japan, to discuss how we can work further together to reinforce the diplomatic and financial pressure on the Maduro regime and to combat these illicit flows coming from the country with particular emphasis, as I mentioned now, on the gold trade.

And again, I commend the actions in recent days by the Mexican authorities, the Colombian authorities and others who are working together with us, the Panamanian authorities, working together with us to make clear to the Maduro regime there will be consequences for their actions.

So again, in conclusion, I want to -- I wish to end this discussion by thanking Brookings for hosting us and giving us a platform to highlight both the atrocities being conducted by the Ortega regime and the Maduro regime, as well as the actions undertaken by this administration to hold them to account. Look forward to the panel discussion and to any questions the audience may have. Thank you.

(Applause)

MR. PICCONE: Okay. I think I'm live. Can people hear me? Okay, great.

So, let's get into some of the particulars. Thank you, Marshall, for those comments. And I'm glad you started the way you did, which was to draw the connection between what has been happening in Venezuela for many years and the case of Nicaragua, and the attempt to get ahead of the curve in a way and preempt an inevitable slide in Nicaragua like we've seen in Venezuela.

I'm just thinking about how -- why did it take so long to move on Venezuela? You know, the evidence was there for some time, and there was some time lost I think in trying to negotiate a resolution to the political problems there. That seems to have failed.

A similar process took place in Nicaragua with a roundtable with different actors trying to negotiate a resolution. Ortega has walked away from that. So can you give us a little sense of the timing of the process in Venezuela versus Nicaragua?

MR. BILLINGSLEA: Thanks for that. And again, thanks for hosting us.

Obviously, the tools that we employ in the Treasury Department are designed to reinforce and support our diplomatic overtures and our diplomatic initiatives. And so the approach that was taken in the early days of the administration by the Department of State was designed to explore whether some type of negotiated outcome could be achieved between the different opposition parties and the regime.

But what we saw happen was really a combination of things. A very skillful fracturing of the opposition by Delcy Rodriguez and others who we've now designated also. But we also saw a rapid slide to dictatorship with the creation of the so-called constituent assembly to displace the legitimate, the only legitimate part of the Venezuelan government that exists, which is the National Assembly. The assumption of full-on dictatorial presidential powers by Maduro and then the massive clamp down in repression. And so as that slide has continued to accelerate, you've seen our application of financial pressure match pace.

We, however, continue to provide off ramps. By definition, Treasury sanctions are designed to be reversible. If we designate you but you have a sustained change in behavior, we will work with you and we'll consider removing you from our designation list. And so we do urge those who either have not been yet designated who are close to that inner circle, or those who want to distance themselves and have a future beyond Maduro, they need to move now. They need to move actively.

MR. PICCONE: Yeah. No, this is a key point that I want to come back to. I mean, in the Treasury press release after the meeting in Bali with Secretary Mnuchin and the other ministers, you talk about sanctions need not be permanent. They're intended to change behavior.

I guess there are two questions. One, have we seen a change in behavior? If not, what do we need to do to increase the cost to the Maduro regime?

In our view, you need to expand the number of targets that are feeling the pressure in Venezuela, but you also need to increase the number of countries that are participating in it because the U.S. acting alone is never enough.

So can you comment on those two parts? How are we doing in getting others on board? And what changing behavior do you see? And if we haven't seen it yet, what are the signs that you're looking for that would say, okay, things are moving in the right direction?

MR. BILLINGSLEA: Well, I think a big piece of that, really, I would have to involve my State Department colleagues with trying to answer those kinds of weighty questions. I'm glad you picked up on that part of the finance minister's statement from Bali because it's by design that we are signaling very clearly to these regime insiders, as the world becomes an increasingly smaller place for them, as other countries, as the E.U., as Canada, as Panama, as other nations step forward and impose sanctions on these individuals, travel restrictions on them and their family members, they're running out of options. And we need them to understand that there is a way ahead, and it involves rapidly distancing oneself from the barbarism in Venezuela and the atrocities of the regime.

MR. PICCONE: But why haven't we seen more states join in this effort? I mean, you named a number of them. They're important. But in particular, the Latin American states, other than Panama, have really held back from imposing sanctions. Do you think we'll see a change -- why is that, and do you think we'll see a change in that behavior?

MR. BILLINGSLEA: Well, so I think it's important to distinguish between the overt imposition of financial sanctions versus the other types of actions which key allies and key friendly nations in the region are engaged in. As I mentioned, we're

working very, very closely with a number of countries across the region from a financial intelligence standpoint, and I think you saw some of the manifestations of that collaboration in recent days.

So there is a good cooperation at that level between the financial intelligence units, the central banks and the finance ministries, and many of the actions that we undertake that we sometimes don't really advertise very broadly.

When a nation imposes a financial sanction, first of all, a lot of countries don't actually have the national legislation that allows them to engage in this activity, to actually impose a blocking action on an individual's assets outside of the country. That is a longstanding objective of my office is to work with countries across the globe to help them enact legislation to make this possible. And we've made good strides with a number of countries, and we want to do more, particularly with our Western Hemisphere counterparts.

MR. PICCONE: You see an increasing call for modeling other legislation on the Global Magnitsky Act, and I believe Canada is moving in that direction. That's a start. But it'll be important to see, particularly in light of other recent events going on where human rights is front and center, what other countries take up that model.

I'm still struck, I was glad to see the efforts that you and Ambassador Haley made at the U.N. Security Council to really bring this attention forward. Making that connection between the human rights and corruption in Venezuela and Nicaragua and the threats to international peace and security I think it's time to really draw those connections.

But of course, there's blocking action by countries like China and Russia. What are you finding in terms of the atmosphere in New York and the ability to actually forge some kind of consensus? And I'm thinking also, what role that the U.N. Secretary General himself can play in pushing forward some kind of diplomatic process? Because these tools are not really useful unless they're part of a diplomatic strategy as you



pointed out. Do you see any traction there up in New York with our other partners and other not-so partners?

MR. BILLINGSLEA: Well, the decision by Russia and China to prevent a formal Security Council discussion on Venezuela is regrettable, but I think Ambassador Haley, in employing the Aria style format to get the word out really early demonstrated leadership on this topic. More has to be done at the U.N. We also need to be very clear that these are atrocities being committed against the Venezuelan people, and there need to be long-term consequences for those involved.

MR. PICCONE: I want to turn now to Suzanne and get your thoughts on both the Ron situation and the question of the general effectiveness of U.S. financial sanctions in other parts of the world. I'm also thinking of the many, many, many years of very intensive sanctions we've had on another neighboring country, Cuba. Similarly, a very heavy comprehensive set of sanctions against Iran. Has it led to the kind of change and behavior that we would want is a main question?

Now, in the case of Iran, of course, the focus is on nuclear weapons capabilities. It's not been led by a corruption and human rights argument. So can you say a bit about how all this is playing out in the Iranian context?

MS. MALONEY: Sure, and thank you. I'm really pleased to be here with the Secretary and be part of the conversation, even if I am, I think, pulling you away from the specific regional focus that many of you are probably here to talk about.

So let me speak briefly, and let me at least try to apply some of what I've heard in this discussion to the Iran peace, and maybe there are some lessons from the Iran peace that can be reapplied to Venezuela and Nicaragua.

I think the most important thing is Iran has been under some form of U.S. sanctions for almost exactly 39 years since the aftermath of the seizure of the U.S. embassy in November 1979. And so as a result of that, Iran has also had an enormous amount of experience with sanctions of (inaudible) 23:57:12xxx and mitigation and lots of

mechanisms for trying to blunt the impact or skirt the impact of American sanctions. We have had periods of incredible efficacy of U.S. and multilateral sanctions, particularly in the period that led up to the negotiations that produced the Joint Comprehensive Plan of Action in 2015. But we've also periods where American sanctions appeared to be a source of tremendous trans-Atlantic tensions, and had little impact on Iran's either strategic or financial prospects.

So I think one of the takeaways in all of this is the types of tools that you use. And what has happened over the course of the past decade, really since I would say 2006, the kind of fine tuning of the use of the U.S. financial markets and the importance of the dollar to target financial institutions in a country, and essentially, hive them off from the international financial system. This has been done with incredible efficacy with respect to Iran.

And there I want to just point to the current situation. We're about two weeks away from the final deadline for wind down of business with Iran, the full reimposition of sanctions as a result of the president's decision to withdraw from the Joint Comprehensive Plan of Action back in May. There's a lot of attention about what this is going to bring. There's a lot of uncertainty, but I think we can say a couple of things already. That these measures, these financial measures have had a much more robust impact than many of those who are watching the situation had anticipated. There was a presumption that you needed multilateralism, you needed more countries to come on board.

And that's certainly true in some circumstances with some types of tools. But what is so clear is that the record of sanctions with respect to Iran, the record of not just the imposition of sanctions but the penalties that a number of financial institutions and other firms paid has resulted in a sort of muscle memory. And so companies and firms and financial institutions were looking to exit Iran almost immediately after the president concluded his announcement back in May. And we've seen an incredible

degree of cooperation at a time when many around the world, governments opposed the president's decision on the JCPOA. And so what you've seen is European firms, despite efforts on the part of European governments to create carve outs, to create mechanisms, to pay Iran. European firms have moved very quickly.

Now, all that gives you economic pain on Iran. And I can talk in great depth about that. I won't today, but what it doesn't get you necessarily is the outcome that you wanted. And I think that's where what the assistant secretary was discussing about, you know, his office and the role it has in terms of applying these tools with great precision and great effect needs to be matched with an overall strategy, much of which is implemented by the White House, by the State Department in terms of diplomacy. And there I think the tremendous effects that we've seen on Iran as a result of the sanctions that have been imposed by this administration hasn't yet been matched by a clear, progression toward an intended diplomatic outcome in part because there's a lack of clarity about what the preferred outcome is.

MR. PICCONE: I think that's really interesting to talk about the impact of these advisories and warnings to the financial community and how they have become very conservative and how they handle these matters. We saw that in the case of Cuba when there was a process to try to reopen and normalize relations, and the financial community was allowed to do transactions, but they didn't want to touch it because there was such a strong muscle memory that they were still twitching. They couldn't relax that. And that in itself, it takes a long time to get the positive side of the sanctions, once you're ready to lift them, to actually have the knock-on effect that you're looking for.

In terms of the overall diplomatic strategy, we've seen in the case of Venezuela in particular, a strong group of South American states that are trying to really move the ball forward on some kind of political solution. But they're overwhelmed by what is estimated to be over two million migrants and refugees that have fled Venezuela into their countries. And there is quite a bit of international coordination going on now

and the U.N. has appointed a special envoy to try to coordinate the regional response to that crisis. But I don't see the same level of top leadership trying to push on the political solution. And maybe it's just a matter of time that we have to kind of see the effect of the sanctions on Maduro and his friends and see where it goes.

Now, in this vein, you talked about what's happening in the gold sector, in the strip mining that's going on. This is another way for Maduro to evade some of the sanctions. Can you say a bit more, where is that gold going? And maybe Suzanne, you can also speculate on what impact it might have in the Middle East equation.

MR. BILLINGSLEA: Well, the gold is going to Turkey. The vast majority of it appears to be going to Turkey. We've seen 21 metric tons or more at least that have gone to Turkey in recent months. And we've seen Turkish companies supplant many of the other food companies in this corruption scheme involving the CLAP Food Box program. So we're obviously looking at that very closely and it concerns us greatly.

MR. PICCONE: Suzanne, do you want to speculate?

MS. MALONEY: Well, the Turks were instrumental in helping the Iranians evade U.S. financial measures during the run up to the negotiations back in 2013, and you know, gold was a primary commodity for that entire mechanism. I'm quite confident, given the continuing reliance of the Turks on imports of Iranian oil, that there is an effort under way that will try to involve the Turks in some kind of effort to ensure that the Iranians can continue to export and actually be paid for it because what's so interesting about the measures that have been imposed on Iran is that they have multiple impacts. They target the payments of Iranian oil, but Iran has an interest in actually getting its oil out there. And frankly, from a U.S. national security perspective, we have an interest in ensuring that there isn't an excessive shock to supply of global energy.

And so some system in which the Iranians are still exporting but not in fact being paid for it is actually to some extent optimal. Now, if the Turks are using gold imported illegally from Venezuela, then that is undermining the entire system because it's

enabling the Iranians to continue to repatriate some of the profits from those exports.

MR. BILLINGSLEA: I'm going to come back on the gold trade because it's not just that they're looting a natural resource completely illegally around the mandate of the National Assembly. It's how they're doing it.

So when they go in, these are not your typical gold mines. This is just strip mining the forest. And what they're doing is they're creating massive bodies of standing water into which they dump mercury and other chemicals to process the gold in situ. That mercury -- this will be an environmental catastrophe that is with us for a century given what they're doing.

Moreover, all that standing water, the World Health Organization is warning is ideal for breeding mosquitos as we're seeing both the malaria outbreaks now, a surge, a 50 percent increase in malarial outbreaks. We're seeing Dengue Fever is now back on the rise. And these pestilences are going to move with the migrating populations across borders. And so you mentioned, it's actually more than two million. It's at least two and a half million Venezuelans have fled their country. I have reputable Venezuelan journalists telling me that Syrian refugees who relocated to Venezuela are begging to be sent home instead. They'd rather take the chances with Assad and ISIS than with Maduro and the situation there.

MR. PICCONE: Yeah. And you know, there's the hard gold. There's the liquid gold of oil in Venezuela, which as we discussed, you know, production has collapsed. So unlike the Iran situation where Iran has plenty of oil and gas that they want to export, in the case of Venezuela, they can barely source their own. Now, the U.S. oil industry has its own interest in maintaining certain business relationships with the Venezuelan oil industry are refining -- refiners on the Gulf Coast do a lot of that work. So there has been talk about, well, why don't we just impose an embargo on the oil and that will force the collapse very quickly, but there will be quite a bit of collateral damage in terms of our own economic security on that front.

I don't know if you want to comment on that. I just wanted to kind of put that nuance out there.

We have about 10 minutes for your own questions. There is someone with a microphone going around. If you could identify yourself and just try to keep your comments short.

I have a hand over here on the right.

MR. KAHN: Robert Kahn. I'm an economic consultant. Thank you guys for doing this.

Marshall, two questions on Venezuela. The first is, there have been reports that the constituent assembly is considering creating a new energy company that would essentially strip assets from PDVSA and leave the debt behind. And while we don't know the exact details of it, we've seen this in other countries and in a sense it's the financial piece of the asset stripping of the country we've talked about.

I wonder if you could at least in general terms talk a little bit about how Treasury looks at these kinds of financial engineering. There's obviously a lot of rent-seeking that's going on behind the scenes in doing this.

Secondly, and maybe a little more hypothetically, January 10<sup>th</sup>, I believe, is the date the new Maduro term starts. It is the result of an election on May 20 that we have not recognized. Some outside commenters have written that that date in a sense, you know, because it removes, it changes the international view of a legitimate recognized authority is a potential trigger point. We have a new Brazilian government at that time by the way. And while you cannot obviously speak to hypotheticals, could you talk a little bit about the legal financial sanctions framework and how it might apply in an environment where it is a government and institutional organs that are not recognized by the USG, which would be different from now, which even though we don't like the government, it is still a recognized term.

MR. BILLINGSLEA: Well, so the core of that question is something I'd

have to ask the State Department to give you a more fulsome answer. It falls to them on recognition of governments and so on.

But it has been our longstanding principle that under the Venezuelan constitution, only the National Assembly can authorize the incurring of new debt of any type or shape or fashion. So regardless of what happens on the 10<sup>th</sup> or doesn't happen on the 10<sup>th</sup>, the only legitimate institution which we in the Treasury recognize as being able to authorize these kinds of transactions would be the National Assembly.

That gets back to the first part of your question in terms of creation of new structures to either asset strip or not. We watch Maduro and his cronies very closely, and when we see that they're coming up with a new evasion scheme, we will preempt it as you saw us do, for instance, with this crazy Ponzi scheme called the Petro. You know, he should stick with handing out rabbits and eating empanadas, because going into cryptocurrencies is not his strong suit. And we preempted on that. And we would preempt on any similar kind of action.

MR. PICCONE: Let's take another couple of questions.

I have two hands in the back here. Right next to each other or behind each other.

MR. ALONSO: Good morning. Thank you. I'm Luis Alonso with the AP, and I have also two questions.

Going back to the gold, I would like to clarify if whether all this market and transit of gold is illegal in the black market? Does that make it harder to impose sanctions, specifically on the gold sector?

And the second question is, we have seen both comments in Nicaragua and Venezuela, not only strengthening their position after upheaval this year in Nicaragua and last year in Venezuela with -- through demonstrations, and we haven't seen a change in behavior. So is there -- maybe you can talk a little bit about the benchmark that you guys have so far for the success of these financial sanctions. Is there a dollar

amount you can share of assets that have been frozen? Give us an idea, please, of -- an idea of how successful the sanctions have been so far. Thank you very much.

MR. PICCONE: And then right in front of you.

MR. RAMSEY: Hi, I'm Jeff Ramsey from the Washington Office on Latin America.

I just wanted to ask about the communication strategy around the sanctions. It seems to me that around the most recent round of sanctions of the Rodriguez siblings and Padrino Lopes and the rest, there was a very coherent strategy around communicating that these sanctions could be lifted in the event of behavior changes, substantial behavior changes. I'm wondering if more could be done around the financial sanctions. It seems to me that in working with our Venezuelan partners in Caracas, not many people understand that the financial sanctions don't apply to food and medicine imports, and it wouldn't apply to new debt that's approved by the National Assembly. I'm wondering if there's more that could be done around communicating that in Venezuela. Because, you know, I think, I don't know if you saw, but the Atlantic Council published a poll in April that found that some 40 percent of Venezuelans say that they've been affected by the sanctions. So I'm wondering if that really highlights the need for better communication. Thank you.

MR. BILLINGSLEA: I would absolutely agree that there is a constant need for better communication, particularly in this domain where it can get pretty arcane pretty quickly. You're absolutely correct that our sanctions do not affect food or medicine. Who is affecting food and medicine is Maduro himself, who has deliberately restricted any foreign aid to come into the country so that he can use the dwindling food import program, the CLAP program, again, as that weapon for social control.

On the gold trade, I would, you know, we're not forecasting anything here. We're simply observing that we've seen a dedicated shift now in attention and focus of the regime to looting this particular natural resource, largely since they've



completely devastated PDVSA and there's not much left there to steal anymore. So this is the new thing that we see them pursuing. And we're calling it out. Calling it for what it is.

MR. PICCONE: And the first question about the gold and the black market and the evasion there, what can be done?

MR. BILLINGSLEA: Well, I mean, I think it's important we start with highlighting the phenomena and calling attention to it and requesting that nations shine a light on this trade. This is -- this is -- we're approaching sort of a similar kind of blood diamonds kind of situation here with the gold in Venezuela, and we need to express moral outrage over what's being done to the environment, what's being done to the indigenous populations, and the fact that this gold is being removed from the country without any of the customary safeguards on it that would ensure that the funds are accounted for and properly catalogued as belonging to the Venezuelan people.

MR. PICCONE: I think we have time for just two short questions. I have a hand right here in the front and then the gentleman on the aisle there.

MR. OTTO: Hi, good afternoon. You can hear me from here.

MR. PICCONE: No, we need the microphone.

MR. OTTO: My name is Kenneth Otto. I'm pursuing a master's in Intelligence at Dane Morgan Graduate School of National Security.

It's like two basic questions. Like, what's the correlation of the Trump administration's foreign policy on Venezuela and Nicaragua with the immigration policy here domestically?

And then like, okay, so if Maduro is removed from power, what do you think is the Trump administration's political considerations? What would be the result? Who will come into power? How can political stability, financial stability occur once that regime is removed? Because you see, like, if you take Saddam out of Iraq what happens there, and then Gadhafi out of Libya, what happens there?

MR. PICCONE: Two good questions.

Okay. One more. There's a microphone.

MR. CHRISTOPHER: Hi, my name is Phillip Christopher. I've been an investor and resident in Nicaragua for the last 15 years, primarily in the tourism business, but also, I've been supporting the small miners in the gold districts for the last three years with legal counsel.

Question specifically is related to SR 3233 that we all I think hope to see passed in the next month or so. That would be the Nicaraguan Humanitarian and Anti-Corruption Act. In regards to international actors, such as the miners, would this law potentially be able to be used against the actual international miners that are key participants in much of this asset stripping, at least in Nicaragua?

MR. BILLINGSLEA: So I'm not going to comment on pending legislation, but we do work closely with Congress. And like I mentioned in my prepared remarks, a number of provisions of law that have given Treasury new tools are always welcome. We'd have to go into the fine print on exactly what we're looking for in the way of new authorities.

In terms of how we're approaching the migrant crisis in Venezuela, again, that's really a State Department kind of call on the broader refugee and migrant population standpoint. But the Department of State has, and AID together, have released tens of millions, of not into the hundreds of millions in funding to help the Colombians, the Brazilians, and others deal with the swelling migrant populations. I think the 2.5 million number is low. And I think we are approaching a serious style meltdown here as the economy goes in freefall. And this could truly, completely overwhelm the infrastructure that's present in all of these neighboring countries. And it is for this reason, and this gets back to the Security Council discussion, what Maduro is doing is absolutely a threat to regional security, and is therefore, fully within the remit of the Security Council to address this topic. And the Russians and the Chinese need to be transparent about the kinds of

debt and credit lines that they're extending to keep this regime in power.

MR. OTTO: I'm talking about like domestically here because the majority of them come to America. They come to Colombia, but they also come to America. I'm talking about the immigration policy domestically in the U.S., not how we think regionally the refugee --

MR. PICCONE: No, I think we understood the question, and the answer is the focus is on the regional response in helping Colombian and other neighbors address it before it comes to the United States. And I think that's, you know, the current flow that's coming north is actually -- I don't know the exact figures. I haven't seen any reliable numbers about the number of Venezuelans in that group. It's mostly Central Americans that are coming -- trying to come into this country.

Any other final thoughts before we wrap up?

Okay, great. Well, join me in thanking Marshall and Suzanne for this discussion. Thank you for coming.

(Applause)

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