

## Questions for the Record

House Committee on Foreign Affairs Subcommittee on the Western Hemisphere Hearing

*“Implementing the U.S. – Caribbean Strategic Engagement Act”*

July 19, 2017 at 2:00 p.m. in Rayburn Room 2172

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### Chairman Jeff Duncan

TO: AMBASSADOR MERTEN

1. Caribbean Energy Security. The Caribbean’s reliance on oil imports has made the region susceptible to influence from countries like Venezuela and China, whose values and interests may not align with those of the U.S. However, there has been a recent shift toward alternative energy and renewable resources, especially in countries like Trinidad and Tobago. In 2014, the Obama Administration initiated a Caribbean Security Initiative to support renewable energy alternatives in the region.
  - What is your assessment of the effectiveness of the Caribbean Energy Security Initiative, and what is its current status?
  - To what extent does the proposed strategy support the Caribbean Energy Security Initiative?
  - What role are multilateral organizations and other donors playing in supporting the Caribbean’s efforts to diversify their energy options? What steps is the State Department taking to ensure we do not duplicate efforts?
  - Have Caribbean governments demonstrated an interest to accept greater amounts of LNG exports from the U.S.? How many LNG export licenses for the Caribbean have been approved to-date? Is there a process in place or are you considering instituting a process to expedite LNG export licenses for the Caribbean?

**Merten:** Through the Caribbean Energy Security Initiative (CESI), the United States has supported Caribbean nations to put in place the legal, regulatory, and policy frameworks necessary to modernize and rationalize small island energy systems, bringing reliable and more affordable modern energy services and greater economic opportunity to the residents of this region. Our engagement under CESI is ongoing and will continue under the U.S. Strategy for Engagement in the Caribbean mandated by HR 4939, the U.S.-Caribbean Strategic Engagement Act.

The United States continues to promote the increased use of low cost, reliable sources of energy, including renewables and natural gas, to spur economic development that will create new opportunities for U.S. energy firms and exports. We also seek to reduce the region’s reliance on imported oil, particularly Venezuela’s PetroCaribe oil-for-loan financing agreement and bolster U.S. energy security through supply diversification and strengthening regional energy markets. We support efforts by the Caribbean Community (CARICOM) and others to strengthen the regional platform for coordinating energy planning in order to achieve economies of scale. We will leverage U.S. and international public finance resources to help energy project developers mitigate technical and political risks, thereby reducing the region’s reliance on imported fuels and creating openings for U.S. private sector investment and public-private partnerships.

CARICOM is in the process of establishing a mechanism to coordinate energy related assistance in the Caribbean to avoid duplication of efforts and maximize the impact of energy-related assistance. The United States formally launched more than \$2 million in technical support in 2015

to support the mechanism. The United States is coordinating with the World Bank, Inter-American Development Bank, OAS, and several other foreign governments, including European governments, to support these efforts.

Caribbean nations generally would like to reduce their dependency on oil and import more natural gas. Given the proximity to the U.S. market, they are our natural trading partners. We recognize, however, that infrastructure and commercial realities must be considered. U.S. LNG is exported to the Dominican Republic and Barbados in increasing quantities. Exports of U.S. natural gas and U.S. renewable energy technologies will provide cleaner, cheaper alternatives to heavy fuel oil and lessen reliance on Venezuela. The Department of Energy leads on LNG export licensing.

2. Terrorist Organizations & Recruitment in the Caribbean. Recent reports and expert congressional testimony have indicated the growing links between transnational criminal organizations and Iran-backed Hezbollah throughout the Western Hemisphere. Costa Rica, Honduras, St. Maarten, Panama, and Paraguay have all apprehended several groups of Syrians trying to reach the U.S. In the case of Honduras, in November 2015 Syrians had reportedly bought fake passports in Brazil and traveled through Argentina and Costa Rica before being stopped. According to U.S. Southern Command, in each of the cases where Syrians were detained, “access to fraudulent or stolen documents and corrupt law enforcement officials facilitated SIA movement through numerous countries in the AOR.”
  - Given the use of the Caribbean by these groups for their illicit activities, how would you assess the influence of groups like Hezbollah or ISIS in the region?
  - How is the proposed strategy working to confront this threat and what is the cooperation of the Caribbean governments in these efforts?
  - Do these governments have the adequate screening capability to ensure that passports are not provided to those intending to engage in illicit financial activity or to evade international or U.S. sanctions? If not, how can we support them?

**Merten:** Our overall strategy for U.S.-Caribbean engagement, “Caribbean 2020,” addresses the full range of transnational threats in the region. In partnership with Caribbean governments, we are pursuing programs to dismantle transnational criminal and terrorist organizations, curb the trafficking and smuggling of illicit goods and people, strengthen the rule of law, improve citizen security, and counter vulnerability to terrorist threats. The primary mechanism for supporting the strategy is the Caribbean Basin Security Initiative (CBSI), which is organized around three objectives: 1) substantially reduce illicit trafficking, 2) increase public safety, and 3) promote social justice.

Countering terrorist activities, including Hizballah and ISIS, is a top U.S. government priority worldwide. Hizballah receives funding from supporters and sympathizers who engage in a host of licit and illicit activities, including drug trafficking and money laundering, some of which takes place in the Caribbean. The Department of Homeland Security (DHS), in conjunction with the Department of State, the Office of the Director of National Intelligence, and the Department of Justice, is developing uniform screening standards for government-wide immigration programs, as appropriate and in the national interest. In addition, DHS will perform a global, country-by-country review of the identity and security information each country provides to the U.S. government to support U.S. visa and other immigration benefit determinations.

We are also deeply concerned about the foreign fighters from the Caribbean who have gone to Syria and Iraq to join ISIS. We are engaging with our Caribbean partners to build their capacity to counter transnational criminal networks, defeat terrorist organizations, and address the challenge

of returning fighters. We are working to enhance standards across the Caribbean with respect to identity management and information sharing on security threats. Of particular note, our partnership with the Government of Trinidad and Tobago has resulted in effective programs to turn people away from violent extremism, including joining ISIS, and prevent the further flow of terrorist fighters from Trinidad and Tobago to Syria and Iraq. We are working closely with Trinidad and Tobago on a wide range of issues in the area of security, including counterterrorism and countering violent extremism.

3. Caribbean Basin Security Initiative. State spends money on border security issues through the Caribbean Basin Security Initiative (CBSI). DHS has historically had Transnational Criminal Investigative Task Force Units (TCIUs) in Latin America and the Caribbean. The Administration has proposed cutting funding for the Caribbean Basin Security Initiative (CBSI) by 37% in its FY 2018 request compared to FY2016 levels.
  - How much funding has State dedicated to border security initiatives in the Caribbean? Please provide a break-down by Caribbean country.
  - In your opinion, what would be the impact of these cuts on assisting the region in bringing down crime levels and deterring illicit trafficking?
  - How would you assess the effectiveness of the program under current funding?
  - Would you suggest any changes to CBSI to make it more effective?

**Merten:** Border security is an integral part of the Caribbean Basin Security Initiative (CBSI). CBSI border security programming focuses on building bilateral and regional maritime and aerial security cooperation, maritime training for CBSI partner countries through an annual U.S. Coast Guard maritime training exercise, maritime maintenance training through the U.S. Coast Guard’s Technical Assistance Field Team (TAFT), the Advanced Passenger Information System to enhance border security, and the Container Control Program to enhance port security. In addition, bilateral assistance to partner nations, such as the procurement of interceptor vessels for The Bahamas and Jamaica and the training of partner country airport, seaport, and maritime personnel, strengthens border security in the region. Since FY 2010, \$8.968 million in International Narcotics Control and Law Enforcement (INCLE) CBSI funding has supported border security activities. Approximate country breakouts are as follows:

Regional	\$3,328,000
The Bahamas	\$900,000
Dominican Republic	\$2,700,000
Eastern Caribbean	\$340,000
Guyana	\$450,000
Jamaica	\$800,000
Suriname	\$100,000
<u>Trinidad and Tobago</u>	<u>\$350,000</u>
Total	\$8,968,000

The decrease in the request compared to FY 2016 is indicative of CBSI's evolution. Prior year investments focused on acquiring high-cost equipment and interdiction capabilities, while the present focus on maintenance, capacity building, and training requires fewer resources. FY 2018 efforts will build upon progress made in previous years, with a continued emphasis on working with our partners in the region to strengthen our mutual national security and advance the safety of our citizens by pursuing programs to dismantle transnational criminal organizations, curb the trafficking and smuggling of illicit goods and people, strengthen the rule of law, and improve citizen security.

Over the past six years, CBSI has proven to be a successful partnership based on shared responsibility and mutual respect. As a result of CBSI, many Caribbean nations can now share fingerprint and other data about suspected criminals, as well as firearms registration data, which leads to arrests and prosecutions. We are improving maritime security through expanded training exercises with a specific focus on counternarcotics, and have observed an increase in the amount of cocaine seized from 9.6 metric tons in 2014 to 24.3 metric tons seized in 2015. We are also training and equipping law enforcement agencies and security forces throughout the Caribbean to build law enforcement capacity.

As for building effective security cooperation, a primary challenge is ensuring we are building sustained capability and capacity with full implementation by all nations, taking into account their varying sizes and resources to dedicate to these issues. We must enhance our focus on sustainability, maintaining and developing the capabilities that we have invested in. Continuing to enhance regional integration, cooperation, and information sharing, especially in the area of maritime domain awareness for all nations in the Caribbean, will help make efforts more effective, as CBSI partners leverage each nation's contribution to enhance regional security.

4. **Banking Risks.** The Caribbean is facing a serious threat of being cut off from the international banking system due to laws and regulations aimed at curbing the financing for illicit activities in countries known for being tax havens. However, major American financial institutions are beginning to cut off their relationships due to the risks presented with banking in these countries, which is having a negative impact on the tourism sector and ability for citizens to receive remittances from family members living abroad.
  - How does the proposed strategy address the issues at the local level that make banking in these countries risky?
  - Are financial institutions from other countries, such as China or Russia stepping in to establish banking relations in place of U.S. institutions?
  - What is the cooperation of the Caribbean governments on money laundering issues generally?

**Merten:** Caribbean 2020: A Multi-Year Strategy to Increase the Security, Prosperity, and Well-Being of the People of the United States and the Caribbean focuses on trade and investment promotion to spur economic activity in the Caribbean region and help facilitate growth, which may help increase demand for banking and financing services. A growing regional market for financial services may contribute to higher volumes of cross-border financial transactions, which could diminish profitability concerns and other challenges associated with banking access.

Current data does not suggest Chinese or Russian banks have stepped in to establish banking relationships on a widespread basis. The principal drivers of banking withdrawals—profitability and business strategy shifts; global economic conditions, including low interest rates; more robust prudential requirements, including liquidity and capital requirements; and concerns over poor

domestic implementation of global anti-money laundering/countering the financing of terrorism (AML/CFT) standards—affect all international financial institutions. In some cases, Canadian banks, which have a large presence in the region, have continued providing correspondent banking services for local banks. Anecdotally, there is some evidence of Chinese banks providing limited correspondent banking services to at least one Caribbean jurisdiction.

While Caribbean countries have taken steps to address money laundering, it remains a significant problem in the region, as noted by the U.S. Department of State's 2017 International Narcotics Control Strategy Report (INCSR) report, which identified money laundering priority jurisdictions and classified approximately 20 Caribbean jurisdictions as Jurisdictions Monitored, Jurisdictions of Concern, or Jurisdictions of Primary Concern. Many Caribbean countries face significant resource challenges and issues with political will, particularly in jurisdictions where offshore banking and the provision of trust and company formation services are significant sources of revenue.

5. Citizen-by-Investment Programs (CIPs). CIPs in the Caribbean, Antigua and Barbuda, Dominica, Grenada, and St. Kitts and Nevis have boosted government revenue by offering passports and citizenship through a “Citizen-by-Investment Program” (CIP) to those investing money in their countries. St. Lucia also began accepting applications for such a program in January 2016. In 2014, U.S. Treasury’s Financial Crimes Enforcement Network (FinCEN) issued an advisory “to alert financial institutions that certain foreign individuals are abusing the Citizenship-by-Investment program sponsored by the Federation of St. Kitts and Nevis (SKN) to obtain SKN passports for the purpose of engaging in illicit financial activity.” The advisory made particular reference to Iranian nationals. Treasury has since sanctioned four Iranian dual nationals of Caribbean nations.
  - Do these governments have the adequate screening capability to ensure that passports are not provided to those intending to engage in illicit financial activity or to evade international or U.S. sanctions?
  - How does this Strategy address CIP issues? What is the status of these programs now? Have there been any review of them by Caribbean governments or State?

Merten: We believe these countries are aware questionable applicants are applying for citizenship and, in some cases, intentionally overlooked the applicants’ backgrounds in order to benefit from their investment funds. Caribbean 2020: A Multi-Year Strategy to Increase the Security, Prosperity, and Well-Being of the People of the United States and the Caribbean does not focus specifically on Citizen-by-Investment Programs issues, but these are a matter of concern and focus for other programs. Through the Caribbean Basin Security Initiative, the United States provides support for rule of law and judicial systems to strengthen institutions. We also support Financial Information Units in several countries to counter money laundering and other financial crimes. We collaborate with the Department of Treasury in addressing these issues and through our embassies we have demarched the Eastern Caribbean governments for information on their programs (in 2016).

## **Rep. Eliot L. Engel**

TO: AMBASSADOR MERTEN

1. Anti-LGBT Laws in the Caribbean: Last year, the Supreme Court of Belize struck down a colonial-era law that banned sodomy as a violation of constitutional rights to privacy and equality under the law. Other similar colonial-era laws remain in place in many other Caribbean countries.
  - What impact do you see the Court ruling in Belize having across the region?

- And, what is the State Department doing to encourage removing similar LGBT-discriminatory laws in other countries in the region?

**Merten:** The Supreme Court of Belize took a historic and positive step towards full inclusion, which can serve as an example for the region. We have encouraged the Government of Belize and others in the region to continue common efforts to promote and protect the human rights of all people. We will work within the OAS and other fora to support dignity and equality for all. Governments that deny rights to certain members of their population, be they women and girls; LGBTI persons; persons with disabilities, racial, religious or ethnic minorities; or others, are not only failing to support the full potential of their citizens, but are also hampering their own prosperity and stability. The United States remains committed to human rights and fundamental freedoms for all persons. Dignity and equality for all persons are among our founding constitutional principles, and these principles continue to drive U.S. diplomacy.

2. **World Congress of Families:** The World Congress of Families – which has been designated as an anti-LGBT hate group by the Southern Poverty Law Center – held its recent annual meeting in Antigua and one in Barbados last April.
  - Does the State Department have a position on these kinds of gatherings of exporters of hate?

**Merten:** The United States supports the freedom of expression, religion, and right of peaceful assembly as fundamental to any democracy. We do not honor, nor do we promote or accept hate speech in any form, as the United States remains committed to dignity and equality for all persons – principles that will continue to drive U.S. diplomacy. We value exchange with hemispheric partners to find solutions to these important challenges.

3. **Special Coordinator for Haiti:** Thank you very much for continuing to serve as the State Department’s Special Coordinator for Haiti. In March, a bipartisan group of members of Congress sent Secretary Tillerson a letter urging him to continue to operate an independent office within the State Department dedicated to aiding and assisting Haiti. It is essential that the Haiti office not be folded into another office in the Western Hemisphere Affairs bureau, such as Caribbean affairs.
  - Can you describe to us what makes the Haiti office unique and the type of assistance the Haiti office deals with as opposed to other subregional offices in the Western Hemisphere Affairs bureau?

**Merten:** Haiti has suffered from natural disasters in the recent years, including the 2010 earthquake and Hurricane Matthew in 2016. Both of these disasters were more destructive, in comparison, than any other in the region. Given the unique challenges in Haiti, U.S. government foreign assistance focuses on food and economic security, energy and infrastructure, health and education, and governance and rule of law. Since the January 2010 earthquake, the U.S. government has made available \$4.8 billion for Haiti. Of the \$4.8 billion, \$1.5 billion supported humanitarian assistance and \$3.3 billion has been directed towards reconstruction in the following areas – democracy, good governance, rule of law, health, infrastructure, and economic development – at levels unparalleled in the hemisphere. The Haiti office is the lead drafter of multiple reports to Congress every year, as requested by Congress in 2010, accounting for total U.S. government expenditures. To build on progress achieved, the U.S. government continues to support the Government of Haiti’s efforts to build stronger government institutions, mitigate irregular migration flows to the United States, improve the business climate and private investment, and provide security and access to basic services.

4. Reestablishment of Haitian Army: With the United Nations Stabilization Mission in Haiti (MINUSTAH) departing in October, the Haitian government has begun recruitment to reestablish its army which was dissolved over 20 years ago.
- The Haitian military had a troubling history of human rights abuses and politicization. And given Haiti's severely tight budget, do you think it is wise for Haiti to reestablish its army?

**Merten**: Haiti, as a sovereign country, will make its own decisions as to how it spends its resources. We understand from President Moïse that the "army" – which has existed, albeit in small numbers, for several years – will be focused on responding to natural disasters like hurricanes and earthquakes and, when not doing that, perform civil engineering projects. For over 20 years, the United States has focused its resources on helping Haiti build, train, and equip a civilian police force, the Haitian National Police (HNP). We do not intend to fund Haiti's army and have told the Government of Haiti that, as a partner, we hope to see their continued adequate funding of the HNP. For our part, our efforts will remain focused on increasing the capability and professionalism of the HNP.

5. Caribbean Energy Independence: Many of the countries of the Caribbean have relied on PetroCaribe and cheap Venezuelan oil for many years. The Strategy for Engagement in the Caribbean states that the United States "seeks to increase the use of low-cost, reliable sources of energy, including renewables and natural gas" in the region. Many of the Caribbean nations have domestic resources which can translate into greater self-sufficiency and reduced dependence on Venezuela, whether those are traditional sources or renewables like wind, solar, and geothermal.
- What are the State Department and the U.S. Government doing to help these countries develop indigenous energy supplies to help promote greater energy independence for them?

**Merten**: Our energy efforts in the Caribbean have helped attract public and private investment critical to building sustainable and modern energy sectors by focusing efforts in three areas: improving energy governance, increasing access to finance, and enhancing donor coordination. We have worked with Caribbean nations to put in place the legal, regulatory, and policy frameworks necessary to modernize and rationalize small island energy systems, bringing reliable and more affordable modern energy services and greater economic opportunity to the residents of this region. Our engagement under the Caribbean Energy Security Initiative (CESI) is ongoing, and will continue under the U.S. Strategy for Engagement in the Caribbean mandated by H.R. 4939, the U.S.-Caribbean Strategic Engagement Act. The United States seeks to increase the use of low cost, reliable sources of energy, including renewables and natural gas, to spur economic development that will create new opportunities for U.S. energy firms and exports. We also seek to reduce the region's reliance on imported oil, particularly Venezuela's PetroCaribe oil-for-loan financing agreement, and bolster U.S. energy security through supply diversification and strengthening regional energy markets.

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