

DAS GLASER TESTIMONY, HOUSE OVERSIGHT & GOVERNMENT REFORM COMMITTEE

I. Introduction

Chairman Towns, Ranking Member Issa and distinguished members of the Committee, it is a pleasure to appear before you today. Over the last several weeks, the international community and the United States have significantly enhanced our ability to apply financial pressure on Iran and obstruct its ability to further develop its nuclear capabilities. In particular, new sanctions adopted by the United Nations, United States, and allies such as the European Union (EU), Canada, and Australia highlight Iran's increasing isolation from the international community. These new sanctions build upon the foundation established by previous laws, UN Security Council Resolutions (UNSCRs) and other international instruments, and give us new and powerful tools. These new tools will enable us, acting in concert with partner nations and the private sector, to increase the financial pressure on Iran and further protect the international financial system from Iranian abuse.

This morning I will describe the framework of financial sanctions that the international community has established through interlocking multilateral and national measures, combined with voluntary steps taken by the private sector, with particular focus on the new measures taken by the UN, U.S., and EU. I will then describe the next steps in our efforts to apply financial pressure, which focus on implementation of the new measures and further globalization of these efforts. For though the recent adoption of these new measures is an important next step in the increasing financial isolation of Iran, it is only through robust implementation of UN Resolutions globally, plus national measures that go beyond the strict terms of the Resolutions, that we can hope to succeed in clarifying Iran's choice.

II. The International Community's Iran Sanctions Framework

The international framework to put financial pressure on Iran consists of three core components—multilateral instruments, national authorities, and action by the private sector. Multilateral instruments include UNSCRs, Financial Action Task Force (FATF) statements, and actions by regional groups like the EU. UNSCR 1929 is the most significant recent multilateral action, imposing a broad set of targeted and systemic sanctions on Iran. Also of critical importance is the EU Foreign Affairs Council's Decision, promulgated just this week, which implements UNSCR 1929 but also goes well beyond its requirements. Significant national measures include the enactment of the Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010 (CISADA), as well as recent designations taken by the Treasury Department under its counterproliferation authority. Canada and Australia have also taken significant steps since the adoption of 1929 to leverage their national authorities to increase financial pressure on Iran. Simultaneously, private sector firms are increasingly withdrawing from Iran, degrading its ability to efficiently extract oil and exploiting other vulnerabilities in Iran's economy. Taken together these instruments form a mosaic of legal authorities and private sector action that impose increasing financial pressure on Iran.

A. UN Security Council Resolutions

The backbone of this international framework is a series of UN Security Council Resolutions that impose global sanctions on Iran. These UNSCRs—specifically 1737 (2006), 1747 (2007), and 1803 (2008)—designate both specific individuals and entities for sanctions, and impose broader responsibilities on states to take broad systemic measures to prevent the provision of financial services from supporting Iran’s nuclear and missile programs. UNSCR 1929 substantially strengthens this pre-existing framework.

1. Pre-UNSCR 1929 Financial Sanctions Framework

The resolutions adopted prior to UNSCR 1929 imposed sanctions on a range of specific individuals and entities involved in developing Iran’s nuclear and ballistic missile programs, or in evading sanctions. The individuals and entities identified in the annexes to Resolutions 1737, 1747, and 1803 are subject to an asset freeze, and are prohibited from engaging in nearly all financial transactions. From a financial perspective, the most important of the entities subject to designation were:

- Bank Sepah, an Iranian bank that provided support to several entities involved in developing Iran’s nuclear program. Prior to the adoption of UNSCR 1929, Sepah was the only financial institution designated by the UN, and thereby subject to a global asset freeze and transaction prohibition;
- UNSCRs 1737, 1747, and 1803 also designated a range of individuals and entities affiliated with the Islamic Revolutionary Guard Corps (IRGC). The IRGC is involved in Iran’s missile program, supports international terrorism, and suppresses internal dissent. The IRGC designations were particularly consequential, not only because of the IRGC’s involvement in a range of illicit activity, but also because the IRGC maintains a far-flung network of commercial activity, both within Iran and throughout the world, that can be disrupted by the imposition of UN sanctions.

In addition to these specifically designated entities, the pre-UNSCR 1929 Iran sanctions resolutions also imposed responsibilities upon members of the international community to take broad systemic measures that protect the international financial system from abuse, and make it more difficult for Iran to acquire the materials it needs for its proliferation-related activities. Specifically:

- Resolution 1737 prohibits states from providing the financial services that Iran needs to acquire proscribed equipment, goods, and technology for its nuclear program. The FATF has been instrumental in issuing guidelines that help states and financial institutions develop the kind of effective controls required to mitigate these risks (see: http://www.fatf-gafi.org/findDocument/0,3354,en_32250379_32235720_1_43383836_1_1_1,00.html). Enhanced customer due diligence, and amplified scrutiny and transaction monitoring are some of the key elements of such a control regime;
- The financial provisions of Resolution 1803 broadened the systemic safeguards relating to Iran. First, the Resolution called upon states to exercise vigilance in providing public

support for trade with Iran, lest that activity contribute to Iran's proliferation-related activity. Second, it called upon states to exercise vigilance over the activities of financial institutions in their jurisdiction that do business with all banks domiciled in Iran, in particular banks Melli and Saderat. The FATF also issued guidance with regard to the implementation of UNSCR 1803, which has been welcomed by the UN Security Council (<http://www.fatf-gafi.org/dataoecd/47/41/41529339.pdf>).

2. UNSCR 1929

UNSCR 1929 represents a significant step beyond the previous Iran sanctions resolutions, both in terms of the specific entities it designates, and in terms of the broader systemic measures that it calls upon states to take.

The Resolution imposes sanctions on:

- One further Iranian-owned bank, the First East Export Bank (FEEB), which is owned by Bank Mellat. The Resolution also notes that Bank Mellat has facilitated hundreds of millions of dollars in transactions over the last seven years for Iranian nuclear, missile and defense entities;
- Khatam al-Anbiya (KAA), the IRGC's main construction arm, and fourteen entities owned or controlled by KAA. KAA is involved in major construction and engineering projects throughout Iran, and KAA subsidiaries were involved in the construction of Iran's uranium enrichment site at Qom;
- Additionally, UNSCR 1929 designates several entities that are owned or controlled by Iran's national maritime carrier, the Islamic Republic of Iran Shipping Lines (IRISL). Since January 2009, IRISL has been publicly implicated in multiple shipments of arms-related material from Iran to Syria in violation of UN Security Council Resolution 1747.

UNSCR 1929 also imposes systemic measures, which are worth exploring in some detail. These systemic measures both go well beyond what was contained in previous resolutions, and take account of the extensive amount of information that has been revealed about Iran's abuse of the international financial system.

- The Resolution calls upon all member states to "prevent the provision of financial services, including insurance or re-insurance...if they have information that provides reasonable grounds to believe that such services...could contribute to Iran's proliferation-sensitive nuclear activities" (emphasis added);
- UN member states are also called upon to prohibit the opening of new branches, subsidiaries, or representative offices of Iranian banks, and also to prohibit Iranian banks from establishing or maintaining correspondent banking relationships if states reasonably believe that these activities could contribute to Iran's proliferation-sensitive nuclear activities;

- UNSCR 1929 decides that all states shall require their nationals and firms incorporated in their territory or subject to their jurisdiction to exercise vigilance when doing business with entities incorporated in Iran or subject to Iran's jurisdiction, including those of the IRGC and IRISL, if they have information that provides reasonable grounds to believe that such business could contribute to Iran's proliferation-sensitive nuclear activities;
- The Resolution Calls upon States to take appropriate measures that prohibit financial institutions within their territories or under their jurisdiction from opening representative offices or subsidiaries or banking accounts in Iran if they have information that provides reasonable grounds to believe such financial services could contribute to Iran's proliferation-sensitive nuclear activities.

All of these provisions call upon states to act if they have information that provides reasonable grounds to believe that the activities discussed could contribute to the development of Iran's proliferation-sensitive activities. Over the last several years, the U.S. government and others have made a vast body of information public demonstrating that many of Iran's banks are deeply involved in facilitating its proliferation-related financial transactions and other forms of illicit conduct. These Iranian financial institutions have also engaged in deceptive financial conduct to mask their involvement in these activities. These deceptive practices include stripping their names from transactions to obscure their involvement from responsible international financial institutions. In addition, when Iranian assets have been targeted in Europe by international sanctions programs, branches of Iranian state-owned banks there have taken steps to disguise the ownership of assets on their books to protect those assets from sanctions. Non-sanctioned banks also have stepped into the shoes of sanctioned banks in order to evade international restrictions.

This information, highlighting the risks associated with providing financial services to Iran, makes it nearly impossible for financial institutions and governments to assure themselves that transactions with Iran could not contribute to proliferation-sensitive activities.

Taken together, these UN resolutions have established a framework that has made it increasingly difficult for Iran to use the international financial system to engage in illicit conduct. This dynamic of incrementally increasing pressure is a reaction to Iran's continued defiance, and its unwillingness to adhere to its international obligations regarding its nuclear program. The international community, in turn, has recognized that financial pressure is an important tool in a comprehensive approach to Iran.

B. The Global Response

1. The European Union Foreign Affairs Council Decision ("Common Position")

The EU's Common Position on Iran sanctions, adopted earlier this week, not only implements, but also goes well beyond the EU's obligations under UNSCR 1929 and other Security Council Resolutions. The measures taken in the Common Position are intended both to achieve the objectives of the UNSCRs and guard against abuse of the financial sectors. In this respect the EU's decision represents a model for our partners throughout the world to emulate, for the

measures that the EU adopted this week are likely to have a substantial impact on Iran's ability to access the international financial system to facilitate its proliferation-related activities.

Like the various UN sanctions resolutions, the EU's Common Position targets both specific individuals and entities for designation, and imposes broad systemic restrictions on financial activity relating to Iran. Some of these restrictions relate to the trade, energy, and transportation-related industries, and include a prohibition on the transfer of key equipment and technology for Iran's energy sector to Iranian-owned enterprises. It also prohibits the provision of medium and long-term public support, such as through export credits, guarantees or insurance, for trade with Iran. The financial provisions of the Common Position impose sanctions on a range of entities involved in Iran's nuclear or ballistic missiles activities, and include:

- Bank Mellat, including its subsidiary Persia International Bank;
- Bank Saderat Iran;
- Several subsidiaries of Bank Melli, which had previously been designated by the EU, including Future Bank. Future Bank is jointly owned by Bank Melli and Bank Saderat, as well as a Bahraini Bank;
- Bank Refah;
- Banque Sina;
- The Export Development Bank of Iran (EDBI), including its Venezuelan subsidiary Banco Internacional De Desarrollo CA;
- Post Bank;
- The IRGC, IRGC companies and an IRGC front company, and the IRGC-Qods Force, as well as several of the IRGC's senior leaders, including General Rostam Qasemi, the head of Khatam al-Anbiya;
- IRISL and all of its branches and subsidiaries, which will make it more difficult for Iran to transport illicit goods and avoid detection.

In addition to these targeted financial measures, the EU enacted a series of important systemic prohibitions on Iran, which go beyond the EU's formal obligations under UNSCR 1929:

- The EU now requires that all transfers of funds to and from Iran over 40,000 Euros be subject to formal prior approval by European regulators. All transfers over 10,000 Euros must also be reported to European regulators;
- The Common Position prohibits Iranian banks from opening new branches in the EU, establishing new joint ventures, opening new correspondent banking relationships, or taking ownership interests in banks in the jurisdictions of member states. This provision

recognizes the substantial risk that correspondent banking and other relationships could be used to facilitate proliferation;

- The Common Position prohibits member states from entering into new commitments for grants, financial assistance or concessional loans to the Government of Iran;
- It is no longer permitted to provide insurance or re-insurance to the Government of Iran, or to entities incorporated in Iran;
- The EU now requires its member states to exercise enhanced monitoring over all the activities financial institutions in their jurisdictions undertake with Iranian banks, in particular the Central Bank of Iran, or financial institutions controlled by persons domiciled in Iran;
- Iranian-domiciled banks operating in EU member states must notify the appropriate authorities of all funds transfers they undertake.

The combination of specific designations and systemic sanctions in the EU's Common Position achieves not only a vigorous implementation of the UN framework, but also goes beyond the measures required by the Security Council to target Iran's illicit behavior.

2. Action Taken by the U.S. Government

The U.S. Government has taken steps to put financial pressure on Iran that go well beyond our formal obligations under UNSCR 1929. Our implementation of UNSCR 1929 encompasses designations undertaken with existing legal authorities, as well as the addition of new legal authorities in the form of the Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010 (CISADA).

Immediately after UNSCR 1929 was adopted, the Treasury Department acted under Executive Order (E.O.) 13382, the E.O. that permits the United States to impose sanctions against proliferators of weapons of mass destruction and their supporters. The Treasury Department designated:

- An additional Iranian bank, Post Bank, for providing support to and acting on behalf of Bank Sepah. Bank Sepah, designated under Executive Order 13382 and listed in the Annex to UNSCR 1747, is linked to providing extensive financial services to Iran's missile industry. When some of Iran's largest banks were sanctioned for financing proliferation-related activities, Iran began to use Post Bank to facilitate international trade. Post Bank effectively stepped into the shoes of Bank Sepah to carry out Bank Sepah's transactions and hide its identity. International banks that would never deal with Bank Sepah have been handling these transactions, assuming that they are really for Post Bank;
- Javedan Mehr Toos, an entity linked to the procurement of centrifuge related equipment for Iran's uranium enrichment efforts. Javedan Mehr Toos is a procurement broker for

Kalaye Electric Company, which is itself linked to Iran's centrifuge research and development efforts and is listed in the Annex to UNSCR 1737 because of its involvement in Iran's nuclear program;

- Two individuals and four entities that are part of the IRGC were designated, and the names of five front companies and over 90 ships belonging to IRISL were identified. IRISL has renamed and even repainted ships in order to evade international sanctions.

The Treasury Department will continue, as appropriate, to sanction individuals and entities involved in Iran's efforts to acquire WMD, and provide support for international terrorism.

In addition to action taken under our existing legal authorities, the U.S. Government is in the process of implementing a new powerful tool to increase the amount of financial pressure brought to bear on Iran. While Special Advisor Einhorn will discuss some of the energy-related provisions of the CISADA, the financial provisions of the Act promise to dramatically amplify the effects of previously-enacted sanctions programs.

The Act requires the Treasury Department to issue regulations prohibiting or imposing strict conditions on the U.S. correspondent banking relationships of foreign financial institutions that are found to knowingly engage in any of three types of sanctionable activity.

- The first category of sanctionable activity encompasses those transactions that foreign banks know, or should know, facilitate the Government of Iran's attempts to acquire WMD or WMD delivery systems, or to provide support for terrorism. This includes facilitating the efforts of the Central Bank of Iran or any other Iranian financial institution to carry out such activity. Foreign financial institutions should therefore exercise the highest possible levels of vigilance when conducting business with Iranian entities lest they run afoul of this provision of the CISADA;
- Next, a foreign financial institution will jeopardize its U.S. correspondent relationships if the foreign financial institution knows, or should know, that it is facilitating the activities of natural or legal persons subject to financial sanctions under Iran-related resolutions of the UN Security Council;
- Finally, a foreign financial institution's correspondent relationships in the U.S. can be prohibited or severely restricted if the foreign financial institution knows or should know that it facilitates significant transactions for the IRGC or any agents or affiliates of the IRGC that have been sanctioned under U.S. authorities, or for a financial institution that has been sanctioned by the U.S. government for facilitating Iranian support to international terrorism or its WMD proliferation program.

These provisions of the CISADA will have an impact on behavior around the world. Banks that continue to do business with certain sanctioned Iranian entities, or that know or should know they are facilitating Iran's WMD programs, are putting their access to the U.S. financial system at risk. We are confident that responsible financial institutions will be unwilling to run this kind of risk.

3. Additional National Measures Taken by Australia and Canada

Other partners around the world have joined the EU and the U.S. in going beyond the requirements of the UN Security Council Resolutions to put added pressure on Iran.

- Almost immediately after UNSCR 1929 was adopted, Australia announced that it was going to go beyond the designations in the Resolution's annex. On June 15, it announced that it had imposed sanctions on Bank Mellat, IRISL, and IRGC General Rostam Qasemi;
- On July 26, Canada also announced substantial new actions that go beyond UNSCR 1929's terms. Canada's sanctions:
 - Bar dealings with designated individuals and entities;
 - Ban new investments in the Iranian oil and gas sector; and
 - Prohibit establishing correspondent banking relationships with Iranian financial institutions, or purchasing any debt from the government of Iran. They also prohibit providing or acquiring financial services to allow an Iranian financial institution (or a branch, subsidiary or office) to be established in Canada, or vice versa.

III. The Private Sector's Response

Equally critical to the success of the international community's sanctions framework has been the response of the private sector, whose actions have amplified the effectiveness of government-imposed measures.

The Treasury Department has sought to use reliable financial information to build cases against Iranian actors engaged in illicit conduct and to impose sanctions that target these illicit actors. As part of this process, we often share some of the information that forms the basis for our actions with our partners in the private sector. Because our information reveals the extent to which Iran engages in duplicitous conduct, virtually all major financial institutions have either completely cut off or dramatically reduced their ties with Iran. We are now seeing more and more companies across a range of sectors, including insurance, consulting, energy, and manufacturing, make similar decisions. Thus, many members of the private sector go beyond their legal requirements regarding their interactions with these and other Iranian actors because they do not want to risk handling illicit business. This behavior is a product of good corporate citizenship and a desire to protect their institutions' reputations. Once some in the private sector decide to cut off ties to Iran, it becomes an even greater reputational risk for others not to follow, and so they often do. Such voluntary reductions in ties to Iran, beyond the requirements of UN and U.S. sanctions programs, in turn make it even more palatable for foreign governments to impose restrictive measures because their countries' commercial interests have already been reduced. In the end, this dynamic can create a mutually-reinforcing cycle of public and private

action. The end result is that the voluntary actions of the private sector magnify the effectiveness of government-imposed measures.

IV. Next Steps

We are already seeing the effects of the combination of government and private sector action, as Iran is finding it increasingly more difficult to access the technology and investment necessary to sustain an advanced economy, and to improve its aging energy infrastructure. On July 19, the IRGC's construction arm Khatam al-Anbiya (KAA), which was designated in Resolution 1929, announced it was pulling out of developing the South Pars gas field, the largest natural gas field in the world, and specifically referenced international sanctions in doing so. According to Iranian news reporting, KAA's public relations office even noted that "in the present circumstances" it was possible that KAA's continued activity in phases of South Pars could "endanger the national interest." The recent imposition of sanctions on the IRGC and KAA is likely to have played a significant role in this decision, as international corporations are now unwilling to do business with those entities.

Our objective is to encourage this dynamic by ensuring that states, including the U.S., robustly implement the requirements of UNSCR 1929 and go beyond those requirements when it is appropriate, that this effort become globalized, and that the private sector continues to be at the forefront of our efforts to exert pressure on Iran over its failure to respond to international concerns regarding its nuclear program. We will therefore continue to put in the hard work required to expand the scope of the Iran sanctions framework I described earlier by urging those governments in Asia, the Middle East, and South America that have not yet promulgated or implemented a strong set of sanctions authorities to do so. Special Advisor Einhorn and I, as well as many other of our colleagues, will be traveling to those regions to encourage them to do just that. As always, engagement with the private sector continues to be key to the success of our efforts.

We will also, as appropriate, share information with governments and private sector actors that demonstrates the inherent risks involved in doing business with Iranian entities. This information will illustrate both the depth of Iranian financial institutions' involvement in its nuclear program, and the extensive deceptive practices that Iran uses to hide their involvement. Because of the deceptive financial practices in which Iran engages, it is nearly impossible for foreign financial institutions to assure themselves that any given transaction will not be used to facilitate Iran's attempts to acquire WMDs or support terrorism. The financial provisions of the CISADA provide a further powerful incentive for foreign financial institutions to avoid transactions that they know, or should know, facilitate such activities. Our engagement will therefore be focused on explaining the financial provisions of the law, identifying those relationships that present a concern, and working with our partners to develop solutions to prevent Iranian banks from continuing to abuse the international financial sector.

Additionally, we will continue to pursue designations of Iranian persons under our counterproliferation authority (E.O. 13382) and counterterrorism authority (E.O. 13224) where it is appropriate, and are in the process of expeditiously drafting regulations to implement the CISADA. As the Panel of Experts established by UNSCR 1929 begins its work, we intend to

help provide it with the information it needs to function effectively, and will do the same as our counterparts in the EU continue to add names of Iranian entities to its list of sanctioned entities.

V. Conclusion

The adoption of UNSCR 1929, the CISADA, the EU's Common Position, and Australia and Canada's national measures have significantly bolstered the tools at our disposal to convince Iran to live up to its international obligations. But it remains up to the U.S. and its partners around the world to ensure that these tools are implemented comprehensively, effectively, and collectively. We know that Iran has been anxious about this new round of sanctions. They are justified in feeling uneasy. As recent actions have demonstrated, the international community is increasingly united in efforts to apply financial pressure on Iran. We will continue to work with our partners around the world to reveal and protect against Iran's deceptive practices. We expect that this effort will make Iran's choice increasingly clear – to choose the path offered by President Obama and the international community or to further deepen its isolation.