

Testimony of Special Advisor Robert Einhorn
House Committee on Oversight and Government Reform
Thursday, July 29, 2010

Chairman Towns, Mr. Issa, Members of the Committee: Thank you very much for the opportunity to appear before you today.

The adoption of United Nations Security Council Resolution (UNSCR) 1929 on June 9, 2010 expanded significantly the breadth and depth of international sanctions in place against the Islamic Republic of Iran, establishing a strong, targeted, and comprehensive multilateral sanctions regime. It demonstrated the determination not only of the United States, but of the international community, to hold Iran to its international obligations regarding its nuclear program, and to prevent it from developing nuclear weapons. We are working with the international community to vigorously implement UNSCR 1929.

A nuclear-armed Iran would severely threaten the security and stability of a part of the world crucial to our interests and to the health of the global economy. It would seriously undermine the credibility of the United Nations and other international institutions, and a nuclear-armed Iran would seriously undercut the nuclear non-proliferation regime at precisely the moment we are seeking to strengthen it.

In the face of those challenges, American policy is straightforward. The United States is determined to prevent Iran from developing nuclear weapons. Over the past 18 months, we have pursued our broad policy goals that have been principally focused on tough-minded diplomacy – including both engagement and pressure. We have sought to sharpen the choices now before the Iranian leadership. We have sought to demonstrate the benefits to Iran and the Iranian people if Iran adheres to its international obligations. And we have sought to intensify the costs of continued defiance, and to show Iran that pursuit of nuclear weapons will make it less secure, not more.

Last year, we embarked on an unprecedented effort to engage with Iran. We did so without any illusions about whom we were dealing with, or the scope of our differences over the past thirty years. Engagement is both a test of Iranian intentions, and an investment in a partnership with a growing coalition of countries deeply concerned about Iran's nuclear ambitions. We have sought, and continue to seek, to create opportunities for Iran to demonstrate its intentions in a manner that would inspire the confidence of the international community. In Geneva last October, we supported a creative proposal by the International Atomic Energy Agency (IAEA) to provide fuel for the production of medical isotopes at the Tehran Research Reactor. Unfortunately, what appeared to be a constructive beginning in Geneva was later spurned by the Iranian leadership. Instead, since October, Iran has failed to cooperate fully with the IAEA regarding the previously covert enrichment facility near Qom; announced plans for ten new enrichment facilities; refused to continue discussions with the P5+1 regarding international concerns about its nuclear program; provocatively announced that it would boost enrichment to 20 percent, in further violation of UN Security Council resolutions; and continued its refusal to cooperate with the IAEA's investigation into its nuclear program, drawing new rebukes from the IAEA Director General in his most recent reports.

Iran's intransigence has left the international community no choice but to employ a second tool of diplomacy: pressure. The adoption of UNSCR 1929 was an essential first step in that effort. The provisions of Resolution 1929 strengthen and build upon previous sanctions resolutions, creating the toughest and most comprehensive international sanctions regime on Iran ever adopted. It bans transfers of major conventional weapon systems to Iran; it bans all Iranian activities related to ballistic missiles that could deliver a nuclear weapon; and it establishes a framework for cargo inspections to detect and stop Iran's smuggling and acquisition of illicit items. UNSCR 1929 also prohibits Iran from investing abroad in sensitive nuclear activities, such as uranium mining. It creates important new tools to help block Iran's use of the international financial system to fund and facilitate its nuclear and other destabilizing weapons programs. And it targets

directly the role of the Islamic Revolutionary Guard Corps (IRGC) in Iran's proliferation efforts, adding fifteen specific IRGC entities to the list of designations for asset freeze. Also for the first time, the Security Council highlighted formally in UNSCR 1929 the potential links between Iran's energy sector and its nuclear ambitions.

The United States is not alone in promoting thorough, swift and comprehensive implementation of these sanctions. The European Union has acted strongly to follow up by adopting a series of significant measures, including a prohibition on new investment in Iran's energy sector, bans on the transfer of key technology, and tough measures against Iranian banks and correspondent banking relationships, including closer monitoring of Iranian banks operating in the EU. On July 26, Canada announced its supplement to UNSCR 1929, the Special Economic Measures Act, which incorporates restrictions similar to those in recent U.S. and EU sanctions. These sanctions would bar dealings with designated individuals and entities involved in nuclear or WMD proliferation, including key members of the IRGC; prohibit new investments in Iran's oil and gas sector and new exports to Iran of goods that could contribute to its nuclear program; and prevent Iranian financial institutions from establishing a presence in Canada and vice versa. We understand Australia is currently considering sanctions legislation, which will greatly empower it to implement new sanctions and expand the Australian government's existing ability to impose asset freezes. Australia is not waiting for this legislation, however, to enforce sanctions: it has already demonstrated this capability in its designation of Bank Mellat, the Islamic Republic of Iran Shipping Lines, and the head of the IRGC's main construction firm, Khatam al-Anbiya, in June. We have called on states around the world to follow suit and will continue to engage with these and new partners. We are also working with states that are developing export control laws to ensure that those laws include the authority to implement UNSCR 1929 and other key resolutions concerning Iran. Furthermore, we continue to have success in persuading a variety of foreign companies that the risks of further involvement with Iran far outweigh the benefits.

Our efforts to implement and enforce multilateral sanctions are supplemented by a number of our important national sanctions tools, in particular the Iran Sanctions Act (ISA) and the Comprehensive Iran Sanctions Accountability and Divestment Act, which was signed by the President on July 1. As was the case with the original Iran Sanctions Act, the obligations of the new legislation are already a regular part of our dialogue with foreign governments and the private sector. We believe it is important for all members of the international community to work together to ensure that we prevent Iran from further developing its prohibited missile, nuclear, and other weapons programs.

Our efforts to use these important legislative tools have yielded significant results, contributing to the decisions by major international oil companies such as Total, Statoil, ENI, Lukoil, and Repsol not to undertake any new activities in Iran. The net result is that Iran faces profound challenges in securing the foreign investment in its energy sector that it desperately needs. We estimate that there are \$50-60 billion in upstream development deals that are either on hold or have been discontinued in the last few years. Iran's oil production is dropping and likely to continue to fall.

This Administration has also undertaken to review past activity that could trigger sanctions under the ISA to ensure that we are appropriately implementing the Act. In this review, we identified a number of cases, dating from before the Obama Administration, which appeared problematic and warranted more thorough consideration. We have been in contact with these firms and relevant governments in order to establish the precise nature of their economic activity in Iran. Under the President's delegation of the 1996 Act, the State Department is now required to consult with other agencies about our review of these cases.

The Administration is committed to taking additional measures under Executive Orders 12938, 13094, 13224, and 13382. These Executive Orders impose

procurement and assistance bans toward, freeze assets of, and prohibit transactions by U.S. persons with persons who are designated for being involved with or for contributing to Iran's proliferation efforts, or for providing support for terrorism or WMD-proliferators and supporters. Additionally, we are fully implementing Executive Orders 12957, 12959, and 13059, which impose comprehensive trade and financial sanctions on Iran and, with limited exceptions, prohibit trade between Iran and the United States. Since the beginning of the Administration, Treasury has designated 35 entities and 7 individuals under E.O. 13382, and there will be more under this and other authorities. Within these authorities, we are working on ensuring that sanctions do not harm the people of Iran. And as part of our global effort in support of Internet freedom, we are working on countering attempts by the Iranian government to restrict communication and persecute activists who use information tools to speak out for greater freedom and transparency. In this regard, I would also note that we are in the process of collecting the information and developing the tools to implement the new provision in the Comprehensive Iran Sanctions Accountability and Divestment Act that imposes sanctions on those Iranian officials who are responsible for serious human rights abuses against the Iranian people since June of last year.

While it will take time to measure the effect of these new sanctions on Iran, we have already seen that pressure, in combination with other tools, can have an impact on Iran. For instance, while some Western observers have suggested that sanctions imposed by UNSCR 1929 are insufficient, we know both from Iran's attempts to prevent the adoption of the resolution and from its efforts to mitigate its effects that Iran's leadership feels differently. Iran engaged in a systematic scare campaign to deter states that were considering supporting UNSCR 1929 from doing so, offering incentives and threatening their economic ties in order to convince those who may have been sitting on the fence to change their positions. Neither these efforts nor Iran's last minute Tehran Declaration deflected the UNSC from its course. Pressure, the expanding reach of sanctions, and increasing international isolation are having an impact on the government of Iran, notwithstanding its bluster to the contrary.

Iran has been denied access to items that it needs for its nuclear program. Its ability to procure these items prior to the implementation of multilateral sanctions may have protected Iran's nuclear program for some time, but we do believe that -- as the head of Iran's Atomic Energy Organization noted on July 8-- sanctions are having a significant and negative impact on the ability of Iran to acquire necessary items for its nuclear program.

In addition, as Treasury Deputy Assistant Secretary Glaser can describe in greater detail, Iran is having great difficulty in obtaining access to financial services that are the lifeblood of international commerce and Iranian proliferation. This is partly a direct result of the international and national sanctions put in place on Iran's financial sector. As the USG has publicly identified the deceptive conduct and illicit activities of numerous Iranian banks designated under E.O. 13382 and 13224, and implemented regulations that impose penalties on persons who do business with them, the private sector has grown wary of conducting business with any Iranian banks. International financial institutions have voluntarily gone beyond their legal requirements to curtail their interactions with Iran because they do not want the risk of handling illicit business. This isolation from the international financial sector has raised the cost of doing business for Iranian procurement agents as they are forced to find alternative financial arrangements and engage in more complex deceptive practices, sacrificing time and resources to do so.

The same can be said of Iran's government-owned shipping industry, which lacks both credibility as a legitimate entity and -- as a result of the UK's decision to designate IRISL in 2009 and actions taken by other countries -- is having difficulty obtaining foreign insurance for most of its fleet. The detection in recent months of three shipments of illicit cargo aboard IRISL-controlled vessels or IRISL containers further undermined the international transportation industry's trust in IRISL. The UNSC's action in June has only underscored this concern.

Ultimately, this all leads back to whether or not the international community is willing to deal with Iran. Increasingly, the answer is no, or -- in those cases in which there are private sector connections -- only at great cost.

In addition to the investments that have not gone forward in Iran's energy sector, a number of companies in several sectors, including shipping, insurance, banking, and industry, have announced that they will pull out of Iran or curtail their Iran-related business. In response to the sanctions on refined petroleum exports, major fuel suppliers such as Vitol, Shell, Reliance, IPG, Glencore, and Trafigura have announced that they will no longer sell refined petroleum products to Iran. Also, major international airports have reported that oil companies have refused to sell jet fuel to Iran Air aircraft, sending a message to Iran's elites that they will face increasing isolation unless they comply with Iran's international obligations. The designation of the IRGC's construction arm, Khatam al-Anbiya, has had a similar effect. It was reported just last week that the company is pulling out of operations in South Pars, Iran's major natural gas field, and Khatam al-Anbiya referenced recent sanctions in its announcement that it was doing so. Khatam al-Anbiya's pull-out is most likely due to Iran's awareness that even the few foreign firms still willing to do business there will think twice before participating in a project with an entity that has been designated by the United Nations for its role in Iran's proliferation efforts.

UNSCR 1929 will magnify all of these impacts by pointing out more starkly the connection between Iran's proliferation activities and its oil and gas sector; by underscoring the impact of applying financial pressure on Iran; by denying Iran further supplies of major conventional weapon systems; by increasing the risk to Iran of using cargo vessels and aircraft for transfers of illicit items; and, by encouraging the private sector to follow its sensible instincts in considering the risk of doing business with Iran. On this last point, one little-mentioned impact of our sanctions effort has been a reduction in foreign public support for trade with Iran. The EU made what was previously a call for vigilance an outright ban on new

medium-and-long-term trade support to Iran, joining what we have already seen take place more informally by Iranian trading partners around the world. Placing the risk of trade firmly on the backs of those firms engaged in it is shifting not only the financial burden to these firms, but we believe is also compelling a major rethink in whether or not to engage in that trade.

Let me be clear, we are not pursuing sanctions for the sake of sanctions. Our aim is to use this tool of pressure to sharpen the choices that the Iranian government faces, and to press them to negotiate seriously with the international community and the P5+1 on their nuclear program. Pressure is meant to complement, not replace, the diplomatic solution to which we and our partners are still committed. We continue to acknowledge Iran's right to pursue civilian nuclear power. But with that right comes a profound responsibility to meet its international obligations and reassure the rest of the international community about the exclusively peaceful nature of its intentions. The Foreign Ministers of the P5+1 countries made clear in the statement they issued upon the adoption of UNSCR 1929 that we remain ready to engage with Iran to address these concerns. Our foremost objective – one that is shared by our international partners and our allies in the region – is a durable diplomatic solution to the world's concerns about the Iranian nuclear program and the broader issues at stake with Iran. The choice to adopt a more constructive course is one that Tehran alone can make.

There is growing international pressure on Iran to live up to its obligations – and growing international isolation for Iran if it does not. UNSCR 1929, the Comprehensive Iran Sanctions Accountability and Divestment Act, and the amplifying efforts that I've discussed help significantly to sharpen that choice. We will work very hard to implement them.

Thank you.