

# IRAN SANCTIONS: ENSURING ROBUST ENFORCEMENT AND ASSESSING NEXT STEPS

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## HEARING

BEFORE THE

### COMMITTEE ON

## BANKING, HOUSING, AND URBAN AFFAIRS

### UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

ON

EXAMINING THE CURRENT STATE OF IMPLEMENTATION AND  
ENFORCEMENT OF U.S. AND MULTILATERAL SANCTIONS PROGRAMS

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## **IRAN SANCTIONS: ENSURING ROBUST ENFORCEMENT AND ASSESSING NEXT STEPS**

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**TUESDAY, JUNE 4, 2013**

U.S. SENATE,  
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,  
*Washington, DC.*

The Committee met at 10:05 a.m., in room SD-538, Dirksen Senate Office Building, Hon. Tim Johnson, Chairman of the Committee, presiding.

### **OPENING STATEMENT OF CHAIRMAN TIM JOHNSON**

Chairman JOHNSON. Good morning. I call this hearing to order, and I welcome my colleagues and our witnesses.

Today's hearing is part of our oversight efforts to ensure effective enforcement of the Iran sanctions regime overseen by this Committee. We will assess what additional tools might enable the President to intensify the economic pressure on Iran's leaders to make clear that they must reverse course and satisfy the unified demands of the international community to abandon their illicit nuclear activities and support for terrorism.

Two weeks ago, the Senate again made clear where we stood, voting 99-0 for a resolution expressing support for aggressive sanctions enforcement and for Israel's right to defend itself against threats from Iran.

In addition to sanctions on Iran in place prior to 2010, in the last 3 years Congress adopted and the President signed into law an unprecedented four new sanctions measures. These measures, coupled with those imposed by the Administration, the European Union, and the U.N. Security Council, have had profound effects. They have slowed Iran's nuclear and missile program by restricting its access to key technologies. They have crippled Iran's economy, causing its currency to plummet and inflation to skyrocket. In the last year, its oil sales were cut roughly in half, and Government revenues available for its enrichment programs were sharply reduced.

Yet despite this progress, the core strategic objective of our sanctions has not yet been realized: Iran's leaders still refuse to abandon their illicit nuclear program and verifiably limit their nuclear activities to peaceful purposes.

The International Atomic Energy Agency reports that sophisticated new centrifuges being installed at Fordow and Natanz will substantially expand Iran's enrichment capabilities. While the P5+1 talks have at least helped show the world Iran's unwillingness to compromise, they have not yet generated results. Some

have expressed hope that the upcoming Presidential elections in June might lead to change, but that seems unlikely since the candidates are all handpicked supporters of Iran's nuclear program.

As Under Secretary Sherman stated recently, there is ultimately only one decision maker on Iran's nuclear program: the Supreme Leader. He has remained indifferent to the suffering of his own people and to their demands for political, economic, and social reform. It seems clear that his decision to continue Iran's illicit nuclear activities will not be reversed without intensified economic pressure, coupled with heightened political and diplomatic efforts by the P5+1 group, including Russia and China.

Today we are fortunate again to have Under Secretary of State for Political Affairs Wendy Sherman, Under Secretary of Treasury for Terrorism and Financial Intelligence David Cohen, and Under Secretary of Commerce for Industry and Security Eric Hirschhorn. In their testimony and the question period, I hope they will highlight what sanctions are working, what additional measures are needed that could garner the broad support of the international community and preserve the unity of our coalition—a unity the Administration has worked very hard to preserve—and what challenges we continue to face in successfully implementing a strategy that will finally compel Iran to abandon its illicit nuclear activities. I look forward to their testimony.

I now turn to Ranking Member Crapo for his opening statement.

#### **STATEMENT OF SENATOR MIKE CRAPO**

Senator CRAPO. Thank you, Mr. Chairman.

Ten days from now, Iranians will vote in an election staged by the Ruling Guardian Council for a President who, once selected, is destined to continue the longstanding policies of the Ayatollah and the powers in Tehran. This is a regime that sustains itself through widespread human rights abuses and is dedicated to an illegal nuclear weapons program, threats against Israel, Hezbollah support for the Syrian regime, and the spread of global terror.

Nothing is more critical than preventing Iran from making good on its intentions to obtain a nuclear weapon while trying to end the regime's systematic human rights abuses and ability to project terror.

Since our last hearing in October 2011, increasing pressure has challenged the Iranian regime through implementation and enforcement of sanctions statutes produced in this Committee, Presidential Executive orders, and the efforts of Senators Kirk and Menendez in the previous two Defense Authorization Acts which targeted the Central Bank of Iran's export role and expanded sanctions over new sectors of the Iranian economy.

Also, since then, 50 percent of Iran's crude oil exports and over 7 percent of its petrochemical exports have declined, nearly \$5 billion a month in lost revenue to the Government of Iran.

Thus, the impact of the sanctions on Iran's economy is significant. Due to lost revenues for energy purposes, its relative isolation from the world's financial system, and its own variety of economic mismanagement, Iran is running its largest budget deficit in nearly 15 years.

The value of the rial, Iran's currency, has declined by more than two-thirds, and Iran puts its own rate of inflation at 31 percent while others maintain it is double that in real terms.

Clearly, sanctions make it more and more difficult for the Iranian regime to earn revenue from petroleum sales or to conduct international financial transactions. Each passing month shows important results obtained through sanctions. Yet the Iranian regime is still able to fund nuclear enrichment in ways that bear no relationship to a peaceful program.

The Iranian regime still poses an existential threat to Israel, acts as a menace in the region, and is one of the more serious threats to the national security interests of the United States and its allies. Thus, sanctions may still be too narrowly tailored, have gaps in implementation, or be unduly hampered by evasive and deceptive practices that must be closed.

We can no longer abide an Iran that continues to amass or otherwise access financial resources to pursue one of the most destabilizing nuclear programs in the world. The resolve of the United States and its partners must remain strong and be ready to implement a series of increasingly stricter sanctions that push the Iranian regime to change its nuclear enrichment calculus.

The chiefs of the U.S.-Iran sanctions authorities are here to report on the progress and difficulties with implementation and enforcement of the U.S. multilateral sanctions programs. I understand, in fact, that some significant actions have taken place just last night and this morning.

I look forward to working with the Members of our Committee, and particularly the Chairman, as we evaluate the best way to move forward to further constrict Iran's access to funds, revenues, materials, and technologies in an effort to change the regime's international behavior and terminate any nuclear weaponization efforts.

Thank you very much, Mr. Chairman.

Chairman JOHNSON. Thank you, Senator Crapo.

Are there any other Senators who wish to make a brief opening statement? Senator Menendez.

#### **STATEMENT OF SENATOR ROBERT MENENDEZ**

Senator MENENDEZ. Mr. Chairman, I want to thank you for the hearing, and clearly I appreciate the Committee's jurisdiction and its work here on Iran sanctions. As I know that you know, I have been in the center of the focus on this issue, and we have had tremendous support from all of our colleagues on both sides of the aisle. And my recent visit to Jordan and Israel this past week only created for me a greater sense of urgency on what Iran's role is in terms of the national security of the United States as well as the threats of instability in the region. Iran is participating significantly in Syria with Hezbollah. Half a million refugees in Jordan, now the fourth or fifth largest city in Jordan, a population that has grown by 20 percent, and a kingdom that is under siege by its generosity and a real challenge to it. That is an important ally to the United States, important to the security of our partner, the State of Israel.

The Iranians, if they have the resources to keep fueling Hezbollah and at the same time pursue their nuclear program, it becomes a major national security threat to the United States. And so I am looking forward to the testimony of our witnesses. I appreciate some of the recent actions that were taken. They are in line with both the law that we pass as well as some of the suggestions that we have made, and we look forward to hearing the implementation as we move forward.

Chairman JOHNSON. Are there any further statements?

[No response.]

Chairman JOHNSON. I would like to remind my colleagues that the record will be open for the next 7 days for opening statements and any other materials you would like to submit.

I would like to welcome the witnesses for our panel today.

Our first witness is Wendy Sherman, the Under Secretary for Political Affairs at the State Department. Under Secretary Sherman has been the key negotiator for the U.S. in the P5+1 negotiations with Iran.

Our next witness is David Cohen, the Under Secretary for Terrorism and Financial Intelligence at the Department of Treasury.

Our final witness is Eric L. Hirschhorn, Under Secretary for Industry and Security at the U.S. Department of Commerce.

I thank all of you again for being here today. I will ask the witnesses to limit your remarks to 5 minutes. Your written statements will be submitted for the record.

Ambassador Sherman, please proceed.

**STATEMENT OF WENDY SHERMAN, UNDER SECRETARY FOR  
POLITICAL AFFAIRS, DEPARTMENT OF STATE**

Ms. SHERMAN. Thank you very much, Mr. Chairman, Ranking Member Crapo, Senators. Good morning, and thank you for inviting me to testify with my colleagues about a top foreign policy and national security priority—Iran. From an illicit nuclear program to support of terrorism to abusing human rights, the Iranian Government continues to ignore its international obligations and responsibilities and defy the consensus of the global international community. Their costly and destructive decisions threaten international security, increase tensions in one of the most vital parts of the world, and stifle the great potential of the Iranian people.

In confronting these challenges, the U.S. Government and the State Department draw on a full range of tools. This includes holding Iran accountable on the world stage, directly empowering the Iranian people to hold their own Government accountable, and strengthening our alliances with partners to show Iran the world is united in its concerns.

Under the President's and Senator Kerry's leadership, this is an all-hands effort. Every day, every bureau in the Department of State has their eye on Iran. Even as we speak, the IAEA Board of Governors is meeting in Vienna. Along with our P5+1 partners, we will urge Iran to comply without delay with its nuclear obligations.

On Iran's nuclear ambitions, the President has been clear. First, the United States will prevent Iran from acquiring a nuclear weapon. Second, Iran's leaders have a choice: live up to their international obligations and become a player on the global stage, or



continue down the path toward isolation. We know which path Iran has chosen so far, so we have put in place a dual-track policy, ratcheting up pressure while pursuing a diplomatic solution—pressure to incentivize Iran to seek a deal that addresses the international community’s legitimate concerns, engagement to give Iran a way to negotiate that deal if they choose to take it.

On the engagement side, we have offered Iran the opportunity to move forward toward a negotiated solution. Unfortunately, as you all know, so far the Iranians have fallen far short with their response. We are clear-eyed in our approach to the P5+1 talks and seek concrete results. After all, while the window for negotiation is still open, it will not remain so forever. We have an obligation to give diplomacy every chance to succeed, but the onus is on Iran.

On the pressure track, we have worked closely with Congress and our allies to level sanctions on Iran that carry real consequences. Since 2008, there have been five U.N. Security Council resolutions, nine Executive orders by the executive branch, and four wide-ranging laws passed by the U.S. Congress. These sanctions carry real consequences for Iran.

Those measures have worked to make sure that Iran understands there is a cost to their behavior. Iran is increasingly isolated and is under one of the toughest, most comprehensive sanctions regimes ever.

The oil sanctions, which we have been implementing for 18 months, have resulted in Iran exporting over 1 million fewer barrels of crude oil each day than it did in 2011, costing Iran between \$3 and \$5 billion per month. To date, all 20 importers of Iranian oil have either significantly reduced or eliminated oil purchases from Iran. In these cases, the exceptions have served as an artful point of leverage, an incentive with importers of Iranian oil.

Countries cannot go to zero overnight, and we need to make sure that Iranian oil is withdrawn from the market in a timed and phased way that does not raise global oil prices. But exceptions require real and substantial action by our partners. This action puts pressure on Iran, not our coalition, and is a manifestation of our success.

With that in mind, exceptions for nine economies will expire tomorrow. The Secretary is still reviewing the final documents, but as always, my staff will be ready to brief you on the results in classified hearing. Put simply, the Iranian economy is in a downward spiral. As we saw the candidates themselves say in a *Wall Street Journal* article of June 1 and 2, “Candidates air grim views of Iran economy.” The rial has depreciated more than 50 percent in the last year. Foreign investment has decreased dramatically. With yesterday’s Executive order, we are applying additional pressure on Iran’s automotive sector and expanding sanctions on Iran’s petrochemical sector. I understand Under Secretary Cohen will speak further to this Executive order momentarily.

One reason we have succeeded is that we are not acting alone. The EU has imposed its own sanctions, including an oil import ban that resulted in all 27 EU member States ceasing oil purchases from Iran. Australia, Canada, Norway, South Korea, Japan, and others have enacted their own measures. And even among partners who are skeptical of unilateral sanctions, we have seen robust im-

plementation of U.N. Security Council resolutions and cooperation on specific sanctions issues. We must not backslide from this progress. The effectiveness of our sanctions depends on our partners, so we have to guard against measures that would put too great a burden on those partners. Sanctions must be felt by Iran, not by us or our allies, and Iran would surely exploit any sign of division.

Beyond Iran's nuclear ambitions, we are also concerned about the destabilizing influence Iran is casting across the entire Middle East and beyond. Support to the Assad regime, Iran's closest ally, is sustaining the campaign of violence against the Syrian people. Its aid to terrorist organizations like Hezbollah is threatening our ally Israel and innocent civilians worldwide. That is why we are deepening our military partnerships across the region, particularly with Israel and Gulf States, to defend against attacks from the very groups supported by Iran's leaders.

If I may, Mr. Chairman, I will take one more minute.

I also want to reiterate our commitment to seeking the safe return of Robert Levinson, Amir Hekmati, and Saeed Abedini, U.S. citizens missing or detained in Iran. We will continue to raise these cases as we pursue all available options until all three of these Americans are reunited with their families. And, of course, we are deeply concerned about the campaign of repression Iran's leaders are waging against their own people. Iranians are owed their rights, freedoms, and dignity that we cherish here as bedrocks of our Nation and that all people around the world deserve. So we are helping Iranians break through the electric curtain, creating virtual spaces for those voices that are suppressed and leveling sanctions to hold the individuals and organizations behind the repression accountable.

Just last week, the Treasury and State Departments worked together to announce a novel initiative to make personal secure communications tools more easily available for the Iranian people.

I will finish by saying that we are closely watching the upcoming election, ahead of which we are again seeing increased repression. As Senator Crapo said, Iran's unelected and unaccountable Guardian Council has disqualified hundreds of candidates based on vague criteria and reiterated that women, who make up half of Iran's population, are barred from serving as President. While Iran's Supreme Leader called for an "epic election" to demonstrate Iran's strength, instead we have witnessed a process that appears to be unfair, unjust, and unrepresentative of the Iranian people, who deserve better from their leaders and from their Government.

I conclude by saying I am confident we can continue to work together in dealing with this threat to our security and global stability and developing smart and effective measures—measures that increase pressure on the regime, allow us to maintain the strong coalition we have built, measures that will force Iran's leader to make better choices and empower the Iranian people to hold their Government accountable.

Thank you for your partnership. I look forward to answering your questions.

Chairman JOHNSON. Thank you, Ambassador Sherman.

Under Secretary Cohen, please proceed.

**STATEMENT OF DAVID S. COHEN, UNDER SECRETARY FOR  
TERRORISM AND FINANCIAL INTELLIGENCE, DEPARTMENT  
OF THE TREASURY**

Mr. COHEN. Thank you, Chairman Johnson, Ranking Member Crapo, distinguished Members of the Committee. Thank you for the opportunity to testify today on the Treasury Department's application of sanctions pressure as one part of the U.S. Government's effort, coordinated with counterparts around the world, to counter the threat posed by Iran's nuclear and ballistic missile program. Under Secretary Sherman has set out our overall policy approach to prevent Iran from obtaining a nuclear weapon, including the pressure track of the dual-track policy. And in my written testimony, I describe in detail how the expanding scope and intensity of U.S. sanctions on Iran, coupled with energetic and aggressive implementation and enforcement, have had a major impact on Iran. Creating this powerful sanctions regime has been and must continue to be a joint collaborative effort between the Congress and the Administration.

Indeed, through the enactment and aggressive implementation of key pieces of legislation, along with a series of Executive orders issued by the President, we have been able to isolate Iran from the international financial system and drive down Iran's oil exports by some 50 percent over the last 18 months. In addition, Iran's dwindling oil revenues have been locked up by sanctions that require that Iran's oil earnings can only be used for limited purposes.

This morning, I would like to highlight a few actions, including some taken very recently, which illustrate well our aggressive sanctions posture and the creation, implementation, and enforcement of our sanctions.

Just this morning, we imposed sanctions on an international network of 37 companies with ties to Iran's leadership. This network, controlled by a foundation called the Execution of Imam Khomeini's Order, or EIKO, E-I-K-O, manages businesses in countries around the world, including in Europe, the Middle East, and Africa, and produces billions of dollars in profits for the Iranian regime each year.

The purpose of this network, which is an agency of the Iranian Government, is to generate and control massive off-the-books investments, shielded from the view of the Iranian people and international regulators. EIKO is also charged with assisting the Iranian Government's efforts to try to circumvent U.S. and international sanctions.

By identifying EIKO and its extensive networks of companies for sanctions today, the property of these entities is blocked in the United States. Foreign financial institutions that conduct transactions with any of these entities will be subject to being cutoff from the U.S. financial system. And those that provide them with material support are also at risk of being sanctioned.

This action is just the latest in what has been a steady drumbeat of activity targeting Iran over the last several years and accelerating over the last few months. In the last month alone, we have sanctioned almost 50 additional entities for a range of illicit conduct, including human rights abuses, support for terrorism proliferation activities, and attempts to evade sanctions.

We have also continued to pursue Iran's key sources of revenues. Last week, we targeted Iran's second largest source of revenue, its petrochemical industry, by sanctioning eight Iranian petrochemical companies for being part of the Government of Iran while the State Department applied its sanctions against two other Iranian petrochemical companies.

This Administration's commitment to enhancing sanctions pressure on Iran is also made crystal clear in the nine Executive orders that President Obama has issued since he entered office, including six in the last 2 years. And just yesterday, the President signed the latest of these Executive orders.

Although this Executive order contains a number of new and important provisions, including expanding our ability to impose sanctions on those providing material support to the Iranian Government and targeting the Iranian automobile sector, I would like to focus on one provision in particular that takes direct aim at Iran's currency, the rial.

As of July 1st, when this new Executive order goes into effect, we will be able to impose sanctions on any foreign financial institution that conducts significant transactions for the purchase or sale of rials or that holds accounts outside of Iran denominated in the rial. This new measure is designed to make the rial essentially unusable in international transactions, place additional restrictions on Iran's ability to access its foreign reserves, and isolate Iran even more from the international financial system and commercial markets.

We are taking direct aim at the rial because we have seen that its value and stability is of great importance to the Iranian regime. Already the rial has lost some two-thirds of its value in the last 2 years, and when it plummeted uncontrollably last fall, the regime was rattled.

Finally, we are committed to enhancing sanctions pressure in ways that are both effective and implementable.

We have had productive discussions with this Committee on how best to advance our mutual cause of fundamentally changing the Iranian regime's calculus on its nuclear program. And as we move forward to sharpen the choice for the Iranian regime, we stand ready to work hand-in-hand with this Committee and the Congress.

Thank you.

Chairman JOHNSON. Thank you, Under Secretary Cohen.

Under Secretary Hirschhorn, please proceed.

**STATEMENT OF ERIC L. HIRSCHHORN, UNDER SECRETARY FOR INDUSTRY AND SECURITY, DEPARTMENT OF COMMERCE**

Mr. HIRSCHHORN. Thank you, Mr. Chairman, Ranking Member Crapo, and Members of the Committee. I appreciate the opportunity today to discuss the Commerce Department's role regarding U.S. export controls on Iran.

Iran continues to engage in widespread efforts to illegally acquire U.S.-origin commodities, software, and technology. Indeed, 40 percent of the open enforcement cases in the Bureau of Industry and Security involve Iran.

The Bureau's wide range of enforcement tools includes imprisonment, criminal and civil fines, temporary denial orders, long-term

denials of export privileges—not only for Iranian entities but entities around the world who cooperate in diversions to Iran—the BIS Entity List, and asset forfeitures. We employ all these tools, and vigorously so, to fight unlawful diversions to Iran.

We have approximately 100 Federal law enforcement officers in nine field offices throughout the United States, supported by investigative and intelligence analysts at headquarters. They are the only Federal law enforcement agency that is dedicated solely to investigating and enforcing U.S. export control violations.

We also have export control officers in six foreign locations who conduct end-use monitoring in 28 countries. Their work is augmented by Foreign Service personnel at other locations overseas as well as Sentinel visits led by domestically based BIS agents. Moreover, we coordinate with the State Department on end-use checks in places where Munitions List and Commerce Control List items are colocated. And in the last full fiscal year, we conducted nearly 1,000 end-use checks in 53 different countries.

Beyond the traditional criminal penalties and civil fines, we have made effective use of temporary denial orders to prevent diversion of U.S.-origin aircraft items to Iran. We also can deny privileges for longer periods than the 180-day temporary periods, and can apply other civil and administrative penalties.

Another powerful tool we employ is the Entity List, which generally prohibits named entities from receiving any items subject to our rules without a license from our Bureau. BIS rarely, if ever, approves such licenses. Since October 2009, we have added 80 entities to the Entity List because of their involvement in diverting U.S.-origin items to Iran.

We also maintain a consolidated list of persons sanctioned by Commerce, State, and Treasury that is available to the public without charge. We are averaging close to 1,000 hits from exporters and re-exporters every business day, and 12,000 companies have signed up for email notification whenever the list is updated.

Importantly, companies and banks worldwide screen against this list. Many companies and financial institutions outside the United States will refuse all business with listed entities, even in cases where no U.S.-origin items are involved.

Another important enforcement tool is asset forfeitures. In the last year, we have produced—in our own investigations and those with other agencies—forfeitures exceeding \$600 million, and a substantial proportion of that relates to Iran.

The President's Export Control Reform Initiative is strengthening Iran-related enforcement. The Departments of Commerce, State, Defense, Energy, and Treasury, along with the Office of the Director of National Intelligence, participate in the new Information Triage Unit, which assembles and disseminates relevant information, including classified materials, to ensure that all agencies have full data on license applications. In its first year, this ITU produced more than 1,000 transaction reports, many of them dealing with Iran.

We also have the new Export Enforcement Coordinating Center, which facilitates information sharing and coordination among 18 law enforcement and intelligence agencies. A great deal of this cen-

ter's efforts are focused on diversions and potential diversions to Iran.

You asked in your letter, Mr. Chairman, whether additional resources would increase our effectiveness, and I am pleased to note that the President's budget for fiscal year 2014 requests just over \$8 million to augment our enforcement capabilities. This is for additional analysts, special agents, and three new export control officers. And two of those officers would be stationed in Turkey and the UAE, which, of course, are countries proximate to Iran, and that is why we want to put them there.

We stand ready, as always, to work closely with this Committee and the Senate to maintain all the aspects of the aggressive and effective export control program against Iran.

Thank you, sir.

Chairman JOHNSON. Thank you. Thank you all for your testimony.

As we begin questions, I will ask the clerk to put 5 minutes on the clock for each Member.

Mr. Cohen, in your opening statement you mentioned new sanctions announced today against EIKO. How will these new sanctions targeting the Supreme Leader and his associates help further pressure the Iranians?

Mr. COHEN. Well, Mr. Chairman, as you note, this morning we announced a set of designations of a labyrinth of companies associated with an organization called EIKO, the Execution of Imam Khomeini's Office. This is an agency of the Iranian Government. It works on behalf of the Iranian leadership. It works under the direction of the Supreme Leader's office. And one of the two major components of this group of companies, something called Tadbeer Group, manages billions of dollars of investments for Iran, for the Iranian leadership, including investments for the Supreme Leader himself and other leadership figures.

One of the things that we have tried to do in our sanctions over time is to target our actions to the greatest extent possible on those aspects of the Iranian economy, the Iranian financial system, that have the greatest likelihood of affecting the calculation of the leadership. And as Under Secretary Sherman noted, the very top of the Iranian leadership is where the nuclear file resides. So it is our hope that in exposing this network of front companies that generates enormous profits for the Iranian regime and operates under the direction of the Supreme Leader's office, we will advance our efforts to gain the attention of those who hold the nuclear file.

Chairman JOHNSON. Ambassador Sherman, a new round of significant reduction to terminations is due this week. The recent reduction of purchases of Iran crude oil has had a significant impact on Iran's revenues. What additional steps could be taken to further reduce Iranian revenue from crude oil or other petroleum-related products, including by accelerating the pace of reductions? What do you think is an appropriate target for such reductions in barrels per day?

Ms. SHERMAN. Thank you very much, Mr. Chairman. As you noted, the NDAA focuses on reducing Iran's exports of crude oil, which is the single biggest by far source of revenue for the Iranian Government. As I mentioned in my opening statement, we estimate

that costs, the reductions so far, \$3 to \$5 billion per month to the Iranian economy. We have concentrated on areas, as David said, that have the biggest impact on Iran with the least impact on global oil markets. And as I think most of you know, when the NDAA first went into effect, we sent teams around the world to the oil producers to get them to put as much on the table as they could, to offer contracts to people who were going to do reductions, and we played a very active role in trying to marry up those who were reducing with those who were providing so that we could try to maintain a good oil price for the American consumer as we sought to change the calculus by Iran.

Executive Order 13622 extends the Administration's ability to target other petroleum products. This includes condensate, liquefied petroleum gas—LPG—and similar petroleum products. We have a very active and robust dialog with a number of companies that are still involved in purchasing petroleum products such as condensates from Iran. Our message to those companies and the countries that they supply is simple: Find other sources or face sanctions. And we are trying to help them solve their problems where they have specific industry issues.

We have turned to focus on Iran's other petroleum sales as Iran itself has turned to them to generate lost revenue. We are engaging with companies to secure their exit from those transactions, and we are prepared to use sanctions, as we have already demonstrated, if they fail to do so.

So we are looking at these, and I know that our teams are working with your Committee as you consider further legislative action to see where we might further deepen our actions around oil while ensuring that we maintain the international coalition, we ensure that we maintain a good oil price for American consumers, and that we manage the world's energy security.

Chairman JOHNSON. Senator CRAPO.

Senator CRAPO. Thank you very much, Mr. Chairman.

Ms. Sherman, one of the three people you identified being wrongly held in Iran is Pastor Saeed Abedini from Idaho. I want to assure you again that the people of Idaho are extremely committed to obtaining Pastor Abedini's release. And to the extent that you can in a nonsecure hearing, I would like you to tell me what is being done to obtain his release and also assure me that the release of Pastor Abedini and the other Americans who are wrongly held in Iran is of the highest priority at the Department of State.

Ms. SHERMAN. Thank you very much, Senator. For those of you who do not know on the Committee and those who may be watching, Saeed Abedini was spearheading the construction of an orphanage in 2009 when the Revolutionary Guard detained him and threw him into prison, which is just outrageous on its face.

Senator CRAPO. And his treatment in prison has been outrageous.

Ms. SHERMAN. His treatment has been outrageous. We are very concerned. Secretary Kerry issued a written statement on March 22nd expressing his concern over reports that Mr. Abedini has suffered physical and psychological abuse in prison, that Iran continues to refuse consular access by Swiss authorities. We have had the Swiss go in on countless occasions to request consular access.

They are our protecting power in Iran, and we have called for his immediate release.

We condemn Iran's continued violation of the universal right of freedom of religion and call on the Iranian authorities to respect Mr. Abedini's human rights and release him. We will continue to pursue this in every way that we possibly can through every channel that we possibly can to gain his release, as we will for Mr. Levinson and Mr. Hekmati.

Senator CRAPO. Well, thank you very much, and I will continue to work with you to get further briefings on that. I appreciate your attention to it and your assurance of its priority.

I just have a quick question for each of you, and since I only have 2 or 3 minutes left, maybe I will just focus it on Mr. Cohen, but maybe others, if you have other responses, please give them. And my question is simple. The overall sanction efforts imposed by the United Nations and the United States and its allies have not to date achieved the intended goal of reaching a sustained suspension of Iran's uranium enrichment activities. We have discussed that there has been a lot of progress, but the bottom line is and the question is: Are we doing everything we can? Do we have adequate resources? Does Congress need to provide additional tools? What else can we do in terms of providing authority and support to help us achieve this objective?

Mr. COHEN. Well, Senator, I think your observation is exactly right, that we have, I think, substantially increased the pressure on Iran over the last several years, working in close tandem with Congress and in the efforts that my colleagues and I and our teams have been engaged in. We have not yet achieved the objective, which is to change the Iranian Government's calculus.

I think we have seen some indications in the last negotiating session that the sanctions pressure that we are applying on Iran is beginning to have some impact on the calculus of the regime. They came to the Almaty, Kazakhstan, negotiating sessions with a request, the desire to get sanctions relief, which only, I think, reaffirms that we are on the right path in pursuing the dual-track strategy.

In terms of additional measures, as I described in my oral testimony and as you noted in your opening statement, we took two actions in the last 2 days that I think promise to increase the pressure. This is in line with actions that we have been taking over the last several months to ramp up the pressure, which is in line with actions we have been taking over the last several years to ramp up the pressure.

We are looking forward to the implementation of IFCA, which goes into effect on July 1st, which has a number of important provisions that will increase the pressure on Iran. And we are looking forward to working with this Committee on potential new legislation that is both effective and implementable, that keeps our coalition together with our international partners and adds pressure on the regime.

I think we remain committed to this dual-track policy. We think that it bears the potential to succeed, that through the combination of enhanced pressure and the offer of diplomatic engagement, we can help change the course of the program. But as Under Secretary



Sherman noted, the window of time is shortening, and the time to really ramp up the pressure is now.

Senator CRAPO. Well, thank you. My time is up. I would just ask each of the witnesses to submit in writing what specific additional measures we should be considering, in your opinion, with regard to providing the full set of tools that we need in order to deal with this issue.

Chairman JOHNSON. Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman.

Let me first congratulate you for the actions you took last week in sanctioning Iran's petrochemical industry as a revenue source for Iran's illicit nuclear program, as well as yesterday's Executive order and new sanctions on Iran's automotive sector, which is something I had recommended—and I am glad to see that you took the existing law as an opportunity to consider it a dual-use venue—and on significant transactions in the rial, which I think basically makes the rial rather worthless outside of Iran. Those actions have a real impact on Iran.

And our challenge is at the end of the day how do we get the Supreme Leader to change his calculus because the nuclear portfolio is purely in his domain, regardless of what the elections produce. And while we have significantly impacted Iran's economy, we have not, at least visibly, deterred the thinking of the Supreme Leader toward the goal.

So, in my mind, what has to be clear here is that every tomorrow is a worse tomorrow than today for the Iranian regime and that our sanctions effort, which is the last tools of peaceful diplomacy, are our best opportunity to try to avert other options, and to do that, we need it to be so strong that it becomes very clear to the regime that every tomorrow is far worse than today, and that altering the course is totally in the domain of the Supreme Leader so that his country does not get affected in the ways that the reductions have.

So, in that respect, I know that—I have two particular lines of questions. One is I know that tomorrow is the day that exceptions are up, and a large portion of the sales that have been taking place, even though we have cut crude oil exports by half, Iran still has energy sector exports of about \$83 billion in 2012—about \$60 billion in oil, \$23 billion in natural gas, fuel oil, and condensates.

Under Secretary Sherman, do you expect that the exception of China will be renewed tomorrow? And if so, will we see for China and those other countries for which we have given exceptions a further reduction? And if so, is it a significant reduction?

Ms. SHERMAN. Senator, thank you for your question. As you noted, indeed the NDAA sanctions on oil have been very effective. More than 20 countries have either reduced or eliminated crude oil purchases from Iran, and there are only six remaining purchasers of Iranian oil: India, Japan, China, Republic of Korea, Turkey, and Taiwan. The Secretary will make his decision tomorrow, so I am not at liberty to say what that decision is today since he has not made it yet. But I can assure you that every country that gets an exception tomorrow, for those who do, they will have made a significant reduction because that is, in fact, what is required by law, and we will be up briefing you on that significant reduction.

Senator MENENDEZ. Since you cannot answer the question, let me go on to my next—

Ms. SHERMAN. Sure.

Senator MENENDEZ. I just hope—and I will be watching—to see that what you and I might describe as “significant reduction” is in harmony versus a reduction that is to some degree a reduction, but it is not what we need to do in order to achieve our ultimate goal. So I will be looking at that.

I want to know—you know, obviously this whole purpose of reduction is to get to a certain point, which is to change the regime’s calculation. Would the Administration support tightening the CBI Petroleum sanctions to ultimately complete cessation of purchases of petroleum of Iran by a certain date, let us say at the end of 2014? It would send a very clear message of the consequences that would flow.

Ms. SHERMAN. Let me begin, and then Under Secretary Cohen may want to add. We are happy to discuss with the Congress any ideas to further tighten sanctions. I think that we absolutely share the goal of the Congress to maximize the pressure on Iran in every way we possibly can. I think we want to make sure that whatever we do, it follows a set of principles. The onus is on Iran, not on our partners, because we have to keep the international coalition together. We want to make sure that we help our friends and allies replace any petroleum needs that they have as they make these reductions and changes and that the world community can sustain that and can sustain prices that are acceptable to consumers, even with the need to put pressure on Iran. So we are happy, Senator, to discuss any option with you.

Senator MENENDEZ. Well, I appreciate that. I think we need to look at that possibility as a way to achieve our ultimate goal.

Finally, if I may, Mr. Chairman, Secretary Cohen, I think you have been doing a pretty good job of pursuing the enforcements. I have two questions for you.

One, we keep adding sanctions regimes, which we need to. My first question is: Do you have the wherewithal, the resources, to continue to pursue the sanctions regime we want? Because if I give you tenfold the work and it still remains with the same universe to enforce, I get concerned that your enforcement capability is limited by your resources. That is question number one.

Then question number two, you outlined or put out a release a little while ago about a network of front companies that Iran has to try to circumvent the sanctions, and you talked about that network. Is there anything that we are going to do to that network? Or are we just identifying the network?

Mr. COHEN. Senator, thank you for the kind words. In terms of resources, my team is working flat out. I can tell you that we have a lot of important issues on our plate, none more important than this, and we are devoting an enormous amount of energy and resources to implementing the range of sanctions programs that we have. I think we are doing a good job of it, but, you know, my folks are working very, very hard at this.

Senator MENENDEZ. Well, that is diplomatic speak for you will not give me a direct answer that you need more money, but it sounds like if you are working flat out, then, you know—

Mr. COHEN. We are working flat out. I think one very important principle as we look at the sanctions, particularly sanctions to come, is that they are implementable. And one of the things that we try to work with this Committee on is, as new ideas are generated, to make sure that we look at them both in terms of the impact on what we are trying to achieve here and ability to implement. That is obviously hugely important to our ability to enforce these sanctions regimes, that the sanctions that we adopt and that Congress legislates can be implemented effectively.

I am sorry. I am forgetting the second—

Senator MENENDEZ. The network, and then I will—

Mr. COHEN. The network that we identified this morning, this network of 37 companies that are related to EIKO, they are all now on the SDN List, the Specially Designated Nationals List. Come July 1st, any foreign financial institution that does business with any one of those entities risks being cut off from the United States, and anybody working with them has the potential to be sanctioned.

So we have done more than identify them. They are now, to use a bad pun, “radioactive.”

Senator MENENDEZ. Thank you, Mr. Chairman, for your courtesy, and I look forward to working with you and the Ranking Member as to how do we continue to perfect this regime.

Chairman JOHNSON. Senator Corker.

Senator CORKER. Thank you, Mr. Chairman, and I, too, want to thank you and look forward to working with you on the two committees to come to the best conclusion.

With that, Secretary Cohen, I appreciate the time we spent yesterday in the classified setting looking at some of the issues we cannot talk about here. And Senator Menendez seemed to have a hard time getting the words “good job” out, but I will say also again I think you are doing a good job. I know that it began with actually people like Menendez and others pushing the Administration toward sanctions, and now you all have taken that and actually are pushing ahead with things you can do through the executive branch, and I appreciate that very much.

Do you want to expand a little bit on what you think the impact is going to be on the recent Executive order regarding the rial?

Mr. COHEN. Thank you, Senator Corker, and I should say for other Members of the Committee, the classified briefing that we did yesterday, available, of course, to share that with other Members of the Committee.

In terms of the Executive order, there are three main components to the Executive order that was issued yesterday—one which targets the rial directly, and as I noted in my oral testimony, it makes it now sanctionable for any foreign financial institution to convert rials into any other currency or to hold the rial in accounts outside of Iran. That should make the rial essentially unusable. No foreign financial institution outside of Iran I think will risk the potential of being cut off from the United States simply so they can exchange rials for other currencies or hold rial-denominated accounts.

We are going to—

Senator CORKER. Do you think the world community has yet digested the impact that this is going to have on the rial?

Mr. COHEN. Not yet, inasmuch as we just announced this late yesterday. One of the important aspects of this Executive order is we announced it yesterday, it goes into effect on July 1st. So for this 25-day period or so, foreign financial institutions have the opportunity essentially to dump their rials without facing sanctions. We would encourage them to do so because, come July 1st, if they hold rials or exchange rials, they would be subject to sanction.

The dumping of the rial in this period ought to have the effect of driving down the value of the rial versus other currencies in the world, which, as I noted, is—one of the measures of the effectiveness of our sanctions has been the really precipitous decline in the value of the rial over the last couple of years.

Senator CORKER. Very good, and I hope this hearing will help make that happen. The Chairman is parsimonious with his time, so I am going to move on to two other points.

I think one of the things that I guess we try to do here is we want to make sure the sanctions that we put in place work. We are trying to time them and put as much pressure as we can to cause behavior change. At the same time, we do not want to do things that are going to end up being ineffective or cause our coalition to break apart. Is that correct? So there is sort of a thread that we are trying to go down that keeps the pressure on as strongly as possible, keeps our coalition together, and does not do those things to really upset the world economy.

I know a House bill has come over and is being looked at. If somebody, one person, could speak to both the issue of taking oil sanctions down to zero and the effect that that would have on the coalition that we have together, and also the broad-based sanctions. I know we have it against oil, petrochemicals, shipping. We are getting ready to do it against autos. Now there are discussions about everything, and if you could address those two, and I have one more question if you would be fairly brief in response.

Ms. SHERMAN. Sure. On going to zero, we think we have to be very thoughtful about this. As you point out, we have to keep the coalition together. Energy security is critical for all of the countries of the world, and the six that I mentioned that still import oil—Indian, Japan, China, Republic of Korea, Turkey, and Taiwan—are all very energy security dependent. And as I know you have heard me say, Senator Corker, but I know is a great concern to everyone in Congress is where China is, which is the largest consumer of oil. A given percentage reduction—to give people an idea of how large it is, a given percentage reduction from China, currently the largest purchaser of oil from Iran, would be approximately equal to a volume reduction twice as large as the same percentage reduction from India, 3 times as that of South Korea, and 4 times of Turkey. So it is an enormous draw for their energy security to reduce their oil when, in fact, their consumption has gone up. And world oil consumption in 2012 went up 1.1 million barrels a day, which is more than the number of barrels of oil that went down in Iran. So that has to be replaced and you have to keep up with the growing demand for oil.

One of the discussions, I am sure, that the President will have with the Chinese when he meets with President Xi Jinping this weekend is around climate, around energy security, and ways that

we can help China move more quickly away from oil so that they can further reduce their dependence on Iranian oil.

So I think we all would like all of Iran's oil to go, but it is not in our interest to have any of those six economies tank in the process, because we are all interdependent on each other. So we have to do this in exactly the way you say: drive toward it, make sure we keep the coalition together, ensure energy security, ensure economies hold up together, because that is important for our own economy.

Senator CORKER. The broad-based sanctions, I know we have talked a little bit about that, maybe in another response—I want to honor the Chairman's time, so I will just make a statement on my last point. We have had some pretty extensive communications recently with folks, you know, that are, quote, many of our Iran watchers, and I guess one of the things, that is beginning to be of concern, and that is the—and, again, I applaud the efforts that are taking place in all three of your departments regarding sanctions.

What is beginning to happen, I fear, is that we are impacting sort of the broader population. The wealthy, though, are getting wealthier. And the wealthy are those folks that are right around the regime that actually have the greatest ability, if you will, to try to impact the behavior change. So I would just make a statement, and we will probably follow up with a QFR. But I think that we need to focus on those more targeted sanctions toward those individuals that most readily can effect regime behavior change, and I fear that the path we are going down—and, again, I applaud it, OK? I applaud what you are doing. But I think we are ending up sort of turning public opinion in a different way than we would like, and yet not really affecting the actual behavior of the leaders that can actually change what is happening.

So I thank you for your efforts. I know we will follow up. You may speak to that in other testimony and questioning, but, Mr. Chairman, again, thank you for the hearing.

Chairman JOHNSON. Senator Corker, I know better than to be overly parsimonious with your time.

[Laughter.]

Chairman JOHNSON. Senator Manchin.

Senator MANCHIN. Thank you, Mr. Chairman, and I thank all three of you for being here today, and I appreciate the direct answers we are receiving, and it is very helpful.

I know it has been noted by Senator Menendez and also Senator Corker that we have been trying to hurt Iran's economy, and we have hurt Iran's economy, but it has not kind of stopped them, and it looks like they are determined to move on, which is something that we cannot accept or tolerate in any way, shape, or form.

I am convinced that we have to do more on the sanctions, and along with Senator Kirk and many Members of this Committee, we have introduced a bill, which is the Sanction Loophole Elimination Act. I think you are aware of it, and it is about a \$30 billion—I think it is \$30 billion foreign exchange reserves, and we thought that would have an impact. What are your feelings on that? And do you think—first of all, have you recognized that—I think, Mr. Cohen, maybe you could start with this. Have you recognized that

to be a concern and how much of an impact would it have if we implemented it?

Mr. COHEN. Well, Senator, we have been looking carefully at that legislation. Just to take a step back, one of the efforts that we have been engaged in is, as the oil revenues that Iran is earning have decreased because of the amount of oil that they are selling is decreasing, we are also looking at ways to make it more difficult for Iran to get access to the revenue that it is earning. So it has sort of a multiplier effect on their oil sales.

Senator MANCHIN. Right.

Mr. COHEN. Legislation that went into effect earlier this year, as I noted in my oral testimony, has locked up in the six oil-importing countries the revenue that Iran is earning. It can only be used to facilitate bilateral trade between those six countries and Iran. The money cannot be moved outside of those countries, cannot be repatriated back to Iran. That has had an impact on the value of the rial. It has had an impact of essentially reducing on a dollar-for-dollar basis the value of their oil exports.

The proposal that is in the legislation that you have introduced, as I understand it, is a way to intensify the impact of this lockup by requiring the payment for oil to be in local currency. I think this is an issue along with sort of a range of issues that are very much worth looking at to figure out how we can make it more difficult for Iran to get access to their oil revenues. And I think as we go forward in the season where there is legislative activity, I think we are very much interested in working closely with you on that piece of legislation, sort of as it fits into this whole network of sanctions—

Senator MANCHIN. Do you all agree that it is about \$30 billion for Iran right now being able to really transfer in euros, is really what seems to be their most aggressive change?

Mr. COHEN. I think we are probably best talking about that in a closed session.

Senator MANCHIN. Got you. OK. Then next of all, I would say along those same lines, I am concerned about their advancement of natural gas in the pipeline, and that would give them a tremendous amount of security and also a lot of, I think, exchange with these countries that would be dependent on them. What is your feelings of that and the direction we have taken?

Mr. COHEN. We are just choreographing here. Let me just give one quick answer and then turn it over to Under Secretary Sherman.

One important point on natural gas is that, come July 1st, under IFCA, which goes into effect on July 1st, that same mechanism of locking up the earnings from oil will apply to Iran's natural gas sales. So after July 1st, the natural gas that they sell, which is significantly less than their oil exports, will also be subject to this bilateral trade restriction. So the value of their natural gas—

Senator MANCHIN. The development of the pipeline is continuing as we speak?

Mr. COHEN. I will let you speak to the pipeline.

Ms. SHERMAN. Let me speak to the natural gas broadly, if I may, Senator. We do not support natural gas sanctions as it is not a significant revenue earner for Iran, and it would not really increase

pressure on the Iranian regime, and it would be highly disruptive to the neighbors, some of whom we depend on. Iran is a net natural gas importer and trades natural gas with only four countries: Turkey, Turkmenistan, Azerbaijan, and Armenia. Of the four, only Turkey purchases natural gas, and there is a classified report I would refer you to on the impact of natural gas sanctions. It was a classified report provided pursuant to Section 505(b) of the TRA in December 2012, and I would urge you to read that, and I would be glad to discuss it further with you in a classified setting.

Senator MANCHIN. And the only thing I can ask you about the classified setting, me and Senator Warren were just talking, if there could be maybe more than one of us that can meet with you on this Committee.

Ms. SHERMAN. Sure.

Senator MANCHIN. Would that be something that could be arranged through the chairmanship?

Ms. SHERMAN. Sure. And, in fact, for the House Foreign Affairs Committee, and it is a standing—to the Senate Foreign Relations Committee to this Committee as well, we are happy to do a classified briefing on Iran, writ large, and bring in the intelligence community to answer your questions in detail. And I think the Senate Foreign Relations Committee had to reschedule that, but the House held the classified briefing, and I think they found it very helpful.

Senator MANCHIN. Mr. Chairman, if you could set up a meeting for us, we would deeply appreciate that. That would be very helpful, and, again, I want to thank you all. I think all of you are doing a great job, and we appreciate it very much. Thank you.

Chairman JOHNSON. Senator Moran.

Senator MORAN. Mr. Chairman, thank you very much. I thank the witnesses for being with us today. Our country faces tremendous foreign policy challenges. I cannot think of one more serious, more challenging than this one. And I just want to encourage you to use every tool that is available that Congress gives you to implement these sanctions in as dramatic and drastic and such a consequential effect as possible.

I want to ask just a couple of questions about these issues. Sanctions only work if they are imposed and enforced in a broad way across the globe. Secretary Sherman, what countries are you most concerned about violating the sanctions? Who is the least likely—who is not cooperating with us? And what is our reaction to that?

Ms. SHERMAN. Well, I do not know that I could single out an individual country.

Senator MORAN. I assume that you could, but I doubt that you would.

Ms. SHERMAN. That is true. But what I will say is that we really press every country—with the new IFCA legislation that goes into effect July 1, where the Executive order was passed yesterday, we have done extensive briefings already with embassies all over the world. We have had our Ambassadors go in with guidance and instructions. We have sent teams to—I think in Singapore alone, because of all the shipping, they briefed something like 300 companies that wanted to know what the impact of those sanctions would be.

We have met with embassies and invited them into briefings here in Washington. As each piece of legislation comes through, we send out teams around the world. And besides the terrific investigatory teams of Treasury and Commerce, before Secretary Clinton left, she set up a new Sanctions Office, and we now have a Sanctions Coordinator, Dan Fried, with a team that also helps to bring together all the strands of sanctions—human rights, business, economic—that we have at the Department of State.

And, in addition, I think all Members should understand that we work extensively with the intelligence community to put together dossiers and evidentiary packages for each one of these sanctions implementations because many of these sanctions have to be able to stand up in court. And, in fact, in Europe, where sometimes the thresholds have been lower than U.S. standards, they are now facing several challenges in courts.

And, of course, we use sanctions often because the threat of sanctions alone may get a company or a country to take the action necessary without us having to impose the sanctions.

So although we have sanctioned over 350 entities and individuals, I would suspect thousands more have stopped nefarious behavior because of the threat of sanctions.

Senator MORAN. That makes sense to me. Is there a common theme or thread among those who are less cooperative? Is it economic? Is that the reason that—

Ms. SHERMAN. Oh, I would say far and away it is just commercial avarice that plays out.

Senator MORAN. OK. The State Department imposed visa restrictions on nearly 60 Iranian officials and individuals that we believe are involved in human rights violations. That is required by the Comprehensive Iran Sanctions, Accountability, and Divestment Act. I think that act also requires that those individual names be posted at both State and Treasury Web sites.

Ms. SHERMAN. I was checking with my expert. I do not believe that is the case, Senator.

Senator MORAN. Would you confirm that with me, although I trust your expert, but I would like to know that, because I think that the public knowledge of that is important. Do the banks—

Ms. SHERMAN. The reason we do not do that is no visa decision is public information. You would not want your visa history to be public information, and so we do not do that in any visa situation. It is always classified and private.

Senator MORAN. The financial institutions involved are provided with names and identification but not the public?

Mr. COHEN. Senator, there were two related actions taken. The State Department identified I think 60-odd people for visa restrictions. At the same time, the Treasury Department imposed sanctions on a set of individuals for human rights abuses. The designations that the Treasury Department—

Senator MORAN. Sanctions as compared to the visa—

Mr. COHEN. Exactly.

Ms. SHERMAN. Correct. So his is public. The visas are not.

Senator MORAN. Let me then turn to Under Secretary Cohen.

Mr. COHEN. So, to answer your question, the names of every human rights abuser who we apply sanctions against, that is on



our Web site. It is on State's Web site. Financial institutions know that.

Senator MORAN. And the field of people, the 60, are not necessarily the same 60 that have visa restrictions versus those that you are posting?

Mr. COHEN. That is right.

Senator MORAN. OK. And, finally, Iran's foreign currency reserves, at the rate that Iran is spending its reserves, at what point in time do they disappear?

Mr. COHEN. I think that would be a great topic for the classified sessions that we are going to have.

Senator MORAN. OK. Thank you.

Chairman JOHNSON. Senator Warren.

Senator WARREN. Thank you, Mr. Chairman.

Ms. Sherman, I want to ask you about our sanctions strategy. This country is committed to making sure that Iran does not develop a nuclear weapon and to protecting our allies in the region, including Israel. As a country, there is a broad consensus that we should keep all options open and on the table, but that a negotiated solution is far superior to war.

Now, a recent report from the bipartisan Iran Project, a group of former diplomats and national security experts, has identified how a system of sanctions works. They describe it as strong sanctions are a stick that gets the Iranians to the negotiating table, and once they come to the table and start negotiating, strong sanctions are a carrot—that is, we can remove those sanctions in exchange for Iran giving up a nuclear program.

That means for our sanctions strategy to work, it has to be possible not only to put sanctions in place but also to take them away if the Iranians want to make a deal. If the sanctions cannot be easily reversed, that is, if they face sanctions no matter what, then the Iranians will not give up their nuclear program.

So I support tough, strong sanctions because I think they are necessary to make the strategy work. But what I want to know, Ms. Sherman, is whether you are confident that the sanctions that are currently in place are structured so that the Administration can reverse those sanctions as part of reaching a negotiated agreement.

Ms. SHERMAN. Thank you, Senator. It is a very—actually, a quite sophisticated and important question. We have spent a considerable amount of time in preparing for the P5+1 negotiations to look at every single sanction and figure out what we would do and how we could indeed take them off. Some are easier than others. All of them could ultimately be removed either by Executive action or congressional action. But, of course, it is preferable that there be a way within the existing legislation or the existing EO to do so as opposed to having to pass new legislation to accomplish that.

So your point is extremely well taken, and as Under Secretary Cohen said, in the last P5+1 negotiation, for the first time Iran was very, very vocal about its desire to have sanctions removed, particularly financial and oil sanctions, which are, of course, connected to each other in terms of viability. And we are not in any rush, of course, to remove any sanction until we see concrete, verifiable results that can be monitored and cannot be reversed.

Senator WARREN. Well, I very much appreciate that. I am sure you have seen the report from the International Crisis Group in which they had looked at sanctions, evaluated those sanctions in terms of how easy it would be to remove them on a scale of 1 to 4, and found that of the congressional, all nine of the laws we have passed are Category 4, 4 being the toughest to reverse; and that of the Executive orders, seven have been codified and are also now rated as a 4, very tough to reverse.

I raise this because I think it is something we need to focus on. The goal is to keep Iran from developing nuclear weapons, and I support strong sanctions because I think they are necessary to make this strategy work. But if the Iranians see that the sanctions cannot be lifted, then they will be only more firmly entrenched in pursuing nuclear weapons. In other words, badly designed sanctions might actually increase the likelihood of Iran getting a nuclear weapon or increase the likelihood of war.

We have broad consensus in this country that we would prefer a negotiated solution in the Middle East, and if badly designed sanctions are going to increase the likelihood of Iran developing a nuclear weapon, then we need to focus now on how to fix that. So thank you very much.

I have one other area I want to ask about. Mr. Cohen, when you last appeared before the Committee, we had a discussion about the Government's enforcement against HSBC for laundering hundreds of millions of dollars over at least a 6-year period. They were helping drug lords, and they were also helping people who were evading the sanctions against Iran.

Now, Treasury's response was to settle for a fine, a very big fine, over \$1 billion. But some of us wondered why the Government did not take HSBC to trial or at least look at imposing stronger penalties, including closing down the bank in the U.S. for a period of time or banning certain HSBC employees and executives from banking.

Last week, Public Citizen released some internal Treasury emails that it received in response to a FOIA request. The documents were heavily redacted, but there were a couple of things that were clear.

First, in the fall of last year, Treasury officials were suddenly quite anxious to settle with HSBC. After years of violations, a Treasury working group was quickly set up to scour through the violations, and senior Treasury officials were assured that the enforcement officials "were moving as quickly as possible to put together administrative penalty actions."

The second thing that is clear from the documents is that, at the same time, State officials of New York were starting to press forward with charges of their own against HSBC. The emails show that reporters began to contact Treasury about rumors that its senior officials had discouraged the Justice Department from leveling any criminal charges, and the emails show that Treasury official were suddenly talking about, in their words, "atmospherics."

So I have a couple of questions, Mr. Cohen. Since you played a key role in the HSBC conversations, HSBC actions have been going on for years. Why all of a sudden was Treasury interested in enforcement only in the fall of 2012? Was it because of what Ben

Lawsy, New York superintendent of banks, referred to last week as “a dose of healthy competition among the regulators”? What was the sudden urgency? What was Treasury trying to get out in front of? And I will ask you to be brief because I know I am over my time, Mr. Chairman.

Mr. COHEN. So, Senator, I think what you are reading into the emails is inaccurate. There was no special urgency that was first felt in the fall of last year to resolve the HSBC—

Senator WARREN. Well, let me just stop you there. The language in your own emails, from the small part that is left over that was not redacted, is that they are moving as quickly as possible to put together administrative actions, they seem to see the urgency, and they start talking about the atmospherics of a settlement? Can you just explain what that means?

Mr. COHEN. So I do not believe any of these emails are mine, but I have looked at them, and I can tell you from my own experience being in the Department in the last year and over the last several years, the investigation of HSBC was proceeding. It had reached a conclusion. It was time to resolve the action, and that is what happened.

Senator WARREN. So you are saying that what was happening in New York had nothing to do with it, you were not trying to get in front of anything?

Mr. COHEN. That is not my recollection.

Senator WARREN. And the word “atmospherics” means what in this context?

Mr. COHEN. Senator, I do not know what you are reading from, so I cannot answer that question.

Senator WARREN. Well, I am not sure I know entirely what I am reading from because of how redacted it is. But it is clear that Treasury was talking back and forth about the atmospherics surrounding a settlement at this point.

Mr. COHEN. I would be happy to take a look at the document. I do not have it front of me, so I would be at a loss trying to answer your question.

Senator WARREN. Well, I hope we both agree that the only thing that Treasury would be doing appropriately would be trying to enforce the law and making sure that the banks are enforcing these sanctions and not worrying about the atmospherics around that.

Mr. COHEN. And as you noted, we have enforced these sanctions very vigorously in this case and in many others.

Senator WARREN. Well, I think we have agreed to disagree about how vigorous that is, but thank you.

Chairman JOHNSON. Senator Kirk.

Senator KIRK. Thank you, Mr. Chairman, for having this hearing. I would like to raise one—ask that you designate President Ahmadinejad and Supreme Leader Khomeini as human rights abusers, I think we ought to call a human rights abuser a human rights abuser. And let me introduce you to Neda. As you know, when you work the Iran account, you will know that she has become the next young martyr of the Green Movement, shot down on the streets of Tehran for protesting against an election which was about to be stolen.

And the other case I would like to introduce you to is Nasrin Sotoudeh, who is someone that I will put forward to be a Nobel Prize winner. I hope that she is. She is a mother of two, and she has been in jail for 3 years now on the crime of representing human rights defendants. My hope is that we can call these guys for what they—what unites these two cases is that both Khomeini and Ahmadinejad ordered the actions which killed Neda and put Nasrin into Evin prison without her kids.

Ms. SHERMAN. Thank you, Senator. I want to thank you first for being such a champion on human rights. I have known you for a very long time back when—

Senator KIRK. You do.

Ms. SHERMAN. —we were both staffers here on Capitol Hill, and it has always been a passion of yours, and we are fortunate to have an advocate for the rights of people in their lives.

We could not agree with you more that the human rights situation in Iran is deplorable. We continue to raise our concerns about human rights on numerous occasions, both bilaterally and in multilateral fora. For 10 consecutive years, we have supported a successful resolution at the U.N. General Assembly that condemns Iran's human rights practices. We help lead efforts in the Human Rights Council and did in 2011 to mandate a special rapporteur—

Senator KIRK. Let me interrupt you. Are the Iranians still the Chair of the human rights arm of U.N.? Which was always the ultimate joke about the U.N.

Ms. SHERMAN. Iran is not the ultimate chair of human rights at the United Nations, and we continue to call on the community to join us in calling for the release of not only Saeed Abedini but human rights defender Nasrin Sotoudeh and Christian Pastor Youcef Nadarkahni and others. We have gone after and condemned the reported torture of a blogger while in police custody, and it goes on and on. And as others on this Committee have said, we are about to witness an election on June 14th that is not what any of us would call free and fair.

Senator KIRK. I would definitely ask you to confirm to the Committee, we have had several hundred people disqualified to run for President and that you must be approved by the Guardian Council to even run for President.

I just have a joke to ask you. What is the definition of an Iranian moderate? It is an Iranian who is out of nuclear weapons.

Ms. SHERMAN. I appreciate the humor, but I think you and I would agree that there is nothing humorous about the situation in Iran.

Senator KIRK. Right. Thank you. I will send over the picture of Nasrin to your office so you see her and think about her all the time. Thanks.

Thank you, Mr. Chairman.

Chairman JOHNSON. Senator Heitkamp.

Senator HEITKAMP. Thank you so much, and thank you for your excellent work in this area. Unfortunately, we are an impatient country. We would like to see things happen a lot faster, and my concern about sanctions is really achieving the new normal in Iran. You know, as you take each one of your sanctions and each one of these activities, you end up kind of adjusting their economy accord-

ingly. And it seems as if there is not a shock value, and maybe the most recent Executive order will achieve that shock value to the economy. But it seems like there has been this constant adaptation, and it is necessary—I will not disagree with that, that it is necessary to keep your coalition together. But by the same token, I think it results in an ineffective outcome.

And so I have two questions and maybe one comment, a little self-serving comment, Ms. Sherman. One of the things that we can continue to do in this country is increase our domestic supply of oil. And as you were talking about equalizing the price and making sure that you do not have shock, we would certainly like to think that North Dakota has been a big part of helping you out in maintaining a rational, worldwide, global oil price. And, obviously, you know, without comment, because I know it is out of your area, I am looking forward to the State Department decision on Keystone. I think that development in North America will go a long way.

But my main thrust of my questions is beyond what Senator Crapo has already said about increase, what more can we do. I want to know if there is something that we can do that has higher shock value.

Ms. SHERMAN. Let me make a quick statement, and then my colleagues may want to add to it. I think that certainly when the EU passed its sanctions and immediately every EU country that imported oil stopped, it had shock value. I think that when the NDAA was passed here it had a shock value.

I think some of the EOs that the President has signed, including, quite frankly, the one that we just did that allows mobile technology hardware and software to be sold right before the Iranian election, has a shock value. But the reality is that sanctions historically only have impact over time as they build, and particularly with oil markets, it takes time for some of those contracts to unwind, for the ships to never find their way to port, for insurance companies—quite frankly, on the oil sanctions, it was as much not being able to get secondary insurance for tankers that pulled back the oil shipments as much as the sanctions on oil in and of themselves. Getting through the financial assets of individuals and companies that is done out of Treasury has had a major impact.

So it is really the cumulative effect, and I think we are seeing that cumulative effect, but we need to keep up and make sure that we keep the coalition together so we sustain that pressure, because it is having an impact. As I said in my opening comments, it is very interesting that all of the candidates for Presidential election, as unelected, unaccounted as the Senator has said it is, are talking about how horrific the economy is.

Senator HEITKAMP. And I guess we could get more response as we do the follow-up, but my second question is really about the election. We have not talked a lot about that. You have raised it now twice. What hope do you have coming out of this election, if any—you know, simply saying it has got an effect, so what? We would imagine that these sanctions, when you reduce their revenue by 50 percent, is having an effect. What is the political outcome or the political effect?

Ms. SHERMAN. The reality, Senator, is that the nuclear file is held by the Supreme Leader of Iran, and so he is the sole decision-

maker—he is affected by others around him, but he is the sole decision maker when it comes to the strategic calculation about whether to really deal in these negotiations.

We believe he will do that when he thinks there is a greater risk to him to not doing it than—to doing it than to not doing it. We do not think he has made that calculation yet. We think we are getting closer to the potential for him doing so. And the one other impact I will say, partly in humor, partly in reality, is one of the leading candidates is the lead negotiator for the P5+1, Saeed Jalili, and if he becomes President, we will have a new negotiator, and I do not know whether that will make any difference whatsoever.

Chairman JOHNSON. Senator Schumer.

Senator SCHUMER. Thank you, and I want to thank the three witnesses here today for their hard work here.

I want to begin by applauding the Administration's recent announcement of new sanctions on any financial institutions that conduct significant transactions in Iranian currency. It is an important step that, as you know, Senators Kirk, Menendez, and I have been urging for years when we started with our central bank legislation. And so I am glad to see we are finally taking that step.

Now, I hope that you will follow through and actually sanction firms who violate the sanctions. Despite U.S. and international interests, too many banks have ignored the sanctions and continue to do business with designated Iranian entities. To date, the Treasury Department has sanctioned just two non-Iranian foreign banks for conducting significant transactions with sanctioned banks. Treasury recently lifted the sanctions on one of these banks after it stopped the prohibited activities, but there is ample information indicating that other banks have violated U.S. laws by conducting such transactions.

I believe the Administration has to start sanctioning foreign banks that continue to conduct significant financial transactions or provide significant financial services with the sanctioned Iranian banks or the Revolutionary Guard or the Central Bank of Iran; otherwise, there is no incentive to refrain from doing business with these entities. The banks are liable. You know the sections of the law. I will not cite them.

And so my question is very simple. I guess it goes to Mr. Cohen. Can you state today that you are prepared to announce sanctions against specific non-Iranian banks in the near future?

Mr. COHEN. Well, Senator, I do not have any announcements to make sitting here today, but I can tell you that we have been very aggressive in implementing the various legislations and Executive orders that create the sanctions framework. And as you noted, we have applied sanctions on two foreign banks for doing business with designated Iranian banks, and we have been watching very carefully at any evidence of other financial institutions engaged in that behavior.

One of the remarkable results of the legislation that was enacted—and Senator Heitkamp's question about having sort of shock value effect—was the passage of CISADA in July of 2010, which gave us the authority to apply sanctions on foreign banks doing business with designated Iranian banks.

Senator SCHUMER. Right.

Mr. COHEN. We went around the world, made sure that the foreign financial institutions understood the import of that legislation and the business with Iran that had existed before CISADA fell off the cliff. So the reality is the financial institutions around the world do not misunderstand the seriousness of the Administration's applying sanctions.

Senator SCHUMER. But let me just say, isn't it true that if even a few say, "I will take up the slack when the others fall off," we will not accomplish our goal? So unless there is a clear, bright line—you start doing this, you are going to be sanctioned—we are not going to have the effect that we had, because just to have one bank replace another because they think they have some advantage—I have a list of banks here that are suspected of violating U.S. law that you have not sanctioned.

Mr. COHEN. Well, Senator, I think that bright line is known to the financial community around the world, and I am happy to take a look at your list.

Senator SCHUMER. But as you said, the law is from 2010. Two banks have been sanctioned. One had its sanctions removed as soon as it said, "I will not do it again." It does not sound—if I were a bad bank, which I am not, let me state for the record, I would not be too worried here.

Mr. COHEN. So, Senator, I think that the impact speaks to the effectiveness of the implementation, and implementation involves both sanctioning and deterring. If you look at the extent to which designated Iranian banks today have access to the foreign financial system, it is essentially nil, and that is because we have taken action and because the foreign financial institutions that had been doing business with designated Iranian banks exited that business.

I am very interested in the list you have—

Senator SCHUMER. OK. I will get it to you.

Mr. COHEN. —and we can follow up on that.

Senator SCHUMER. OK. Thank you.

And, finally, for Ms. Sherman—I know my time is running out—the President's meeting with the President of China—I can never remember who is a President and who is a Prime Minister.

Ms. SHERMAN. President.

Senator SCHUMER. President Xi of China, I take it that the issue of China's dealings with Iran will be high on the list, and we will be quite firm in how important this is to not only our interests but the interests of the world?

Ms. SHERMAN. Absolutely, Senator. It is on the list. It is high on the list. And our pressure on China in this regard has had an impact. In the past year, all Chinese trade with Iran has declined by approximately 18 percent. We have sanctioned Chinese companies, including five Chinese foreign persons for nonproliferation activities as well.

I will also say that in the P5+1 China has been a valuable partner. We have maintained unity in the P5+1. It is crucial that we maintain unity so that Iran cannot split us apart. They always look for divisions. They always look for wedges. And the Chinese have been part of the unity which we have presented. But there is no doubt that the President will be very clear, as he has been in the

past with President Xi, that we will not permit Iran to have a nuclear weapon, period.

Senator SCHUMER. Thank you.

Chairman JOHNSON. I want to thank the witnesses for their testimony. This hearing was an important and useful oversight exercise to begin to identify some of the next steps that should be taken. I look forward to working with my colleagues in the coming months on this important issue.

This hearing is adjourned.

[Whereupon, at 11:38 a.m., the hearing was adjourned.]

[Prepared statements and responses to written questions supplied for the record follow:]



**PREPARED STATEMENT OF WENDY SHERMAN**  
 UNDER SECRETARY FOR POLITICAL AFFAIRS, DEPARTMENT OF STATE

JUNE 4, 2013

Chairman Johnson, Ranking Member Crapo, distinguished Members of the Committee, thank you for inviting me here today to update you on our approach to one of our country's top national security priorities, Iran. The Administration confronts a range of challenges on Iran—its nuclear ambitions, its support for international terrorism and destabilizing activities in the region, and its human rights abuses at home. In confronting these challenges we have employed a range of diplomatic tools, from negotiations, to sanctions, initiatives in multilateral fora, and bilateral engagements; we have also strengthened our efforts to empower the Iranian people and promote their right to the basic freedoms.

Around the world, countries have joined this effort because they share our grave concerns about Iran's activities. Just last week, Canada announced tough new measures to ban virtually all trade with Iran, just as we do. Today, Iran is under the toughest, most comprehensive sanctions regime ever. The breadth of these international sanctions has been unprecedented, targeting both specific individuals and entities, as well as entire sectors critical to the regime's illicit activities. Maintaining this coalition will be critical as we move forward.

Over 4 years ago the President offered Iran a choice: fulfill your international obligations and assume your place among the community of Nations, or continue down a path of increasing isolation and pressure. In light of Iran's refusal to act responsibly, we remain resolved to sharpen that choice for Iran until it decides to change its behavior and resolve the international community's concerns about its nuclear program.

**The Dual-Track Policy**

The United States is determined to prevent Iran from acquiring a nuclear weapon and committed to a dual-track approach of pressure and engagement to address the international community's concerns over Iran's nuclear activities. On the engagement track, we have worked within the P5+1—which include the five members of the U.N. Security Council plus Germany, and coordinated by the European Union—to pursue a diplomatic solution to address concerns over Iran's nuclear program. On February 26, 2013, the P5+1 met with Iranian representatives in Almaty, where we jointly presented Iran with an updated, balanced proposal that offered Iran a real opportunity to take steps toward reducing tensions and creating the time and space to negotiate a comprehensive solution to the nuclear issue.

Yet, when on April 5, 2013, the P5+1 returned to Almaty, the Iranian response was disappointing. While the P5+1 had a substantive exchange of views with Iran during the talks, in the end, Iran's counterproposal to the P5+1 initiative sought to place little or no constraint on its current nuclear activities, while demanding that major sanctions be removed immediately. Given the significant gulf between the two sides, the P5+1 members did not believe scheduling another round was warranted at that time. On May 15, EU High Representative Catherine Ashton met with Iran's Chief Nuclear Negotiator Saeed Jalili. Consultations on next steps are still ongoing, however we have been clear that we expect to see concrete signs that Iran is prepared to substantively address all aspects of the proposal we discussed in Almaty. While we must give diplomacy every chance to succeed, our patience is not infinite. We have approached these negotiations realistically, conscious of our difficult history, and we will continue to seek concrete results in our talks, not empty promises. But the onus is on Iran.

Simultaneous with our efforts to seek a diplomatic solution, we have bolstered our efforts on the second track of our policy—pressure. This track is robust and focuses on a range of Iranian activities. At international fora such as the United Nations and International Atomic Energy Agency, we have repeatedly highlighted Iran's activities, including its human rights violations, sponsorship of terrorism, and illicit nuclear program. In our daily interactions with foreign Governments around the world, we are making clear that actions constitute violations of international norms and are unacceptable. In our courts, we have brought Iranians involved in terrorist or proliferation activities to justice. And we continue to underscore directly to the Iranian people that we will assist their efforts to hold their Government accountable and exercise their universal human rights including the right to freedom of expression.

Sanctions have also played a major role within this framework. It is important to remember that we impose sanctions not as an end in themselves, but because they are a valuable tool to increase pressure on the Iranian Government to address the international community's concerns over its nuclear program. Working through

the United Nations and with our allies, we have built and led a global coalition to create the toughest, most comprehensive sanctions to date on the Iranian regime. Indeed, we believe the costs these sanctions are imposing on Iran are one of the reasons the regime decided to restart the negotiations.

Today, our sanctions are having a real impact on the ground in Iran, exacerbated by the regime's own mismanagement of its economy. As a result of our implementation of sanctions under the National Defense Authorization Act for Fiscal Year 2012, Iran exports over 1 million fewer barrels of crude oil each day than it did in 2011, costing Iran between \$3–\$5 billion per month. All 20 importers of Iranian oil have either significantly reduced or eliminated oil purchases from Iran. Financial sanctions have crippled Iran's access to the international financial system and fueled the depreciation of the value of Iran's currency to less than half of what it was last year. Foreign direct investment into Iran has decreased dramatically as major oil companies and international firms as diverse as Ernst & Young, Daimler AG, Caterpillar, ENI, Total, and hundreds more have divested themselves from Iran. The International Monetary Fund projects the Iranian economy will contract in 2013, a significant decrease from the over 7 percent growth 6 years ago, and far below the performance of neighboring oil-exporting countries. Put simply, the Iranian economy is in a downward spiral, with no prospect for near-term relief.

We continue to increase the pressure through a range of actions. Iranian oil exports will continue to decline as we implement the law through our engagement with the last remaining six importers of Iranian oil. The exceptions to the sanctions under the FY12 NDAA that the State Department has granted the 20 importers are a measure of our success; those exceptions are what permitted us to achieve this monumental reduction in Iranian oil sales that has reverberated throughout the Iranian economy while maintaining stability in the global economy. Iran's currency will remain volatile as we block Iran's revenue streams and its access to funds held abroad. And we will continue to track, identify, and designate individuals and entities assisting Iran's proliferation efforts and attempting to evade sanctions on Iran. To give some recent examples, on May 31 the State Department imposed sanctions on Ferland Company Limited under the Iran Sanctions Act for knowingly concealing the origin of Iranian crude oil carried on a ship under its control, in conjunction with Treasury sanctions against Ferland the same day under its Foreign Sanctions Evader authorities. The same day, we also imposed sanctions on Jam Petrochemical Company and Niksima Food and Beverage JLT under Executive Order 13622 for knowingly engaging in transactions for the purchase or acquisition of petrochemicals from Iran. Finally, on July 1, the Iran Freedom and Counter-Proliferation Act of 2012 takes full effect, further increasing pressure on Iran by targeting an array of sectors and industries in Iran. Looking forward, as long as Iran continues on its current unproductive path, the Administration will continue to assess and implement additional sanctions on sectors and industries that can serve as pressure points.

One of the keys to our success in ratcheting up the pressure on Iran is that we are not doing so alone. The European Union has enacted its own stringent sanctions regime, including an oil import ban in July 2012 that resulted in all 27 EU member States banning oil purchases from Iran. Australia, Canada, Norway, South Korea, Japan, and others have enacted their own sets of domestic measures. And, even among partners who are frankly skeptical of sanctions, we have seen robust implementation of U.N. Security Council resolutions and cooperation on specific sanctions issues. As we move forward, it will be critical that we continue to move together and take no steps that undo the progress made so far. Such steps would signal divisions to Iran that it could and likely would exploit. Further, as the effect of our sanctions on Iran depends in part on the actions of our partners, we must ensure that our sanctions do not place an undue burden on those countries. It is not in our interest to create fissures within the international coalition facing Iran, as the impact of our pressure comes from the steps these countries take. So we look forward to continued strong collaboration with members of Congress to develop sanctions and other tools that are smart, effective, and increase pressure on the regime in a way that allows us to maintain the strong coalition we have built.

Even as we significantly increase pressure on the Iranian regime, we remain committed to ensuring that legitimate, humanitarian trade can continue for the benefit of the Iranian people. We take no pleasure in any hardship our sanctions might cause the Iranian people in their everyday lives, and it is U.S. policy to not target Iranian imports of humanitarian items. We have worked hard to ensure U.S. regulations do not unduly interfere with transactions for the sale of agricultural commodities, food, medicine, or medical devices to Iran as long as the transactions do not involve a designated entity or otherwise proscribed conduct.

### **Human Rights and Support for the Iranian People**

In all our efforts on Iran, we have demonstrated that supporting the Iranian people and pressuring the policies of their Government are not mutually exclusive. Labeled by press advocacy group Reporters Without Borders as an “enemy of the Internet,” the Iranian regime filters online content, slows Internet speeds, and blocks access to the Internet to prevent Iranian people from freely acquiring information about their own country and the outside world. With that in mind, last week the Treasury and State Departments unveiled an initiative that will make communications technology that is safe and secure more accessible to the Iranian people. We issued a general license that will allow U.S. companies to export certain mass market, consumer personal communications devices such as smart phones, satellite phones, and basic computer equipment to Iran, as well as related services and software—such as the important security updates to software that make these products safer to use. The license also covers other essential tools to safely navigate the Internet, like antivirus software and virtual private network technology, so that the Iranian people have the latest tools to combat their own Government’s efforts to envelope them with an “electronic curtain” that shuts them off from the world.

In the same vein, last week the Administration designated one individual and two entities for their involvement in serious human rights abuses or censorship activities to curtail or penalize freedom of expression. This was just the latest example of how we are using our authorities to hold the Iranian Government accountable on its human rights violations. Indeed, over the last 3 years, we have imposed sanctions—including asset freezes and visa bans—on 30 Iranian individuals and entities for such abuses, including the Islamic Revolutionary Guard Corps (IRGC), the Ministry of Intelligence and Security (MOIS), Iran’s Cyber Police, and the Islamic Republic of Iran Broadcasting. In addition, we have imposed separate visa restrictions on more than 100 Iranian officials involved in human rights abuses in Iran, and used Executive Order 13606 to target entities using technology to assist in or enable human rights abuses by the Iranian Government.

Unfortunately, the Iranian Government continues to take actions that underscore how much it fears its own people. This campaign of repression has included the harassment and intimidation of family members of those who speak out for freedoms, the torture of political prisoners, and the limitation of freedom of expression and access to information. These acts of aggression have created a culture of fear in which few dare to voice dissent or challenge regime officials. Students, lawyers, journalists, and bloggers, ethnic and religious minorities, artists, and human rights activists are all targets for abuse, intimidation, or discrimination. This trend has only increased as Iran prepares for its June 14 presidential elections. We saw Iran’s unelected and unaccountable Guardian Council disqualify hundreds of candidates based on vague criteria—and declare that women, who make up half of Iran’s population, are barred from serving as president. While Iran’s Supreme Leader called for an “epic” election to demonstrate Iran’s strength, the regime’s decisions are denying the Iranian people an electoral process that meets international standards.

### **Levinson, Abedini, and Hekmati Cases**

Just as we are concerned about Iran’s treatment of its own citizens, we remain concerned about Iran’s treatment of U.S. citizens detained and missing in Iran. The U.S. Government is fully dedicated to the return of American citizen Robert Levinson and U.S.–Iranian dual nationals Saeed Abedini and Amir Hekmati. Mr. Levinson went missing from Kish Island, Iran, on March 9, 2007, and his whereabouts remain unknown. We continue to call on the Iranian Government to make good on its promises to assist the U.S. Government in finding Mr. Levinson so that he can be reunited with his family. Mr. Hekmati, a former U.S. Marine who served with distinction in Iraq, has been detained in Iran since August 2011, and endured a closed-door trial with little regard for fairness or transparency. Mr. Abedini has been detained in Iran since September 2012 on charges related to his religious beliefs, and reportedly has suffered physical abuse by Iranian officials in prison. Despite our repeated requests, Iranian authorities have failed to provide them with adequate medical treatment or permit visits from our protecting power. We will continue to raise these cases directly and publicly as we also pursue all available options until all three of these Americans return home safely.

### **Support for Terrorism**

We also have grave concerns about Iran’s destabilizing activities in the Middle East, particularly its support for Bashar Al Asad in Syria; its support for terrorist organizations like Hizballah; and its unacceptable attacks on innocent civilians worldwide.

Iran is the world's foremost State sponsor of terrorism. Led by the IRGC-Qods Force and MOIS, the "Iran Threat Network" comprises an alliance of surrogates, proxies, and partners such as Hizballah, HAMAS, and Kata'ib Hizballah, among others. Iran funds, trains, and equips these terrorist organizations, in whole or in part, to use in attacks around the world. This clandestine threat network destabilizes countries throughout the Middle East and threatens regional security. Iran's leaders have aimed most of their threats at one of our closest allies, blatantly declaring their desire to see the destruction of the State of Israel. We have a moral obligation and strategic imperative to ensure that Iran never has the tools to make good on that threat.

Israel is not Iran's only target, however. Iranian American Mansour Arbabsiar pled guilty last year to plotting with members of the Qods Force to murder the Saudi Arabian ambassador by bombing a crowded restaurant here in Washington, DC. The attempt to assassinate a foreign diplomat in our Nation's capital is an intolerable escalation of Iranian terrorist activity, and last week it was announced that he will serve 25 years in prison for his crimes.

Iran has also sponsored and directed terrorist attacks against Israeli civilian and diplomatic targets worldwide. On February 13, 2012, a magnetic bomb was placed under the vehicle of an Israeli diplomat's wife in New Delhi, India, seriously injuring her and three Indian nationals. The following day, a similar device was discovered under a vehicle belonging to the Israeli embassy in Tbilisi, Georgia, and safely defused. At the same time, Thai police arrested three Iranian nationals in Bangkok in connection with explosions at a private residence that subsequently revealed bomb-making materials and makeshift grenades intended for use in attacks against Israeli targets.

In June 2012, Kenyan authorities arrested two Iranian members of the Qods Force. Armed with 33 pounds of military-grade plastic explosives, they planned deadly attacks on Western and Israeli targets. On May 6, a Kenyan court sentenced them to life imprisonment for terrorism-related offenses.

Thwarted attacks involving Iranians and Iranian proxies like Hizballah in Cyprus, Thailand, and Kenya—to name a few examples—show a clear willingness on the part of our international partners to target and prosecute Iranian terrorist activity. As evidenced by these disruption and prosecution efforts across Africa, Asia, and Europe, we and our international partners have become increasingly effective at targeting Iranian support for terrorism.

In Syria, Iran has made it clear that it fears losing its closest ally and fellow State sponsor of terrorism and will stop at no cost, borne by both the Syrian and Iranian people, to prop up the Asad regime. Today, Iran is training, arming, funding, aiding and abetting the Asad regime and its atrocious crackdown on its own people. It is coordinating its intervention in Syria with Hizballah, which is itself engaged in training pro-regime militants who attack Syrian civilians, and in direct fighting on behalf of the Asad regime against the Syrian people. Iran and Hizballah fighters are also directing the activities of Iraqi militia groups which have been enlisted to join in the Asad regime's war against the Syrian people. Iran has shown that it is willing to potentially destabilize an entire region if it means keeping the murderous Asad regime in place. Countering such efforts remains a key priority for the Administration and we are focused on preventing Iran from continuing to support the Syrian regime financially, materially, and logistically. The Administration has used its authorities in several Executive orders to highlight the role of Iran in the Asad regime's violation of human rights and hold accountable those responsible.

### **Conclusion**

In sum, what we see is that the Iranian regime's misplaced priorities, corruption, and mismanagement of their Government are detrimentally affecting the Iranian people. Instead of meeting its people's needs, the regime has chosen to spend enormous amounts of its money and resources to support the Asad regime as well as its militant proxies around the world, and to pursue the development of weapons of mass destruction. Instead of investing in its people, Iran continues to restrain their vast potential through censorship, oppression, and severe limitations on their social, political, and even academic freedoms.

The Administration will continue to hold the Iranian Government accountable for its actions and increase pressure on the regime until it chooses to become a responsible member of the international community and give the Iranian people the opportunities they deserve. As the President said, we have no illusions about the difficulty of overcoming decades of mistrust. It will take a serious and sustained effort to resolve the many differences between Iran and the United States. But we believe that meeting this challenge is vital. We welcome your ideas and look forward to working together to sustain and expand our efforts. Thank you.

**PREPARED STATEMENT OF DAVID S. COHEN**

UNDER SECRETARY FOR TERRORISM AND FINANCIAL INTELLIGENCE, DEPARTMENT OF  
THE TREASURY

JUNE 4, 2013

**Introduction**

Chairman Johnson, Ranking Member Crapo, and distinguished Members of the Committee, thank you for the opportunity to testify today on the Treasury Department's application of sanctions pressure as one part of the U.S. Government's effort, coordinated with counterparts around the world, to counter the threat posed by Iran's nuclear and ballistic missile program. Our continued close collaboration with this Committee and your colleagues in Congress is essential to our success in addressing this threat.

As this Committee will appreciate, no issue is of greater concern or urgency than preventing Iran from obtaining a nuclear weapon. As the President recently warned, an Iran in possession of such a weapon would increase the risk of nuclear terrorism, undermine the global nonproliferation regime, trigger an arms race in the Middle East, and embolden a regime that has ruthlessly repressed its citizens.

That is why this Administration, from its first days in office, has tenaciously pursued a dual-track strategy that offers Iran a path to reclaim its place among the community of Nations while making clear that we, along with our partners in the international community, would apply and enforce increasingly powerful and sophisticated sanctions on Iran if it continues to refuse to satisfy its international obligations with respect to its nuclear program. As we have repeatedly made clear, Tehran faces a choice: it can address the call of the international community to give up its nuclear ambitions and be permitted to reintegrate itself diplomatically, economically and financially into the world community, or it can continue down its current path and face ever-growing pressure and isolation.

**Increasing Pressure on Iran**

Since my last appearance before this Committee, the scope, intensity, and impact of U.S. sanctions on Iran have expanded through the enactment of legislation, the adoption of Executive orders (E.O.s), and the energetic implementation and enforcement of the entire sanctions framework. These efforts have heightened the economic pressure and imposed a very significant strain on the Iranian regime.

*Designating Iranian Banks and Their Financial Partners*

When I last appeared before the Committee, I described the Administration's extensive efforts to implement the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (CISADA). CISADA calls for the exclusion from the U.S. financial system of any foreign financial institution that knowingly facilitates significant transactions or provides significant financial services for Iranian financial institutions designated in connection with Iran's nuclear or missile proliferation activity, or its support for international terrorism.

The mere fact that we have CISADA at our disposal has been sufficient to drive the overwhelming majority of banks away from business with Iran's designated banks, isolating those Iranian banks from the global financial system. To date we have employed this authority against two foreign banks, China's Bank of Kunlun and Iraq's Elaf Islamic Bank,<sup>1</sup> for facilitating millions of dollars' worth of transactions for several designated Iranian banks. Were there any question about our willingness to apply CISADA sanctions, these actions clearly demonstrated that we will target sanctionable activity, wherever it may occur.

*Targeting the Central Bank of Iran and Iran's Oil Revenues*

Just over a year later, in December 2011, the President signed into law the National Defense Authorization Act for Fiscal Year 2012 (NDAA), which threatens CISADA-like consequences—that is, terminating or restricting correspondent account access to the U.S.—for foreign financial institutions that transact with the Central Bank of Iran (CBI) in a way not authorized by U.S. law. Significantly, the NDAA also marked a new phase in our sanctions campaign by targeting Iran's economic lifeline: its oil exports.

The logic behind the measures in the NDAA is two-fold. First, it seeks to isolate the CBI from the international financial system—a process begun in November 2011

<sup>1</sup> On May 17, 2013, Treasury removed sanctions on Elaf Islamic Bank following the bank's significant and demonstrated change in behavior, including an intensive course of action to stop the conduct that led to the CISADA sanction, freezing the designated Iranian bank EDBI's bank accounts, and reducing its overall exposure to the Iranian financial sector.

when we designated the entire jurisdiction of Iran as a “primary money laundering concern” under Section 311 of the USA PATRIOT Act. These actions undercut the CBI’s ability to facilitate the conduct of designated Iranian banks and to support Iran’s illicit activities within Iran and abroad.

Second, because the CBI is the primary bank into which Iran receives oil payments, the NDAA intensifies economic pressure on the regime. To prevent Iran from benefiting from a spike in oil prices that might be caused by a rapid reduction of Iranian oil in the global market, the NDAA was designed to encourage Iran’s oil customers to undertake significant but incremental reductions in their Iranian oil imports, giving customers and alternative suppliers a measure of time to adjust and accommodate this reduction. This law—working in tandem with our efforts targeting Iran’s access to the international financial system—has had an enormous impact on Iran’s oil revenues.

#### *Locking Up Iran’s Oil Revenues*

The impact of the NDAA was further enhanced by a powerful measure contained in the Iran Threat Reduction and Syria Human Rights Act of 2012 (TRA) that entered into effect on February 6, 2013. Under Section 504 of the TRA, any country that has received an NDAA “significant reduction” exception—meaning that its banks can pay Iran for its significantly reduced oil imports without risk of correspondent account sanctions—must now ensure that those revenues are used only to facilitate bilateral trade or humanitarian trade. Iranian oil-import revenue cannot be repatriated to Iran, transferred to a third country, or used to facilitate third-country trade, except for humanitarian purchases. This is a very powerful provision, as it effectively “locks up” Iranian revenues in the few countries that still buy Iranian oil and denies Iran the free use of its diminishing oil revenue.

#### *Tightening the Sanctions Regime Through Executive Orders*

To further enhance the pressure on Iran, over the last year the President has issued a series of Executive orders (E.O.) targeting Iranian activity—including one yesterday that takes aim at Iran’s currency and its automotive sector, and expands sanctions against those supporting the Government of Iran.

With this order, the Treasury Department, in consultation with the State Department, is authorized to impose sanctions on foreign financial institutions that conduct certain significant transactions for trading in Iran’s currency, the rial, or maintaining significant rial accounts outside Iran. We have seen that the value and stability of the rial is of great importance to the regime. This new measure will limit the use of the rial in international transactions; places additional restrictions on Iran’s ability to gain access to its foreign reserves; and isolates Iran further from the international financial system and commercial markets.

In addition, the Executive order targets another major sector of Iran’s economy—its automotive sector. Iran’s automotive industry is a significant contributor to its overall economic activity, generating funds that help prop up the rial and the regime. With this Executive order, we will be able to sanction persons and financial institutions that knowingly engage in transactions for the supply of significant goods or services used in connection with the automotive sector of Iran.

This E.O. also positions us to target those who provide material support to the GOI. Now, subject to certain exceptions, anyone who materially assists, sponsors, or provides financial, material, or technological support to persons identified by Treasury as the GOI is exposed to potential sanctions.

In addition to this action, I would like to highlight two Executive orders in particular that we have used to target Iran’s sanctions evasion efforts and to put further pressure on its energy exports.

In response to Iran’s continued abuse of the financial sector, the President in February 2012 issued E.O. 13599. Among other things, E.O. 13599 blocks all property of the Government of Iran, including the Central Bank of Iran, and allows us to identify for sanctions any person—Iranian or non-Iranian—who acts for or on behalf of the Iranian Government, regardless of the type of activity. Under this Executive order we recently identified a Greek businessman, Dmitris Cambis, and a group of front companies for using funds supplied by the Government of Iran to purchase oil tankers, and then disguising the origin of the Iranian oil transported on those vessels.

In July 2012, the President issued E.O. 13622, which enhances the NDAA by authorizing sanctions on foreign banks and persons that facilitate the activities of, or provide material support to, the National Iranian Oil Company (NIOC) or its energy-trading subsidiary, the Naftiran Intertrade Company (NICO), or that facilitate the acquisition—from any party—of Iranian petroleum, petroleum products, or petrochemicals. This authority also gives us the ability to target those who provide

material support to the Central Bank of Iran or who sell gold to the Government of Iran. My colleagues at the State Department imposed sanctions on two petrochemical companies last week under this order, and we have used this measure to important effect in our engagement with foreign partners, warning countries about the risk of undertaking this conduct and, we believe, deterring it.

#### *Expanding Energy, Shipping, and Shipbuilding Sanctions*

Last, I would like to discuss a new authority, the Iran Freedom and Counter-Proliferation Act of 2012 (IFCA), which was enacted in January 2013 and becomes fully effective on July 1, 2013. IFCA expands our existing sanctions by giving us new tools to target Iran's ports, energy, shipping, and shipbuilding sectors, as well as Iran's supply of certain metals and industrial materials. It also provides for additional sanctions on banks that transact with any designated Iranian entity, not just those designated for WMD proliferation, terrorism, or human rights abuses, as well as entities identified as the Government of Iran. To help ensure this new legislation has the greatest impact possible, we have conducted extensive outreach to foreign Governments and companies to explain the ever-increasing risks that business, and financial transactions incident to that business, with Iran poses.

#### **Recent Administration Actions**

The pressure we have brought to bear on Iran is the result not only of the creation of additional authorities, but also the aggressive implementation and enforcement of those authorities. Since the beginning of 2012, Treasury, in consultation with our interagency partners, particularly the Department of State, has imposed sanctions on 38 individuals and 77 entities, and has added almost 200 aircraft and ships to the sanctions list. Within the past month alone, we have identified and sanctioned over 40 individuals and entities. I will briefly describe a few recent actions emblematic of our work to expose Iran's WMD proliferation activities, its sponsorship of international terrorism, its support to the brutal Assad regime, and its abuse of human rights.

#### *WMD Proliferation*

Disrupting and disabling Iran's WMD procurement networks and proliferation activities through the use of the counter-proliferation Executive order, E.O. 13382, remains one of our primary objectives. Over the past 8 years we have taken hundreds of actions under E.O. 13382. Building on this, less than 2 weeks ago, we took action against six individuals and entities for their roles in a support and procurement network for Iran Air, which we designated in June 2011 for providing services and support to the IRGC, Ministry of Defense and Armed Forces Logistics and Iran's Aerospace Industries Organization. At the same time we designated an additional eight companies and individuals for their connections to the IRGC and NIOC or Iran's nuclear or missile programs. Last month, we designated an Iranian financial institution—the Iranian Venezuelan Bi-National Bank—as engaging in financial transactions on behalf of a previously designated Iranian bank. That brought to 28 the number of Iranian financial institutions that have been designated under either E.O. 13382 or the counterterrorism Executive order, E.O. 13224. Notably, each of these designated Iranian-linked financial institutions can trigger CISADA sanctions, meaning that any foreign financial institution that knowingly facilitates significant transactions for any of these 28 financial institutions risks losing its access to the U.S. financial system.

This action follows the designations of some 15 entities in November and December of last year that targeted the international procurement operations of Iran's Atomic Energy Organization of Iran (AEOI), the Iran Centrifuge Technology Company (TESA), and Iran's uranium enrichment efforts.

#### *Terrorism*

As we focus on Iran's WMD programs, we remain mindful that Iran is still the world's foremost State sponsor of international terrorism, in particular through its Islamic Revolutionary Guard Corps—Qods Force (IRGC—QF). Iran continues to provide financial and military support to several terrorist organizations, including Lebanese Hizballah, which is responsible for the bombing last summer of a tourist bus in Burgas, Bulgaria.

In November 2012 we exposed a senior IRGC—QF officer and senior official of the Iraqi terrorist group Kata'ib Hizballah (KH), which is backed by the IRGC—QF and whose training has been coordinated with Lebanese Hizballah in Iran. KH is responsible for a rocket attack that killed two U.N. workers in Baghdad and for numerous other acts of violence in Iraq. Treasury also maintains vigilant watch over the activities of al-Qa'ida operatives working out of Iran in an effort to expose and isolate them. In October 2012, for example, we designated a key facilitator for al-

Qa'ida, the latest in a series of actions exposing some half a dozen members of al-Qa'ida operating in Iran, under an agreement between Iran and al-Qa'ida.

#### *Syria*

Iran's financial, material, and logistical support for the Assad regime's brutal campaign of violence against its own citizens also remains an area of intensive focus. Last year the President exposed the IRGC-QF for its support to the Syrian General Intelligence Directorate—a key instrument of Assad's repression—in the Annex to E.O. 13572, which targets those responsible for human rights abuses in Syria. We have also taken action under this authority against the IRGC-QF's commander Qasem Soleimani and his deputy, as well as the Iranian Ministry of Intelligence and Security, Iran's primary intelligence organization. As part of the effort to expose Iran's role in abetting Assad's atrocities, Treasury has also targeted Iran's national police, the Law Enforcement Forces, along with its chief Ismail Ahmadi Moghadam and his deputy, which have also aided the Syrian regime's crackdown.

Iran's support to the Assad regime also is clearly reflected in Hizballah's aid to the Assad regime. As we observed last year when we designated Hizballah and its leadership for providing support to the Government of Syria under E.O. 13582, Iran has long provided Hizballah with military, financial, and organizational assistance. Iran's IRGC-QF has led these efforts, working with Hizballah to train Syrian Government forces and establish and equip a pro-Assad militia in Syria that has filled critical gaps in Syria's military.

We also continue to focus on Syria and Iran's ongoing proliferation activities. Last year, for instance, we sanctioned Iran's SAD Import Export Company under E.O. 13382 for acting on behalf of Iran's Defense Industries Organization, itself sanctioned under this authority, for shipping arms to the Syrian military and supplying goods for the production of mortars.

#### *Human Rights*

The people of Syria are only the latest to suffer from Iran's wanton disregard for human rights. Its own citizens, as we have witnessed for decades, continue to bear the brunt of the regime's abuses. Under E.O. 13553, Treasury and State have the authority to sanction Iranian officials who are responsible for or complicit in serious human rights abuses against the people of Iran on or after June 12, 2009. E.O. 13606, issued in April 2012, among other things targets serious human rights abuses against the Iranian people by or on behalf of the Government of Iran, recognizing these abuses may be facilitated by technology. These Executive orders complement other authorities in CISADA, the TRA, and E.O. 13628 that target persons who transfer goods or technology likely to be used by or on behalf of the Government of Iran in serious human rights abuses or that have engaged in censorship activities against the people of Iran.

Last week we employed these authorities against one individual and two entities that had facilitated abuses of human rights of the Iranian people, including by denying the Iranian people free access to information. These actions included sanctions against the Committee to Determine Instances of Criminal Content (CDICC), which identifies sites that carry forbidden content and reports them for blocking, and another entity that sought to interfere with outside satellite programming. We further took action against the Supreme Leader's deputy chief of staff for his role in directing serious violations of human rights by the intelligence and security services. Under E.O. 13628, we have also sanctioned the Islamic Republic of Iran Broadcasting and its managing director, the Iranian Cyber Police, and nearly a dozen other entities and individuals for their involvement in abusing the human and democratic rights of Iran's citizens.

At the same time we are working to ensure that the Iranian people can exercise their universal human rights. Last week the Treasury Department, in consultation with the State Department and subsequent to a waiver under the Iran Iraq Arms Non Proliferation Act, issued a General License authorizing the exportation from the U.S. or by U.S. persons of certain hardware, software, and related services. This license will allow U.S. companies to provide the Iranian people with more secure personal communications technology to connect with each other and with the outside world.

We continue to keep close watch on events in Iran, especially as the upcoming presidential elections draw near, and will not hesitate to expose those who help the Iranian Government to deny Iranians their democratic and human rights.

#### *Sanctions Evasion*

As Iran is turned away from reputable international financial institutions and partners, it increasingly relies on deception and concealment to evade international sanctions to meet its financial needs. We have worked tirelessly to expose those who



aid these efforts. Just over 2 weeks ago, we identified for sanctions five senior leaders of NIOC and several of its overseas subsidiaries, including the head of NICO, Seifollah Jashnsaz. These individuals have been deeply involved in Iran's circumvention of international sanctions on behalf of its energy sector. Earlier last month we designated a UAE exchange house, Al Hilal Exchange, and a trading company, Al Fida International General Trading, for providing services to Iran's Bank Mellat, which we designated in 2007 for providing banking services to Iran's nuclear entities. These companies conspired to provide foreign exchange to Bank Mellat in a manner intended to obscure Mellat's involvement. Earlier last month the Central Bank of the UAE revoked the license of Al Hilal exchange for major regulatory and anti-money laundering compliance violations. And in April the Administration exposed a major network run by Iranian businessman Babak Zanjani, including banks in Malaysia and Tajikistan, that helped move billions of dollars on behalf of the Iranian regime, including tens of millions of dollars to an IRGC company.

### **Impacts on Iran**

The international sanctions regime—of which our sanctions are just one, albeit very important, part—has had a significant effect on key sectors of the Iranian economy, as well as on the Iranian economy as a whole. More importantly, these economic effects have had an impact on Iran's leadership. Perhaps the clearest evidence of this comes from the recent negotiating sessions in Almaty, Kazakhstan. During those meetings, the Iranian side sought sanctions relief in exchange for concessions on their nuclear program. They would not have done so had the impact of sanctions not affected their calculus.

#### *Petroleum Sector Impacts*

U.S. and EU sanctions on Iran's petroleum sector have been particularly powerful. Of the more than 20 countries that imported oil when the NDAA went into full effect on June 30, 2012, only a handful continue to do so today. Iran's crude oil exports have dropped by over one million barrels per day, or some 50 percent, between the enactment of the NDAA and early 2013. The EU's decision to ban the import of oil into Europe, effective in mid-2012, contributed in no small part to this fall. These lost sales cost Iran between \$3 billion and \$5 billion a month.

#### *Shipping Sector Impacts*

As our authorities have expanded to encompass Iran's petroleum sector, we have also used them to target Iran's ability to export its primary commodity. Under E.O. 13599, we identified Iran's primary crude shipper, the National Iranian Tanker Company (NITC), over two dozen of its affiliates and over 60 of its vessels. Like the Islamic Republic of Iran Shipping Lines (IRISL), which our sanctions have largely driven out of business, NITC has sought to deceive the world maritime community, by changing the names of its vessels, turning off its transponders and engaging in ship-to-ship transfers to obscure the origin of Iranian oil. While these evasion efforts may work for a short while, they are not sustainable and are eventually detected, as last month's action against the Cambis network's Sambouk Shipping FZC clearly demonstrates.

#### *Economic Impacts*

As Iran finds it increasingly difficult to earn revenue from petroleum sales and to conduct international financial transactions, Iran's economy has been severely weakened. Iran's own economic mismanagement has only exacerbated these effects.

Take, for instance, the broadest measure of Iran's economic activity, its gross domestic product (GDP). Treasury assesses that in 2012 Iran's GDP fell by some 5 to 8 percent—the largest drop since 1988, the final year of the Iran–Iraq war, and the first contraction in 20 years. This decline has impacted the Government of Iran's budget, causing it to run in 2012 its largest deficit in 14 years, which could amount to some 3 percent of GDP. We believe Iran's GDP will continue to shrink in 2013 in the face of reduced Government and consumer spending and declining oil exports, as well as the ramping up of additional sanctions.

Iran's economic contraction is manifest in its recent budget bill, which projects almost 40 percent less oil revenue than did the previous year's budget law. To help make up the shortfall, Iran's parliament is currently considering tax increases of some 38 percent. And in March, Iran's Supreme Audit Court released figures showing that for the first 9 months of the Iranian year only 53 percent of projected budget revenues had been realized.

We have also begun to see the impact of the bilateral trade restriction in Section 504 of the TRA, which went into effect in February. This measure has limited Iran's access to its foreign exchange reserves and impeded the Government of Iran's ability

to support the rial. Supported by our extensive outreach efforts, this powerful provision is rendering Iran's reserves increasingly inaccessible.

Iran's currency also has been hit hard. At the beginning of 2012, one U.S. dollar purchased 16,000 rials in the open market. As of April 30 of this year, one dollar was worth about 36,000 rials (see , Chart 1, appended). The open market value of the rial has lost over two-thirds of its value in the last 2 years.

Faced with a rapidly depreciating rial, in September 2012 the Central Bank of Iran established a Currency Trading Center (CTC) to allocate foreign exchange for certain preferred imports at a preferential rate of about 24,000 rials to the dollar. Apparently faced with dwindling supplies of hard currency, just a few weeks ago the CBI substantially limited the list of imported goods that qualified for the CTC's preferential rate.

Inflation, partly due to the volatility and depreciation of the rial, is another telling metric. As of April 20, 2013, the official Statistics Center of Iran 12-month average inflation rate was approximately 30 percent, while the point-to-point inflation rate was nearly 39 percent. Independent analysis suggests the actual inflation rate is significantly higher.

These figures become increasingly stark when we compare Iran to its neighbors or similarly situated countries. Compared to groupings of countries in the Middle East and Africa, Iran's stock of foreign capital, as measured by the Bank of International Settlements, is down 57 percent for the 2-year period ending December 2012, representing a reduction in lending of some \$9.5 billion. This figure contrasts with a 13 percent increase in BIS banks' lending exposure to all developing countries (see, Chart 2, appended). This shortage of capital is at least one reason why Iran's automobile sector is now encountering significant difficulties, manufacturing at some 50 percent of nominal capacity and facing substantially reduced exports.

#### **Next Steps**

Despite our success in increasing pressure on Iran, we have yet to see the regime change its fundamental strategic calculus regarding its nuclear program. Nonetheless, the Administration remains convinced that sanctions pressure has an important role to play in helping to bring about a negotiated resolution. Accordingly, our commitment to the dual-track strategy—and to applying ever more effective and potent economic and financial pressure on Iran—has never been greater.

We look forward to continuing to work with Congress on this endeavor. We have had productive discussions with this Committee on how to best proceed with respect to new legislation, and we support measures that will help us make meaningful progress toward enhancing pressure on the regime. I am confident that this Committee will remain actively engaged with the Administration in shaping a common approach to new legislation. As we move forward to sharpen the choice for the Iranian regime, we stand ready to work hand-in-hand with this Committee and the Congress.

Let me briefly share with you some thoughts on where we go from here.

#### *Increasing the Government of Iran's Isolation*

First, we will continue to identify ways to isolate Iran from the international financial system. We will do so by maintaining our aggressive campaign of applying sanctions against individuals and entities engaged in, or supporting, illicit Iranian activities and by engaging with the private sector and foreign Governments to amplify the impact of these measures. As part of this effort we will also target Iran's attempts to evade international sanctions through the use of nonbank financial institutions, such as exchange houses and money services businesses. And we will explore new measures to expand our ability to target Iran's remaining links to the global financial sector.

In particular, we are looking carefully at actions that could increase pressure on the value of the rial. In that connection, we will continue to actively investigate any sale of gold to the Government of Iran, which can be used to prop up its currency and to compensate for the difficulty it faces in accessing its foreign reserves. We currently have authority under E.O. 13622 to target those who provide gold to the Iranian Government and, as of July 1, IFCA will expand that authority to target for sanctions the knowingly selling gold to or from anyone in Iran for any purpose.

#### *Targeting Additional Sources of Revenue*

Second, we will continue to target Iran's primary sources of export revenue. In addition to oil and petroleum products, Iran exports substantial volumes of petrochemicals. Current authorities allow us to target those who purchase or acquire these commodities, as well as the financial institutions that facilitate these transactions. We believe targeting these actors, as well as those on the supply side of

the equation in Iran, may offer a meaningful opportunity to gain additional leverage.

*Engaging With International Partners*

Third, with State, we will maintain our robust engagement and outreach efforts to foreign Governments and the private sector. Treasury regularly meets with foreign officials and financial institutions to explain our sanctions, to warn them of the risks of doing business with Iran, and to encourage them to take complementary steps. In response, we have seen jurisdictions and companies the world over respond positively to these overtures, multiplying the force of our sanctions many times over. As we have for CISADA and the NDAA, we have already begun to engage with foreign countries, banks, and businesses on the implications of IFCA, and will continue to do so as we move forward in our implementation of this important legislation.

*Aggressive Enforcement*

The Administration campaign to target Iran's proliferation networks, support for terrorism, sanctions evasion, abuse of human rights, and complicit financial institutions is without precedent. It will only continue and grow more robust as Iran's failure to meet its international obligations persists. As I believe we have amply demonstrated, we are relentless in pursuing those who facilitate Iran's illicit conduct or otherwise enable the regime. That will continue unabated.

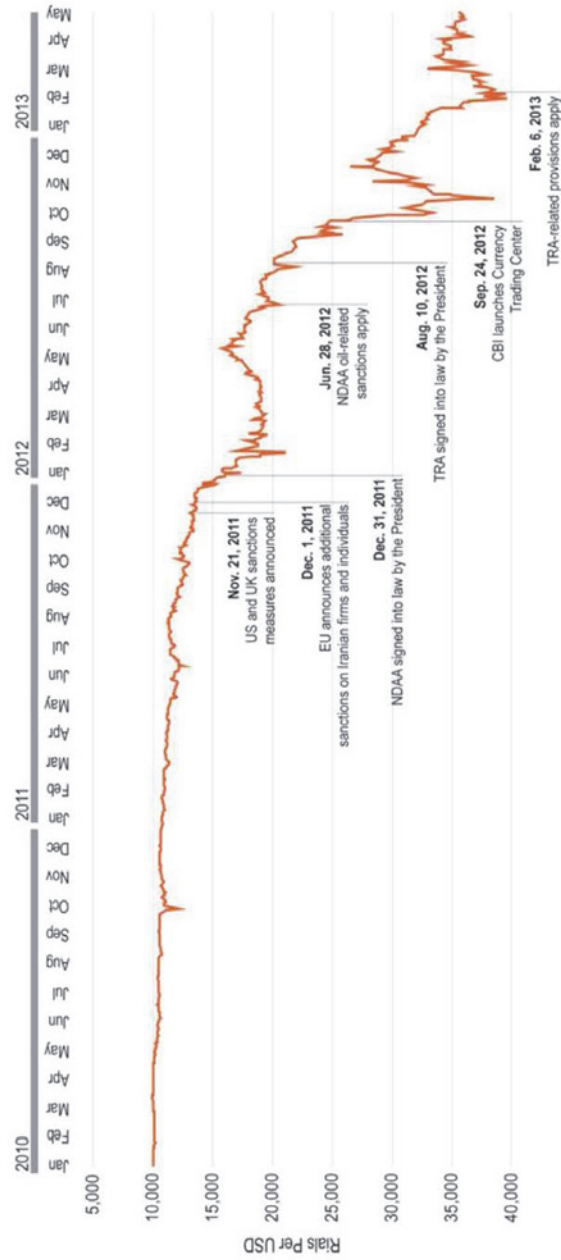
**Conclusion**

Despite our efforts to isolate and pressure Iran, we know there is far more to do.

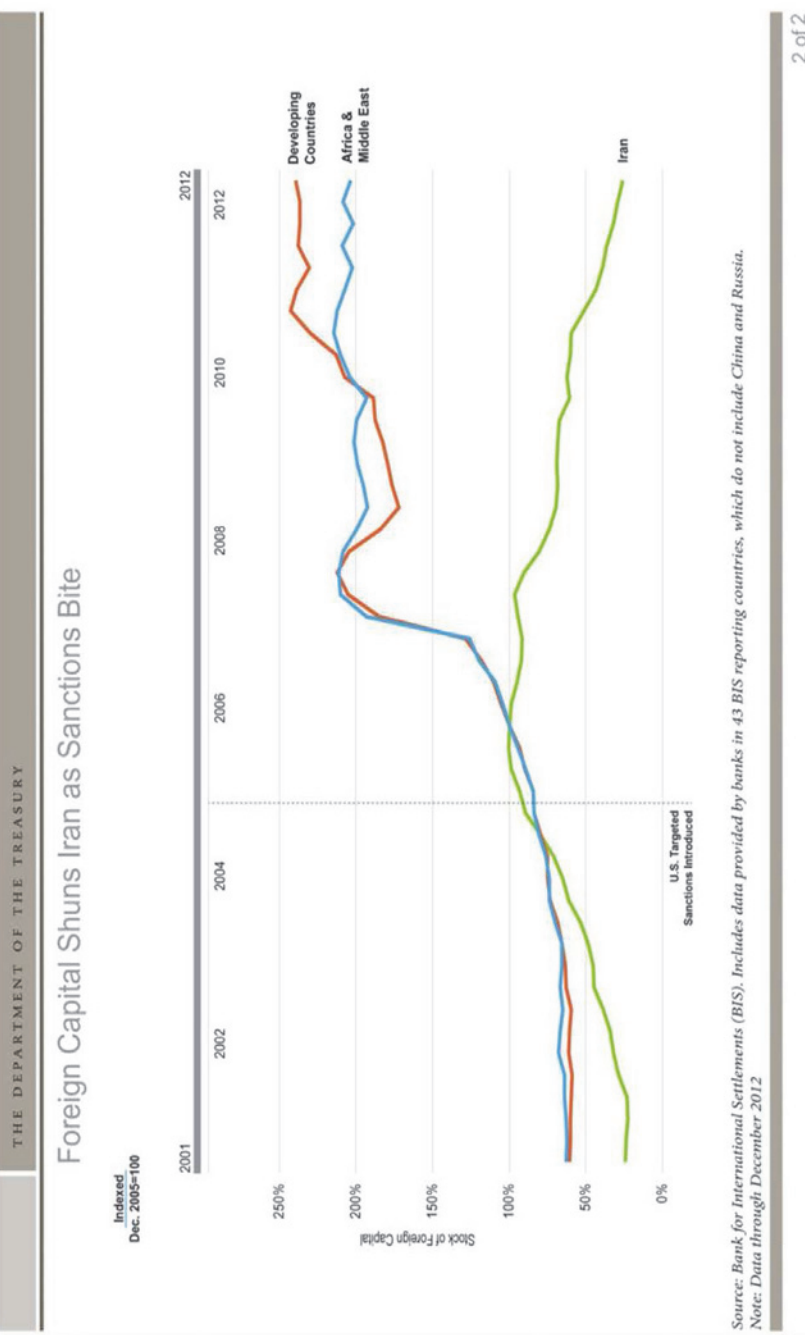
As Secretary Lew has said, "We will exhaust all diplomatic and economic means we can." What remains to be seen, he noted, is whether this will "change the mind of the regime so that it [is] ready to, in a diplomatic process, give up the pursuit of nuclear weapons. That is the goal."

I know this Committee shares this objective, and I look forward to working with you and your colleagues in the Congress to advance our efforts to achieve it.

## Currency Sharply Weaker Over Last Two Years



Source: Foreign Press



**PREPARED STATEMENT OF ERIC L. HIRSCHHORN**  
 UNDER SECRETARY FOR INDUSTRY AND SECURITY, DEPARTMENT OF COMMERCE  
 JUNE 4, 2013

Mr. Chairman, Senator Crapo, Members of the Committee, I welcome the opportunity to appear before the Committee today to discuss the Department of Commerce's role in administering and enforcing U.S. export control policies towards Iran. Commerce and its Export Administration Regulations (EAR) play an important role both in enforcing and administering U.S. export controls against Iran. We also work closely with our colleagues at the Departments of State, Homeland Security (DHS), Justice, and the Treasury, as well as other agencies, to implement and enforce the U.S. export restrictions on Iran effectively.

Commerce investigates possible exports or re-exports to Iran in violation of the EAR. In most instances an export or re-export of an item subject to the EAR without Treasury authorization will constitute a violation of the EAR.

The Bureau of Industry and Security's (BIS) Export Enforcement (EE) unit has approximately 100 Federal law enforcement agents in nine field offices throughout the United States supported by investigative and intelligence analysts at BIS headquarters. The field offices are located in Boston, New York, Miami, Chicago, Dallas, Los Angeles, San Jose, Houston, and the Washington, DC, area. EE is on the front lines of the effort to prevent illicit transfers of U.S.-origin items which would do us harm if they fell into the wrong hands. EE is the only Federal law enforcement body solely dedicated to investigating and enforcing violations of U.S. export controls.

In addition, BIS has seven Export Control Officers (ECOs) stationed in six foreign locations—Abu Dhabi, Singapore, Beijing, Hong Kong, New Delhi, and Moscow. These ECOs are BIS enforcement agents temporarily assigned to the U.S. & Foreign Commercial Service. They have regional responsibility for end-use monitoring of U.S. exports in 28 countries.<sup>1</sup> The ECOs conduct pre-license checks and post-shipment verifications to confirm that U.S.-origin items will be, or are being, lawfully used. The ECOs also confirm that the items have not been diverted to prohibited end users or end uses within the country or illegally transshipped to another country, such as Iran. In fiscal year 2012, BIS conducted 994 end-use monitoring visits in 53 countries based on concerns identified by Commerce and its interagency partners. The focus of these visits is to uncover unauthorized transshipments or re-exports to restricted destinations such as Iran. The end-use monitoring coverage provided by these ECOs is augmented by U.S. Embassy personnel in other overseas locations as well as targeted "Sentinel Program" visits led by domestically based BIS Special Agents. In addition, as part of the Export Control Reform effort to transfer less sensitive munitions items (e.g., certain parts and components of U.S. Munitions List (USML) end items) to the Commerce Control List (CCL), BIS and State, under its Blue Lantern program, are working together to coordinate end-use checks where USML and CCL items are colocated, so that both organizations can expand the number of overall end-use checks conducted by the U.S. Government.

When a foreign party is determined to be an unreliable recipient of U.S.-origin commodities and technology through end-use monitoring, BIS may take a variety of actions, such as screening future license applications involving that party, referring a lead for further investigation by EE field offices, or taking an administrative action, including designation on the Entity List or Unverified List. In FY2012, BIS's Office of Enforcement Analysis (OEA) issued 160 leads to Office of Export Enforcement (OEE) field offices (a 46 percent increase over FY2011) to identify suspect transactions and parties. More than 65 percent of these leads focused on Iranian procurement efforts. OEA already has exceeded this number of leads in the first 7 months of FY2013. These leads, based on intelligence, export data, and other information available to EE, allow Special Agents to detect, prevent, interdict, and enforce illicit diversions by front companies.

OEE agents investigate a variety of export violations and diversion of U.S.-origin items to Iran is a major focus. Iran continues to engage in widespread efforts to illegally acquire U.S.-origin commodities, software, and technology. In fact, 300 of the OEE's 749 open cases (40 percent) involve Iran as the ultimate recipient of diverted items. Much of our enforcement activity and analysis is focused on stopping the diversion of such items to Iran via transshipment hubs in the Middle East and South-east Asia.

<sup>1</sup> The 28 countries covered by BIS ECOs are: Bahrain, China, Cyprus, Egypt, India, Indonesia, Iraq, Israel, Jordan, Kuwait, Lebanon, Malta, Oman, Pakistan, Qatar, Malaysia, the Philippines, Russia, Saudi Arabia, Singapore, South Korea, Syria, Taiwan, Thailand, Turkey, the United Arab Emirates, Vietnam, and Yemen.

BIS aggressively investigates violations of the EAR involving Iran and employs a variety of tools to prevent and punish such violations, including criminal fines and imprisonment, civil penalties, temporary denial orders (TDOs), the BIS Entity List, and asset forfeitures.

BIS is very concerned with the prohibited sale, export, re-export, supply, or diversion of U.S.-origin censorship and monitoring hardware to regimes such as Iran. BIS has launched a number of investigations related to this issue and many are still ongoing. On May 30, 2013, the U.S. Government issued a General License to authorize the export of a variety of personal communications equipment and software, as well as related services, from the United States or by U.S. persons to Iran. However, for activities that fall outside the purview of that General License or are contrary to its purpose to facilitate access to safer communication tools for Iranians, BIS has worked to prevent the diversion of U.S.-origin telecommunications and networking equipment to Iran, which may use such equipment to repress their citizens. While I cannot comment on any specific investigation, such investigations remain a priority for BIS.

Another priority for BIS, and an area where my agency has effectively applied the full range of enforcement tools available, is the illicit diversion of U.S.-origin aircraft and components to Iran. For example, BIS has also made effective use of its authority to issue Temporary Denial Orders, or TDOs, to prevent diversion of U.S.-origin items to Iran. Temporary Denial Orders prohibit the participation of targeted parties in any export, re-export, or transfer involving items subject to Commerce's jurisdiction, and are issued for renewable periods of 180 days to prevent imminent export violations. In addition to TDOs, BIS may deny export privileges for longer periods of time in conjunction with other civil and administrative penalties.

In 2012, BIS issued two notable TDOs to prevent illicit diversion to Iran. In April, BIS issued a TDO against Sayegh Aviation Group and related parties involved in the acquisition of Boeing 747 aircraft for use by Iranian entities.<sup>2</sup> As a result of this action, BIS believes all aircraft involved are now located in the UAE and that Sayegh Aviation is complying with U.S. export regulations. In December, BIS issued a TDO against Delfin Group USA LLC and related parties to prevent the diversion to Iran of polymers and lubricating oils, including aviation engine lubricating oils.

Another example of successful use of a TDO involved Mahan Air. In 2008 BIS issued a TDO against Mahan Air, an Iranian airline sanctioned by the Treasury Department, for using its commercial aircraft to funnel weapons and personnel to Syria. Through the use of this TDO, which remains in effect today, BIS has prevented the delivery or use of over \$100 million in aircraft, engines, and spare parts. Additionally, in 2010 the United Kingdom-based Balli Group, which was involved in obtaining Boeing 747 aircraft for Mahan Air, received a \$2 million criminal fine. Balli also entered into a civil settlement with BIS and OFAC involving a \$13 million civil penalty, coupled with an additional \$2 million suspended civil penalty. When Balli did not make a timely penalty payment, BIS revoked the suspension of the \$2 million civil penalty, and the total civil penalty of \$15 million—the largest civil penalty imposed under the EAR to date—has been collected in full.

Another powerful tool BIS has employed to prevent the unauthorized export or re-export of U.S.-origin commodities and technology to Iran is the Entity List. The Entity List generally prohibits entities acting contrary to the national security or foreign policy interests of the United States from receiving items subject to the EAR. Because companies and banks worldwide screen against this list, publicly naming entities involved in illicit export activity helps prevent export violations by discouraging resellers and other parties from doing business with targeted entities and the procurement networks of which they are a part.

Since October 2009, BIS has added 80 persons located in countries including Belarus, China, Germany, Hong Kong, Lebanon, Malaysia, Norway, Singapore, South Africa, and the United Arab Emirates to the Entity List based on evidence that they were involved in diversion of U.S.-origin items to Iran. For example, in September 2012, BIS added Seyed Mousavi and his company, Seyed Mousavi Trading, located in the UAE and Iran, to the BIS Entity List. Mousavi and his company knowingly acquired U.S.-origin items for transshipment to Iran through the UAE and Hong Kong. Further, the exports to Iran included shipments to a person on the Denied Persons List.

Last year, BIS added a company to the Entity List that may be unlawfully diverting U.S.-origin items to Iran. As a result of this listing, BIS received an industry tip from a company that discovered through routine compliance screening that a proposed customer was possibly related to the listed entity. BIS is investigating this related company and has detained several shipments to prevent possible diversion

<sup>2</sup> [http://www.bis.doc.gov/news/2012/aban\\_air\\_TDO\\_04232012.pdf](http://www.bis.doc.gov/news/2012/aban_air_TDO_04232012.pdf)

to Iran. This example demonstrates the power of the Entity List in enlisting industry assistance to enforce the EAR and disrupt the transshipment of U.S.-origin items to Iran. BIS is also working to strengthen the Unverified List to increase U.S. Government insight into potential transactions of concern involving foreign parties whose bona fides (i.e., suitability and reliability as recipients of U.S. exports) BIS has been unable to verify. This action will provide more clarity to exporters on how to address “red flags” involving transactions with foreign parties where BIS has been unable to complete an end-use check.

In addition, the EAR incorporate by reference certain persons on OFAC’s restricted parties’ lists. Examples include Weapons of Mass Destruction Proliferators and their Supporters, Specially Designated Terrorists, Specially Designated Global Terrorists and Foreign Terrorist Organizations. The EAR license requirements supplement those of the other U.S. Government agencies.

BIS also maintains a consolidated list of persons sanctioned by the State Department and OFAC. The consolidated electronic list is free for exporters, re-exporters and transferors to use to ensure that transactions do not involve proscribed parties. The consolidated list now includes almost 27,000 entries. In 2012, the monthly average number of views on the Consolidated List Link on [export.gov/ECR](http://export.gov/ECR) was 21,388. There were 256,600 views in CY2012. In addition, more than 12,000 companies have signed up for free automatic email feeds whenever the consolidated list is updated.

The consolidated list facilitates compliance, especially for small- and medium-sized companies who may lack the resources to stay current with all the lists. Moreover, this widely used list takes advantage of the automated name screening infrastructure that exists in banks, trading companies and manufacturing enterprises worldwide. This approach discourages resellers and other parties from doing business with targeted entities and the procurement networks they represent. It also prevents resellers and other parties from doing business with the targeted entities unless they seek a license from BIS, which in most cases will be denied.

Finally, asset forfeitures are an important enforcement tool. For example, in October 2012 a BIS investigation resulted in the sentencing of Mohammad Reza “Ray” Hajian to 4 years in prison, 1 year of supervised release, and the forfeiture of \$10 million. Between 2003 and 2011, Hajian conspired with others to unlawfully export sophisticated, enterprise-level computers and related equipment from the U.S. to Iran. In fiscal year 2013 to date, BIS investigations, including joint investigations with other Federal agencies, have resulted in monetary forfeitures totaling over \$600 million.

Commerce implements the “export sanction” when chosen in the context of imposing sanctions pursuant to the Iran Sanctions Act of 1996 (ISA), the missile sanctions law contained in the Arms Export Control Act (AECA) and Export Administration Act (EAA) of 1979, the Iran, North Korea, and Syria Nonproliferation Act (INKSNA), as amended, of 2006, amended. When the Secretary of State determines, in consultation with other agencies, that a person has engaged in sanctionable activities and decides to impose a ban on exports as a sanction, Commerce denies export license applications for items on the CCL to that person.

Commerce also provides input to the Office of the Director of National Intelligence’s (ODNI) annual report on countries of diversion concern mandated by CISADA Title III. If the President designated a country as a destination of diversion concern, BIS would require a license for the export, re-export, transit or transshipment of that category of items through the designated country. Any license application would almost certainly be denied.

Additionally, Commerce cooperates closely with the Department of State to address diversion concerns in key transshipment hubs around the globe. In addition to leveraging national compliance and enforcement authorities to address the diversion of U.S.-origin commodities and technology to Iran, BIS engages with international partners, including important transshipment hubs, to secure bilateral trade.

I would like to conclude by briefly addressing the Administration’s efforts concerning Export Control Reform initiative, and how that will affect our Administration and enforcement of the export restrictions against Iran. As part of this initiative, the Administration has established the Information Triage Unit (ITU), which is housed at the Department of Commerce, with the participation of the Departments of State, Defense, Energy, Treasury, and ODNI. The ITU is responsible for assembling and disseminating relevant information, including classified information, from which licensing agencies can make informed decisions on proposed exports requiring a U.S. Government license. This multi-agency screening unit coordinates the review of separate processes across the Government to ensure that all departments and agencies have a full data set from which to make decisions on license applications. In its first year, the ITU produced more than one thousand products sup-



porting the most sensitive transactions, including those undergoing higher level interagency review. This ensures that licensing officers and policy makers are fully informed about the bona fides of proposed exports in deciding whether to approve license applications.

Likewise, the Export Enforcement Coordination Center (E2C2), established by the President under Executive Order 13558, is a central element of the Export Control Reform initiative. A permanent center with dedicated staff, the E2C2 is responsible for enhanced information sharing and coordination among law enforcement and intelligence agencies regarding possible violations of U.S. export control laws. The E2C2 is housed in and led by the Department of Homeland Security with the participation of 18 Federal agency partners, and it enables these agencies to better deploy their resources without duplicating or undermining each other's efforts. The Director of the Center is from the Department of Homeland Security, and BIS and the Federal Bureau of Investigation (FBI) provide the E2C2's two Deputy Directors.

Additional resources would increase BIS's operational effectiveness. The President's Fiscal Year 2014 budget requests \$8.3 million to augment BIS enforcement capabilities. These include additional analysts, Special Agents, and three new ECOs, two of which would be dedicated to conducting end-use checks in Turkey and the UAE, countries proximate to Iran.

We stand ready to work with the Committee and the Senate to maintain an aggressive and effective export enforcement program.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR CRAPO  
FROM WENDY SHERMAN**

**Q.1.** Some maintain that only when Iran's economy presents unacceptable risk to the political survival of the Supreme Leader might he decide to make the nuclear deal that needs to be made. Round after round of increasing and strengthening of sanctions has occurred without yet seeing any closure on the nuclear issue.

As a matter of policy, then, instead of another "strengthening" does the U.S. need to focus now on embargo to change the Supreme Leader's behavior more quickly?

Do you have any support that this would actually harm our allies more than it would change the behavior of the Iranian regime?

Which is harder for the world to live with, in your evaluation, an embargoed Iran in the short term, or the Supreme Leader with a nuclear weapon?

**A.1.** The United States will continue to increase the pressure on Iran as we seek a diplomatic solution to international concerns over Iran's nuclear program. We have built an international coalition to increase the economic and diplomatic pressure on Iran, and we will continue to use all existing authorities and pursue new measures to further isolate Iran.

We are committed to aggressively enforcing our existing authorities, and are considering additional measures that will support our ultimate goal of finding a peaceful solution to our concerns about Iran's nuclear program. We robustly implement all sanctions legislation, and we are taking the necessary steps to implement the sanctions under the "Iran Freedom and Counter Proliferation Act" subtitle of NDAA 2013. These sanctions, which come into effect on July 1, 2013, will send a further message to Iran that sanctions will intensify without progress at the negotiating table.

On February 6, 2013, amendments to section 1245 of NDAA 2012 went into effect. One aspect of these amendments requires the few remaining countries that import Iranian crude oil to keep the payments for those imports in bank accounts in the importing country. These countries all have significant trade imbalances with Iran, meaning that Iran does not have access to a significant amount of hard currency derived from its energy sector. Iran's mismanagement of its economy, combined with sanctions' impact, has sparked severe inflation in Iran and continues to drain its foreign currency reserves. We continue to work with our partners around the world to target Iran's access to foreign currency and continue to pursue reductions in Iran's crude oil exports.

U.S. sanctions have targeted the Iranian regime, not the Iranian people. It is important that we continue to show the Iranian people that our sanctions maintain important exceptions to benefit them. We want to make sure that our sanctions continue with their current approach of targeting Iran, not the partners in our international coalition. That is why we have supported measures like those Congress included in the Iran Freedom and Counterproliferation Act that build out sanctions on key Iranian sectors while still allowing some legitimate trade by private citizens and companies in Iran.

**Q.2.** The overall sanctions efforts imposed by the UN, the U.S., and its allies have not achieved the intended goal of reaching a sustained suspension of Iran's uranium enrichment activities. To the contrary, Iran has actually been seen to accelerate its enrichment processes.

From your respective agency's perspective, why have the U.S. and allied economic sanctions imposed so far against Iran been less than successful in this respect?

Do we need better implementation and enforcement of sanctions from the Administration or by our allies and partners?

**A.2.** This Administration has implemented sanctions against Iran more actively than any of its predecessors, taking full advantage of the laws passed by Congress and the regulations crafted by the Executive Branch to apply the maximum possible pressure on Iran. Our sanctions and pressure campaign takes many different forms, using all available authorities.

The measure of sanctions effectiveness is not how many targets are subjected to penalties, though that is a major part of it. It is the pressure we place on the Iranian leadership by continuing to economically isolate them from the world. The Iranian nuclear program is a critical strategic interest to the Iranian Government.

That our efforts have yet to succeed should not be taken to indicate that they will not eventually succeed. The effort to increase pressure and build partnerships has been invested to ensure that, as the effects of sanctions increase, so does international frustration with the Iranian regime.

**Q.3.** Ambassador Daniel Fried recently was named to a newly established position as "sanctions coordinator" at the State Department as an enforcement partner to Under Secretary Cohen.

What set of issues contributed to creating the position and can you provide specific examples of how the coordinator is expected to improve or already has improved enforcement?

**A.3.** In conducting its first Quadrennial Diplomacy and Development Review, the Department determined that sanctions are an increasingly important tool in U.S. foreign policy, with serious implications for our conduct of diplomatic relations. The Department decided, therefore, to set up an office that to harmonize U.S. sanctions policies with our broader foreign policy, as well as coordinate the Department's internal work on sanctions issues.

The Coordinator is tasked with enforcing and developing new sanctions, as well as ensuring that sanctions are used in a manner commensurate with U.S. policy interests. Working with the Department of Treasury and other offices in the Department of State, the Coordinator has already helped to organize our work on sanctions related issues around the world. The Office of the Coordinator will continue to consider ways to make sanctions decisions more efficient and effective.

**Q.4.** Sanctions must be fully and vigorously enforced, even as part of any "engagement policy" with Iran. There is concern that State is not fully implementing sanctions within its purview, particularly with regard to the repeated, almost automatic provision of exceptions to countries still buying Iranian crude.

Are the exceptions actually working to “enable” the excepted countries’ Iranian crude imports, are they even necessary anymore in the face of loosening oil markets?

In your calculations, are these incremental reductions seen to have any impact on Iran’s breakout capability for assembling a nuclear weapon?

**A.4.** At the outset, let me underscore that exceptions granted to our partners are benchmarks of the success of our sanctions, not a concession to our friends. They are the quid pro quo, created in statute, and have permitted our partners to take steps to reduce their purchases of Iranian oil.

Since the enactment of the NDAA, more than 20 countries have reduced or eliminated crude oil purchases from Iran. Today only six countries still purchase Iranian crude oil and at levels far below where they were only 18 months ago. This represents the success of our diplomatic efforts—to deny export revenues to Iran, to build a coalition of partners, and to promote stability in international markets.

These reductions have sharpened the choice for Iran’s leadership between reintegration into the international community and increased isolation, pressure, and economic hardship.

This administration shares your goal of maximizing pressure on Iran to encourage it to resolve our concerns with its nuclear program. In implementing the NDAA sanctions we have helped countries significantly reduce their crude oil purchases from Iran, and increase their own energy security by diversifying suppliers. We have made an impact here: Iran produces less oil—and exports are down by roughly 1 million barrels a day, shrinking revenues which could otherwise support Iran’s nuclear program.

Every country, by necessity, is focused on its energy security. Maximizing impact on Iran requires us to sustain our coalition. Coalition partners will do more as they have the confidence that their energy security can be assured.

**Q.5.** Under CISADA’s stricter controls on trade with Iran, the President is authorized to designate countries for not making sufficient efforts to control diversion of certain materials to Iran. Licenses for exports of those materials to such “Destinations of Diversion Concern” would be subject to a presumption of denial.

Is there any heightened concern about possible diversion of authorized exports to unauthorized destinations or end-users raised by the Administration’s policy shift to put “higher fences around fewer items”?

**A.5.** You refer to the Administration’s Export Control Reform initiative. The reform initiative will enhance, not ease, the prohibitions on destinations like Iran. All munitions items, regardless of their sensitivity and regardless of which list controls them, will continue to be subject to U.S. arms embargoes. In addition, military items currently controlled on the Commerce Control List in Export Control Classification Numbers (ECCNs) ending in “-018” will also become subject to these arms embargoes as well, resulting in a clearer, more comprehensive application of tightened U.S. embargoes.

**Q.6.** The UAE and China have each presented diversion and proliferation challenges.

Can you briefly outline the nature and seriousness of the roles of China and the UAE in the proliferation threat, and U.S. efforts to assist in strengthening the controls there?

Has any country yet been designated as a “Possible Destination of Diversion Concern”? If not, what is the standard used to make such a determination?

**A.6.** China has improved its export control system in the past two decades. We continue to engage with China on the need to improve the enforcement and implementation of its export controls and to prevent Chinese entities from supplying proliferation-sensitive technology to programs of concern. We seek to cooperate to improve Chinese companies’ internal compliance with export controls, as well as to build the Chinese Government’s capabilities to consistently enforce its own export control laws. We engage China on a wide range of nonproliferation issues, from export controls and counterproliferation, to nuclear doctrine and strategy, to civil nuclear cooperation, to engagement in multilateral fora like the United Nations and control regimes like the Biological Weapons Convention and the Chemical Weapons Convention.

The UAE takes seriously its international obligations to implement UN sanctions against Iran and is an active partner with the USG on sanctions enforcement and counterproliferation issues. To this end, it is active in disrupting or preventing transfers to Iran of items of proliferation concern and has been reporting these efforts to the UN. The UAE continues to make significant progress in its efforts to establish an export control system consistent with international standards and limit transshipments of proliferation concern. In August 2007 the UAE passed comprehensive strategic trade control legislation providing the basis for an effective and enforceable export control system.

The President has not publicly designated any Destinations of Diversion Concern, a determination that would be based on a report from the Office of the Director of National Intelligence. The Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (CISADA), Section 302, requires a report to Congress identifying countries that are (1) allowing the diversion of items that are prohibited for export to Iran under an UNSCR or of U.S.-origin items on the Commerce Control List or U.S. Munitions List that (2) would make a material contribution to Iran’s development of WMD, ballistic missiles, advanced conventional weapons, or its support for international terrorism. Therefore, in order for a country to be named as a Destination of Diversion Concern, the President must determine that both elements of the reporting requirement must be met. These requirements have not been met to date.

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**RESPONSES TO WRITTEN QUESTIONS OF SENATOR TOOMEY  
FROM WENDY SHERMAN**

**Q.1.** In order for sanctions to force the Iranian Government to change its nuclear policy in a positive direction, I believe the Government must be put in a position where they simply are unable to pay their bills. When Government workers don’t get paid, when

imports can't be financed, when subsidies' payments aren't made, that will be the point at which Iran may decide to change course. As I look at our sanctions implementation, I'm concerned that our policy is designed to bleed Iran slowly and not cause the economic crisis that would force Iran's hand. We appear to be on a path to cause economic collapse in Iran 2 years from now when they may already have a nuclear weapon.

Despite the success of our sanctions, Iran's oil revenues last year were still the fourth highest on record. Within the next 6 months to a year, is it possible to drive Iran into a situation in which it cannot pay its bills? If so, what will it take to achieve that policy goal?

**A.1.** Sanctions are essential to changing the Iranian regime's political calculus on its nuclear program. Iran's leaders admit publicly that sanctions are hurting their economy, especially targeted sectors such as energy and finance.

International sanctions and Iran's own economic mismanagement are taking a toll on its economy, isolating Iran economically and politically.

The Administration is implementing a number of measures to increase the economic pressure on Iran. On February 6, 2013, changes to the significant reductions required the few remaining countries that import Iranian crude oil to keep payments for those imports in bank accounts in the importing country. The funds kept in this restricted bank account may only be used to pay for permitted, bilateral trade between the importing country and Iran. Many of the remaining countries that import crude oil from Iran have a significant trade imbalance with Iran. This means that a significant amount of hard currency derived from its energy sector is now largely inaccessible to Iran, and may further sharpen the decision for Iran's leadership.

**Q.2.** In December, then-Secretary of State Clinton renewed an exemption to our Iran sanctions that targeted Chinese financial transactions with the Central Bank of Iran, citing a significant reduction in Beijing's purchases of Iranian oil. But the publicly available data showed no such reduction had taken place. That renewal expires this week.

Do you expect that the exemption for China will be renewed?

What standard is the State Department using to determine what qualifies as a "significant reduction"?

Will you provide the Committee with the data that supports the Department's exemption decisions?

**A.2.** The Secretary of State reviews a wide variety of classified and unclassified sources in evaluating whether an individual country has met the NDAA "significant reduction" threshold. Determinations are made taking into consideration the totality of the relevant circumstances. China's NDAA exception expires on June 5, 2013, and the Secretary will consider all relevant data in determining whether China has met the legal requirements for an extension.

China and India are the two largest consumers of oil from Iran. Even a small percentage reduction from either country may result in a more significant reduction of Iran's oil revenue than a large

percentage decrease from small importers, and may have a dramatic impact on Iran's bottom line.

In a closed session, I am happy to brief further on how significant reductions are calculated.

**Q.3.** What are your expectations for the upcoming Iranian elections? Am I correct that we shouldn't expect any change in Tehran's nuclear policy as a result of these elections?

**A.3.** Iran's unelected Guardian Council, which is unaccountable to the Iranian people, has disqualified hundreds of potential candidates based on vague criteria in the run up to the June 14 elections. The Council narrowed the list of almost 700 potential candidates down to eight officials based solely on who the regime believes will represent its interests, rather than those of the Iranian people.

The lack of transparency makes it unlikely that the slate of candidates represents the will of the Iranian people, who should be given every opportunity to choose a president who best embodies their views. We have called on authorities to abide by their international commitments and allow Iranians to exercise their universal rights and freedom of expression.

The ultimate authority for the nuclear file rests with the Supreme Leader.

Therefore, we hope Iranian authorities will be ready to engage in serious negotiations with the P5+1 regardless of the outcome of the elections.

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#### **RESPONSES TO WRITTEN QUESTIONS OF SENATOR COBURN FROM WENDY SHERMAN**

**Q.1.** Are there any unintended impacts from the Iran sanctions on our economic development efforts in Afghanistan, such as negative impact to the value of the Afghani, impacts to the development of Afghan businesses from competition from cheap Iranian exports, such as cement and bricks, or the economic impact from the decline in remittances and need to absorb Afghan migrant workers expelled from Iran? What is the potential for destabilization of the Afghan economy to reverse security gains made over the past few years?

**A.1.** We have an ongoing dialogue with the Afghan Government on how it can best comply with Iran sanctions without undermining its economic development. While the sanctions regime shows no sign of destabilizing the Afghan economy as a whole, it does pose challenges for the Afghan business environment across a number of sectors, including banking, energy, the return of migrant workers, and the import of basic consumer goods via Iranian ports. The U.S. Government is working to help Afghanistan develop economic options by facilitating stronger economic and commercial relationships with other neighbors.

The United States remains committed to our strategic partnership with Afghanistan, including the transition from a donor-driven to private sector-led economy. We are working to ensure the development gains of the last decade are maintained, and to support sustainable Afghan economic growth.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR CRAPO  
FROM DAVID S. COHEN**

**Q.1.** Some maintain that only when Iran's economy presents unacceptable risk to the political survival of the Supreme Leader might he decide to make the nuclear deal that needs to be made. Round after round of increasing and strengthening of sanctions has occurred without yet seeing any closure on the nuclear issue.

As a matter of policy, then, instead of another "strengthening" does the U.S. need to focus now on embargo to change the Supreme Leader's behavior more quickly?

**A.1.** The United States, working with its international partners, has imposed the world's most comprehensive and far-reaching set of sanctions on Iran. These authorities target the key pillars of Iran's economy, including its financial, energy, petrochemical, shipping, and automotive sectors as well as its weapons development and proliferation activities. International sanctions on Iran have slashed its oil revenues, isolated it from the international financial system, and led to significant economic contraction. We believe our sanctions measures have been key to bringing Iran back to the negotiating table. Until Iran enters into meaningful commitments with respect to its nuclear program, we will continue to increase the pressure.

**Q.2.** Do you have any support that this would actually harm our allies more than it would change the behavior of the Iranian regime?

**A.2.** A critical element of making our sanctions on Iran effective is maintaining the coherence of our global partners' efforts, which we believe is necessary to influence Iran's calculus. As we regularly convey to countries around the world, any short term economic difficulties they may experience as a result of sanctions on Iran pales in comparison to the financial and security impacts of a nuclear-armed Iran.

**Q.3.** Which is harder for the world to live with, in your evaluation, an embargoed Iran in the short term, or the Supreme Leader with a nuclear weapon?

**A.3.** This Administration has consistently maintained that it is unacceptable for Iran to have a nuclear weapon. If Iran maintains its current posture and refuses to meaningfully address the international community's concerns regarding its nuclear program, we will pursue all available options to maximize the impact of our pressure strategy.

**Q.4.** The overall sanctions efforts imposed by the UN, the U.S., and its allies have not achieved the intended goal of reaching a sustained suspension of Iran's uranium enrichment activities. To the contrary, Iran has actually been seen to accelerate its enrichment processes.

From your respective agency's perspective, why have the U.S. and allied economic sanctions imposed so far against Iran been less than successful in this respect?

**A.4.** Because of the efforts of the United States and our international partners, Iran today is more isolated than it has ever been and it is facing pressures in all directions, especially on the eco-



conomic front. The President has made it clear that this Administration will not accept a nuclear Iran. Sanctions are an important tool in creating leverage for diplomacy and demonstrating to the Iranian regime that it has a clear choice—it can enjoy the benefits of inclusion in the international financial system that come from meeting its international obligations, or it will face isolation and increasingly powerful and painful sanctions by continuing to pursue a nuclear program. We will continue to implement economic sanctions on Iran as long as the Iranian regime fails to meet its obligations.

**Q.5.** Do we need better implementation and enforcement of sanctions from the Administration or by our allies and partners?

**A.5.** The implementation and enforcement of robust economic sanctions is critical to achieving our policy of denying Iran a nuclear weapon. The Administration takes very seriously its responsibility to implement and enforce U.S. sanctions on Iran and has not hesitated to act against those who violate or circumvent our sanctions.

**Q.6.** Ambassador Daniel Fried recently was named to a newly established position as “sanctions coordinator” at the State Department as an enforcement partner to Under Secretary Cohen.

What set of issues contributed to creating the position and can you provide specific examples of how the coordinator is expected to improve or already has improved enforcement?

**A.6.** I defer to the State Department to explain the nature and genesis of this position. Treasury and State regularly confer on sanctions strategy and policy. We work closely with Ambassador Fried and his staff, and will continue to work collaboratively with State and our other interagency partners.

**Q.7.** The sanction imposed against the Bank of Kunlun was an important one for Treasury, and even though the Chinese bank had no correspondent relationship with the U.S., it may have had some ripple effects in China, maybe to some extent throughout Asia.

Did the sanction have any practical effect against its unsanctioned parent, the China National Petroleum Corporation, which in fact does business with the United States, or by implication, might any other parent company interpret this as a permissible way of conducting business?

**A.7.** Bank of Kunlun was sanctioned for providing significant financial services to more than half a dozen Iranian banks that had been designated by the United States for ties to Iran’s weapons of mass destruction programs or its support for international terrorism. This action had an impact within China and elsewhere where Kunlun had, but lost, correspondent relationships. We cannot speculate as to how this action was viewed by the China National Petroleum Corporation, but note that the United States Government aggressively targets any entity that violates our sanctions. To the extent other entities engage in similar sanctionable behavior, they will be exposed to U.S. sanctions.

**Q.8.** If the authority to sanction such parents were put in place, tomorrow, what effect would it have?

**A.8.** The United States Government currently has a number of authorities in place that allow us to target a wide range of activities.

To the extent that a parent company is involved in sanctionable activity, the United States already has the ability to target and sanction that company.

**Q.9.** Since July 2012, when the Administration signed an Executive Order with respect to gold, Iran has received more than \$6 billion, or about 10 percent of Iran's total oil exports for 2012, in gold. Gold exports to Iran, for the first quarter of this year amount to about 1.3 billion.

What are the primary and other uses of this gold trade, particularly with respect to Turkey and China?

**A.9.** As a general matter, most gold investments serve as hedges against holdings of riskier assets. We suspect Iranian persons that have purchased gold during the past year may be looking for a store of value in response to the effect of sanctions, which have contributed to the significant devaluation of Iran's currency and the overall lack of foreign investment in Iran.

Treasury has watched Iran's gold purchases very closely for any potential violations of Executive Order 13622, which from July 31, 2012, makes sanctionable the purchase or acquisition of precious metals, including gold, by the Government of Iran (GOI). Treasury has made very clear to Turkey, the UAE, and others involved in this trade our intention to pursue the financial networks and companies involved in selling or transferring gold to the GOI. As of July 1, 2013, under the Iran Freedom and Counter-Proliferation Act of 2012, persons that knowingly sell, supply, or transfer precious metals, including gold, to or from Iran, not just to the GOI, are exposed to sanctions. Treasury has a strong record of implementing our sanctions against Iran, and we will continue to aggressively target individuals, entities, or banks that engage in sanctionable activity, wherever they may be.

**Q.10.** In light of the Liberty Reserves money laundering case, is there any evidence of Iran, or North Korea, for that matter, using or having the ability to use virtual currencies to finance any of its trade or otherwise move money?

**A.10.** Money transmitters, including exchangers of virtual currencies and other new financial instruments and payment mechanisms, can be vulnerable to abuse by illicit actors in Iran, North Korea, and elsewhere, if not appropriately regulated. Treasury will continue to aggressively use its various authorities to combat and dissuade persons and companies from exploiting virtual currencies and other new payment mechanisms to conduct financial transactions on behalf of illicit actors.

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#### **RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARREN FROM DAVID S. COHEN**

**Q.1.** As you know, last year the Government settled an enforcement action against HSBC for laundering hundreds of millions of dollars over at least a 6-year period, helping drug lords and helping people who were trying to evade our sanctions against Iran. HSBC paid a very big fine, over a billion dollars, but some of us wondered why the Government didn't take HSBC to trial or at least look seriously at imposing stronger penalties, including closing down the

bank in the U.S. for a period of time or banning certain HSBC executives from banking. As we discussed at the hearing, last week, Public Citizen released some internal Treasury emails it received in response to a FOIA request. The documents were heavily redacted, so the amount of information publicly available is quite limited, but a couple things seem clear. First, in the fall of last year, Treasury officials were quite anxious to settle with HSBC. A Treasury working group was set up to scour through the violations, and senior Treasury officials were assured that enforcement officials were “moving as quickly as possible to put together administrative penalty actions.” You expressed at the hearing that officials had been working on the HSBC matter for some time, but it is clear that the pace of activities among senior officials picked up last fall. The second thing that is clear from the documents is that, at the same time, State officials in New York were starting to press forward with charges of their own against HSBC. The emails also show that reporters began to contact Treasury about rumors that its senior officials had discouraged the Justice Department from leveling any criminal charges, and the emails show that Treasury officials were suddenly talking about, in their words, “atmospherics.”

Why was Treasury motivated to quickly settle the HSBC case in the fall of 2012?

**A.1.** I testified at the hearing that the timing for Treasury’s settlement of the HSBC matter was driven by the completion of our careful consideration of the facts and circumstances, in coordination with the appropriate Federal and local agencies involved in the case.

**Q.2.** Was it because of what Ben Lawsky, New York’s Superintendent of Banks, referred to last week as a “a dose of healthy competition among regulators”? Or was the urgency related to efforts to head off more aggressive actions by other regulators?

**A.2.** The New York Department of Financial Services was not involved in the HSBC case and had no bearing or impact on Treasury’s investigation. Throughout the investigation of the HSBC case, Treasury worked cooperatively with the numerous Government entities involved in the case to reach a joint resolution.

**Q.3.** Treasury was clearly worried about “atmospherics,” but Treasury redacted a whole lot of material about what that meant. What atmospherics was Treasury worried about? I don’t think Treasury officials should ever base their determinations relating to enforcement strategy on politics or so-called “atmospherics.” Treasury lawyers should focus on enforcing the law and making sure that even the biggest and most powerful financial institutions are held accountable when they engage in money laundering—nothing more. So I am hoping to have a better sense of the context of the emails that were so heavily redacted.

**A.3.** As I testified at the hearing, the email you quote was neither written by me nor sent to me. Nonetheless, I agree that “atmospherics” or politics should not drive enforcement decisions, and in my decision making at Treasury, they never have—and that includes the enforcement action against HSBC.

More broadly, the Treasury Department supports vigorous enforcement of the law and believes that no individual or institution is above the law regardless of size or any other characteristic. Although Treasury does not have statutory authority to impose criminal penalties—the authority to seek Federal criminal charges rests exclusively with the Department of Justice—Treasury does have authority to investigate potential violations of U.S. economic sanctions, as well as certain anti-money laundering laws and regulations, and to impose civil penalties. Treasury has a clear record of aggressively pursuing investigations and enforcement actions against both U.S. and foreign financial institutions that violate those laws and regulations.

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**RESPONSES TO WRITTEN QUESTIONS OF SENATOR COBURN  
FROM DAVID S. COHEN**

**Q.1.** What are the unintended consequences of driving Iran away from the official banking system to “underground” or non-State actors, such as Hawalas or Hizbollah networks? Can we ever completely stop the flow of funds through these underground networks?

**A.1.** While nonbank financial institutions, including hawalas and exchange houses, are legitimate and accepted types of remitters, their exploitation by illicit actors, including Iran, is of continuing concern. Supervisory challenges in some jurisdictions can exacerbate this concern as nonbank financial institutions, absent effective supervision, may lack the robust controls necessary to detect and deter money laundering and terrorist financing. Treasury regularly engages with foreign jurisdictions to encourage them to enhance supervision of nonbanks and with foreign financial institutions to help them better understand the risks of exposure to Iranian finance.

To confront the use of nonbank financial institutions by Iran, Treasury issued guidance to the financial sector on Iran’s deceptive use of exchange houses in January 2013. Then in May 2013, Treasury imposed sanctions on two money transfer businesses in the UAE for providing financial services to previously designated Iranian banks. Treasury remains alert to Iran’s attempts to circumvent sanctions and will continue to target individuals and entities that facilitate such activity.

Treasury has also targeted Hizballah’s abuse of exchange houses. In April 2013, Treasury identified two Lebanese exchange houses as financial institutions of “primary money laundering concern” under Section 311 of the USA PATRIOT Act, in part for providing financial services to Hizballah. Treasury will continue to employ its authorities to protect the integrity of the U.S. and international financial system from terrorist abuse.

**Q.2.** Does a further lack of transparency of cash flows pose long-term risks that should be taken into consideration?

**A.2.** As Iran is forced to resort to more deceptive means to gain access to much needed financial services, it will naturally face higher transaction costs, a diminished ability to finance trade, and may also be pushed to less transparent financial channels. For that reason, Treasury issued the guidance on Iran’s abuse of exchange

houses in January 2013. In May 2013, Treasury imposed sanctions on two money transfer businesses, UAE-based Al Hilal Exchange and Al Fida International General Trading, for providing financial services to previously designated Iranian banks. Treasury remains alert against any attempts by Iran to circumvent sanctions and will continue to target individuals and entities that facilitate such activity.

**Q.3.** How can we impact the increased use of barter trade, such as the potential for Iran to trade oil for North Korean nuclear technology or Indian agricultural products?

**A.3.** The U.S. Government has a number of tools in its arsenal to target those involved in facilitating sanctionable trade with Iran, regardless of the form of exchange. Many of our sanctions apply to the supply of certain goods to Iran, such as gold, or to goods intended for its energy, shipping, and auto sectors, whether Iran barter for or buys them. Treasury will robustly enforce these new sectoral sanctions, which came into effect July 1, 2013.

#### **RESPONSES TO WRITTEN QUESTIONS OF SENATOR CRAPO FROM ERIC L. HIRSCHHORN**

**Q.1.** Under CISADA's stricter controls on trade with Iran, the President is authorized to designate countries for not making sufficient efforts to control diversion of certain materials to Iran. Licenses for exports of those materials to such "Destinations of Diversion Concern" would be subject to a presumption of denial.

Is there any heightened concern about possible diversion of authorized exports to unauthorized destinations or end-users raised by the Administration's policy shift to put "higher fences around fewer items"?

**A.1.** Export control reform is meant to deal directly with diversion efforts by focusing U.S. Government resources on higher risk transactions. This is accomplished by increasing the number of dedicated enforcement officials that monitor dual use and munitions exports. These include the addition of Export Enforcement Special Agents, analysts, and Export Control Officers to the existing cadre of Department of Homeland Security and Federal Bureau of Investigation officials that have complementary enforcement authorities. In addition, the Department of Commerce brings unique administrative authorities that address diversion (e.g., fines, temporary denial orders, Entity List, and Unverified List designations). Moreover, where items are permitted to be exported to close allies and partners under License Exception Strategic Trade Authorization, new chain of custody safeguards have been established along with re-export controls to provide Commerce with the ability to effectively monitor and enforce compliance.

**Q.2.** The UAE and China have each presented diversion and proliferation challenges.

Can you briefly outline the nature and seriousness of the roles of China and the UAE in the proliferation threat, and U.S. efforts to assist in strengthening the controls there?

Has any country yet been designated as a "Possible Destination of Diversion Concern"? If not, what is the standard used to make such a determination?

**A.2.** [Pursuant to §§302 and 303 of P.L. 111-195 (CISADA), the Office of the Director for National Intelligence and the Department of State are the appropriate agencies to respond.]

To date, the Secretary of State has not announced any designations of countries as destinations of diversion concern.

Title III, Section 303 of CISADA requires the President to submit to Congress a report that designates as destinations of diversion concern countries whose Governments the President has determined have allowed substantial diversion of certain enumerated goods, services, or technologies to Iranian end-users or Iranian intermediaries. The President has delegated this designation-making authority to the Secretary of State. In determining whether to make such designations, the Secretary of State may draw on a report provided by the Director of National Intelligence (DNI) to the President, the Secretaries of Commerce, Defense, and Treasury, and the appropriate congressional committees pursuant to Title III, §302 of CISADA on an annual basis. We defer to the DNI to describe its report and to State to provide information on how it utilizes the report and any other sources in making designations.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR COBURN  
FROM ERIC L. HIRSCHHORN**

**Q.1.** How effective were the end-use monitoring visits conducted by your agency in 2012? What percentage of total export licenses granted does the 994 reported visits represent, and how many of these visits uncovered unauthorized transshipments or reexports to Iran?

**A.1.** BIS considers its end-use check (EUC) program to be a key part of an effective enforcement strategy to safeguard U.S. exports from unauthorized diversion. This strategy, in addition to end-use checks, includes outreach and education, including visits to exporters by Export Enforcement (EE) Special Agents, EE review of license applications, including Information Triage Unit development and review of bona fides reports on foreign transaction parties utilizing intelligence information, audits of exporters, evaluation of export transactions, and investigations. Unfavorable outcomes from the EUC program result in enforcement and other actions (e.g., criminal and administrative penalties, including Unverified List designations, heightened scrutiny of transaction parties, detentions). In FY12, approximately 75 checks uncovered unauthorized reexports to Iran. The checks, however, are purposely not all geared toward licensed exports given the amount of scrutiny that license applications undergo through the interagency process, and therefore, BIS does not utilize a ratio of checks to licenses as an enforcement metric. In FY12, approximately 50 percent of end-use checks were conducted on U.S. items exported without a license to identify diversion to countries like Iran, to which almost all controlled and uncontrolled items are prohibited for export or reexport. When taken as part of its broad enforcement strategy, BIS considers the end-use check program to be an effective inhibitor and identifier of unauthorized exports as it allows the U.S. Government to identify unreliable recipients of U.S. exports and take enforcement and other actions, including, where warranted, publicizing bad actors (e.g., via the Entity List) to inform the exporting public.