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IMPLEMENTATION OF IRAN SANCTIONS

HEARING

BEFORE THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

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CONTENTS

	Page
Hearing held on July 29, 2010	1
Statement of:	
Einhorn, Robert J., Special Advisor for Nonproliferation and Arms Control, U.S. Department of State; Daniel Glaser, Deputy Assistant Secretary for Terrorist Financing and Financial Crimes, U.S. Department of the Treasury; Joseph A. Neurauter, Deputy Associate Administrator, Office of Acquisition Policy, U.S. General Services Administration; and Joseph A. Christoff, Director, International Affairs and Trade, U.S. Government Accountability Office	15
Christoff, Joseph A.	42
Einhorn, Robert J.	15
Glaser, Daniel	26
Neurauter, Joseph A.	38
Jorisch, Avi, president, Red Cell Intelligence Group; and Mark Dubowitz, executive director, Foundation for Defense of Democracies	97
Dubowitz, Mark	106
Jorisch, Avi	97
Letters, statements, etc., submitted for the record by:	
Christoff, Joseph A., Director, International Affairs and Trade, U.S. Government Accountability Office, prepared statement of	44
Connolly, Hon. Gerald E., a Representative in Congress from the State of Virginia, prepared statement of	134
Dubowitz, Mark, executive director, Foundation for Defense of Democracies, prepared statement of	108
Einhorn, Robert J., Special Advisor for Nonproliferation and Arms Control, U.S. Department of State, prepared statement of	18
Glaser, Daniel, Deputy Assistant Secretary for Terrorist Financing and Financial Crimes, U.S. Department of the Treasury, prepared statement of	28
Issa, Hon. Darrell E., a Representative in Congress from the State of California, prepared statement of	9
Jorisch, Avi, president, Red Cell Intelligence Group, prepared statement of	101
Maloney, Hon. Carolyn B., a Representative in Congress from the State of New York, article dated March 6, 2010	63
Neurauter, Joseph A., Deputy Associate Administrator, Office of Acquisition Policy, U.S. General Services Administration, prepared statement of	40
Quigley, Hon. Mike, a Representative in Congress from the State of Illinois, prepared statement of	136
Towns, Chairman Edolphus, a Representative in Congress from the State of New York, prepared statement of	3

IMPLEMENTATION OF IRAN SANCTIONS

THURSDAY, JULY 29, 2010

HOUSE OF REPRESENTATIVES,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The committee met, pursuant to notice, at 10:18 a.m., in room 2154, Rayburn House Office Building, Hon. Edolphus Towns (chairman of the committee) presiding.

Present: Representatives Towns, Maloney, Cummings, Kucinich, Tierney, Clay, Connolly, Quigley, Kaptur, Davis, Van Hollen, Cuellar, Foster, Speier, Driehaus, Chu, Issa, Burton, Duncan, Jordan, Flake, Fortenberry, Chaffetz, Luetkemeyer, and Cao.

Staff present: John Arlington, chief counsel—investigations; Kwane Drabo, investigator; Brian Eiler, investigative counsel; Linda Good, deputy chief clerk; Adam Hodge, deputy press secretary; Carla Hultberg, chief clerk; Mike McCarthy, deputy staff director; Steven Rangel, senior counsel; Ophelia Rivas, assistant clerk; Ron Stroman, staff director; Gerri Willis, special assistant; Alex Wolf, professional staff member; John Cuaderes, minority deputy staff director; Rob Borden, minority general counsel; Jennifer Safavian, minority chief counsel for oversight and investigations; Frederick Hill, minority director of communications; Kurt Bardella, minority press secretary; Benjamin Cole and Seamus Kraft, minority deputy press secretaries; Justin LoFranco, minority press assistant and clerk; Tom Alexander, minority senior counsel; Christopher Bright, minority senior professional staff member; Mark Marin and Brien Beattie, minority professional staff members; and Sharon Casey, minority executive assistant.

Chairman TOWNS. The committee will come to order.

Good morning and thank you all for being here.

The United States has banned nearly all trade with Iran. We have done so for good reason: the extremists who currently rule Iran are a major threat to the safety and security of their own people and to the rest of the world.

It is vitally important to the national security of the United States and its allies to persuade the Iranian regime to end its quest for nuclear weapons and to end its support for terrorism.

Since 1995, our nation has attempted to do that, by banning U.S. companies from doing any business in Iran. In 1996, the Iran Sanctions Act provided for sanctions against foreign firms that invest in Iran's energy sector.

It was revealed earlier this year that the Federal Government has awarded more than $100 billion in contract payments, grants, and other benefits over the past 10 years to foreign and multi-

national American companies while they were doing business in Iran.

So, not only are some companies doing business in Iran, but they are also getting Government contracts at the same time. Obviously, Federal agencies all need to get onto the same page.

Earlier this month, Congress acted to strengthen economic sanctions against Iran. Recognizing that banking is the life blood of international trade, the Comprehensive Iran Sanctions, Accountability, and Divestment Act imposes tough new restrictions on banks and insurance companies. It also requires Federal contractors to certify that they are not doing business with Iran.

However, for U.S. sanctions to be successful, they must be fully implemented and enforced, and I am looking forward to hearing from our witnesses about how they intend to do that.

I particularly want to thank the State Department and the Treasury Department for agreeing to testify at today's hearing.

I understand that both agencies are in the process of investigating companies that may be doing business with Iran. We certainly don't want to compromise ongoing investigations, and in that regard I am going to ask the Members to be judicious in their questions.

Sanctions cannot just be a cat and mouse game where the Government tries to chase after companies who are evading sanctions and undermining global security in the name of profit. Companies, especially those doing business with the Government, need to take responsibility and avoid supporting the Iranian regime.

With each passing week, as Iran moves closer to developing nuclear weapons, the stakes are raised higher and higher and higher. Today, I look forward to hearing how we can ensure that economic sanctions are effectively implemented.

I now yield 5 minutes to the ranking member, the gentleman from California, Congressman Issa.

[The prepared statement of Chairman Edolphus Towns follows:]



Opening Statement of
Chairman Edolphus Towns

House Committee on Oversight and Government Reform

July 2, 2010

"Implementation of Iran Sanctions"

Good morning and thank you all for being here.

The United States has banned nearly all trade with Iran. We have done so for good reason: the extremists who currently rule Iran are a major threat to the safety and security of their own people and to the rest of the world.

It is vitally important to the national security of the United States and its allies to persuade the Iranian regime to end its quest for nuclear weapons and to end its support for terrorism.

Since 1995, our nation has attempted to do that, by banning U.S. companies from doing any business in Iran. In

1996, the Iran Sanctions Act provided for sanctions against foreign firms that invest in Iran's energy sector.

Despite these restrictions, GAO reports that Iran is obtaining U.S. military and dual-use goods that are illegally transshipped through intermediaries in third-party nations, primarily in the United Arab Emirates, Malaysia, and Singapore.

Moreover, it was revealed earlier this year that the Federal government has awarded more than $100 billion in contract payments, grants, and other benefits over the past 10 years to foreign and multinational American companies while they were doing business in Iran.

So, not only are some companies doing business in Iran, but they are also getting government contracts at the same time. Obviously, Federal agencies all need to get onto the same page.

Two weeks ago, Congress acted to strengthen economic sanctions against Iran. Recognizing that banking is the life blood of international trade, the Comprehensive

Iran Sanctions, Accountability, and Divestment Act (CISADA) imposes tough new restrictions on banks and insurance companies. It also requires Federal contractors to certify that they are not doing business with Iran.

However, for U.S. sanctions to be successful they must be fully implemented and enforced and I am looking forward to hearing from our witnesses about how they intend to do that.

I particularly want to thank the State Department and the Treasury Department for agreeing to testify at today's hearing.

I understand that both agencies are in the process of investigating companies that may be doing business with Iran. We certainly don't want to compromise ongoing investigations and in that regard I am going to ask the Members to be judicious in their questions.

Sanctions cannot just be a cat and mouse game where the government tries to chase after companies who are evading sanctions and undermining global security in the

name of profit. Companies – especially those doing business with the U.S. government – need to take responsibility and avoid supporting the Iranian regime.

With each passing week, as Iran moves closer to developing nuclear weapons, the stakes are raised higher. Today I look forward to hearing how we can ensure that economic sanctions are effectively implemented.

Thank you.

Mr. ISSA. Thank you, Chairman Towns, and thank you so much for holding yet another hearing on this important subject.

When we began, as a body, trying to figure out what to do with the religious-based extreme takeover, it was 1979. I was an Army lieutenant. The world was a very different place 31 years ago.

So although, for the most part, today we will be talking about sanctions, whether the President's outreached hand has been good or bad toward dissuading Iran on its nuclear ambitions, it is very clear to all of us who today have graying hair and 31 years ago were comparatively young, comparatively fit, and ready to bomb the hell out of Iran in order to get them to release our embassy people that they had taken in violation of international law, protocol, and any sense of common decency.

Mr. Chairman, nothing has changed in 31 years. Or has it? Thirty-one years ago, as the Ayatollah took over and "a sleight of hand" caused radical students to take our embassy, not the government, we all looked and said how do we resolve this. Well-meaning people, bipartisan and bicameral parts of Congress looked to try to find a way to work out a diplomatic solution. Day after day after day, throughout all the waning days of the Carter administration, people of good faith and good will tried to do the right thing without violence, and to no avail.

Mr. Chairman, only the coming of a President willing to do anything necessary to end the humiliation for the American people and this violation of world protocol brought an end to it.

I look forward today to hearing how actual sanctions with greater teeth, passed on a bipartisan basis in this Congress, are working. I look forward to a day in which not only will we be talking about Iran giving up its ambitions for nuclear weapons; a day in which Iran will realize that those sanctions will not just be lifted if they "stop trying to develop a nuke," but they also abandon their expansionist views of a Shia-greater state that goes from the Mediterranean to who knows where.

Mr. Chairman, this is about an organization that began on a lie, has continued a lie, and has transitioned over these many decades. At one time people thought it was a theocracy. I think people who have looked at Iran in more detail realize that, over time, all parts of government have become, to a greater extent, controlled by the Revolutionary Guard by people who come up through a very limited, very exclusive military background. That is how you move ahead in Iran.

But, at the same time, there is a religious vein. It is a vein of radical Islam, one that is willing to see people killed or kidnapped in Lebanon as early as the 1980's, one that continues to fund death and a lack of peace in the Middle East, particularly in the Lavant.

Mr. Chairman, I look forward to all of the good that can be done by this sanction. I look forward to hearing that it is working at last. But until or unless we can truly say we look forward to a day in which Iran becomes a part of the nations that obey all of the rules, including not exporting terrorism, not funding overthrow of peaceful governments, we will not have an Iran we can truly work with.

I am not an extremist. I am not a person who wants to use weapons. But if the only weapon we have doesn't work, America will

eventually have no choice but to use alternate means in order to prevent nuclear holocaust.

With that, Mr. Chairman, I look forward to the hearing and yield back.

[The prepared statement of Darrell E. Issa follows:]

EDOLPHUS TOWNS, NEW YORK
CHAIRMAN

DARRELL E. ISSA, CALIFORNIA
RANKING MINORITY MEMBER

ONE HUNDRED ELEVENTH CONGRESS

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Statement of Rep. Darrell Issa, Ranking Member

"Implementations of Iran Sanctions"

July 29, 2010

Thank you, Chairman Towns, for holding today's hearing. A nuclear-armed Iran would be a grave threat to global peace. The mullahs who preside over Iran's atomic effort are unimpressed by the Administration's diplomatic overtures, and it appears they have used the strategic pause afforded by the President's "outstretched hand" to intensify their nuclear ambitions.

Today we will consider how a failure to implement economic sanctions for more than a decade has failed to forestall Iran's nuclear program. This year, Congress passed with broad bipartisan support – and the President signed into law – the toughest sanctions against Iran to date. What remains to be seen, Mr. Chairman, is whether the President has finally mustered the resolve to meet the Iranian threat with strength, or if, in fact, his eighteen-month remedial education in foreign policy has yet to dissuade him from the path of soft diplomacy.

I intend to use the occasion of this hearing to discourage the President from granting waivers or otherwise circumventing trade restrictions and various punitive measures. Last month, CIA Director Leon Panetta reported that intelligence indicates Iran has already developed enough low-grade enriched uranium to produce nuclear weapons within 2 years. Clearly, the pace of Iran's nuclear effort has increased. The pace and determination of our response must overwhelm the Iranian ambition if we are to eliminate this threat.

Many Americans, Mr. Chairman, share my concern that this President does not understand the threat, and that he is ill-prepared to meet it. According to surveys, as many as 57 percent of Democrats, 59 percent of Independents, and 80 percent of Republicans think the President has not been tough enough on Iran.

Meanwhile, the President's reticence to support popular opposition to the Ahmadinejad regime has extracted an incalculable cost to our strategic efforts and the nation's moral standing.

Indeed, President Obama's general approach to Iran seems to be based on the absurd belief that the Iranian nuclear program has been encouraged by *American* belligerence and *American* diplomatic intransigence. In response President Obama has offered a course of conciliation and supplication. This response is beyond naïve, it is dangerous.

Much like Jimmy Carter before him, President Obama appears to have nurtured rather than halted Iranian aspirations. He has downgraded the role that American nuclear defenses play in deterring rogue states like Iran, and he has tied one hand behind our backs by unilaterally restricting the use of American power.

I have written you twice, Mr. Chairman, and requested a series of hearings to examine the full range of issues involved in our portfolio of national security concerns. To date, this is the first full committee hearing that you have called that deals with a substantive issue focusing on the significant foreign threats that we face.

I'm delighted that your caucus now acknowledges the advanced state of the Iranian nuclear program and appears to be unified in strong support of energy sanctions and other critical components of the Iranian economy.

I hope, Mr. Chairman, that together we can prevail upon the President to be perfectly clear with the American people about the progress Iran has made in the last eighteen months in obtaining nuclear weapons, and to join with us to ensure the full enforcement of the sanctions.

It is essential that this Administration clearly declare how it intends to manage and implement sanctions from this point forward. The American people have a right to know how the Administration intends to investigate possible violations and deal effectively with those who commit them. They also have a right to know whether the President intends to waive the sanctions, when he intends to do so, and under what circumstances a waiver is warranted from this Administration.

Again, thank you, Mr. Chairman for holding this hearing – which I look forward to being a series of hearings on this important issue. Our common commitment to preventing a nuclear-armed Iran presents this committee with a tremendous opportunity to work together on behalf of the American people.

###

Chairman TOWNS. I thank the gentleman for his statement.

Let me just indicate that we are going to have two opening statements on each side, 3 minutes, so you will select in terms of the two on your side.

I now yield 3 minutes to the gentlewoman from New York, Congresswoman Maloney.

Mrs. MALONEY. Thank you, Chairman Towns, for your leadership on this issue and for having this very important and timely hearing.

Iran is on a fast path toward achieving nuclear weapons capability. In Iran, a nuclear weapon would likely spell the end of the nuclear non-proliferation regime. If Iran acquires such a capability, nuclear weapons could spread throughout the region.

As Iran's nuclear capabilities have increased in the last few years, more than a dozen Arab states have discovered a newfound interest in peaceful nuclear energy. And if nuclear capabilities proliferate in the Middle East, they will spread across the world. The chances for nuclear technology to fall into the hands of terrorists will rise and we will all live in a much more dangerous world.

It is not just the United States that thinks so; five United Nations Security Council resolutions have mandated that Iran stop all its nuclear enrichment and reprocessing activities. And yet Iran has yet to heed the calls of the international community. Its brutal repression of the Iranian people continues unabated. Millions of Iranians rose up against a stolen election last summer, electrifying the entire world; it was inspiring. And according to the International Atomic Energy Agency, Iran has already stockpiled enough low-enriched uranium that, if further enriched, it would be enough for the cores of two nuclear weapons.

So this is very, very troubling and it underscores the importance of the hearing. Despite the efforts of President Obama to reach out to the Iranian government and to engage it diplomatically over the course of the last 18 months, the regimes in Tehran continue to spurn our efforts and that of our allies. That is why the United Nations Security Council adopted more stringent sanctions on Iran this past June; it is why the European Union announced this week the strongest set of sanctions on Iran it has ever proposed; it is why President Obama announced stepped up U.S. sanctions; and it is most assuredly why Congress overwhelmingly, last month, passed the Comprehensive Iran Sanctions, Accountability, and Divestment Act.

I strongly believe that, if fully implemented, this legislation, in combination with the new multilateral efforts, presents perhaps the best last hope of changing Iran's nuclear ambitions through diplomatic, economic, and political activity.

I would like to remind the committee that this is the fourth law that has been enacted over the past 14 years that imposes sanctions against Iran. We must ensure that it is the one that finally will make the difference and once and for all squash this enrichment activity.

I see that my time is up, but I have a great deal more to say. I ask unanimous consent to place my entire statement into the record.

Chairman TOWNS. Without objection, so ordered.

I now yield to the gentleman from Indiana, Congressman Burton for 3 minutes.

Mr. BURTON. Thank you, Mr. Chairman. I was one of the conferees on the Iran sanctions bill and I am not optimistic that it is going to work. But I would like to refer to some things that my predecessor, the young lady, just mentioned.

There have been three moves to try to control or get Iran to stop its nuclear program. In 1995, on March 15th, President Clinton signed an Executive order. A subsequent order was on May 8, 1995, and that banned virtually all trade with Iran. And Warren Christopher warned the International community that the path Iran was on was following the mirror image of states taken by other nations that sought nuclear weapons capabilities. Then in 1996 Congress passed the Iran and Libya Sanctions Act, and that was to encourage foreign persons to withdraw from the Iranian market, and it also was supposed to impose sanctions on any foreign entity that invested $20 million or more in Iran's energy sector.

Now, the reason I bring that up is because we passed what I thought was a very, very strong bill, and, in conjunction with the EU and others, I thought it was going to have a pretty strong impact on Iran. But it gave the president waiver authority. And that bothers me a great deal because this $20 million penalty that was supposed to be imposed in 1996 has never been imposed on anybody. So whether it is a Republican president or Democrat president, whatever it is, these penalties have not been imposed, and we have given waiver authority to the President once again.

So the one thing I would like to say today, Mr. Chairman and Mr. Ranking Member, is that we ought to do everything we can to make absolutely sure that the sanctions are followed through and there is no waiver. The reports that are required from the President should be complete and they should make sure that no waivers have been granted. If we don't do that, in my opinion, I think we are on the precipice of a war which could threaten the economy of the United States; not just the Middle East, but the economy of the United States, because we get about 30 to 40 percent of our energy from that part of the world, and we certainly are not even close to energy independence.

With that, I will yield back the balance of my time.

Chairman TOWNS. I thank the gentleman from Indiana for his statement and now yield 3 minutes to the gentleman from Ohio, Congressman Kucinich.

Mr. KUCINICH. Thank you, Mr. Chairman.

As some of you know, I voted against H.R. 2194, the sanctions bill. I opposed it because I think that these sanctions will inflict economic hardship on the Iranian people and have no impact on the Iranian government. As a matter of fact, it will probably strengthen the Iranian government, which relies on confrontation. And instead of working to build a pro-democracy movement by taking care not to have sanctions that are inevitably going to hurt the people of Iran, we are doing exactly the opposite.

And if there is anyone in this room who thinks that the United States can afford still another war with troops in Iraq, in Afghanistan, in Pakistan, if there is anyone who thinks we can afford an-

other war, then maybe you don't need to be in this discussion. But what we ought to be looking for is a more effective means of engaging Iran and continue to work behind the scenes to try to work behind the scenes to try to bring Iran to the table.

This is not an easy issue, granted, but the easy reach that some inside the Government, and I am not speaking about this committee, some inside the Government have to seek to escalate is very dangerous, quite dangerous; and I think that we should be thinking more about how you promote democracy without creating sanctions which are going to undermine the very people we say we care about.

I opposed nuclear proliferation for military purposes for all countries. At the same time, I think it is pretty clear that sanctions have proven to be a failed policy. I have argued that the sanctions included in the legislation play into the hands of leaders in Iran, undermine the efforts of Iranian people who have courageously challenged their government, often at the cost of their lives.

So I am hopeful that, as we get into this discussion today and down the road, we will look at the situation as it is; at what happens when you try to use sanctions as an excuse for diplomacy and what happens when we get off the diplomatic track and start to move toward escalation. We cannot have military escalation. Matter of fact, I want to ask unanimous consent to submit for the record a recent comment by Admiral Mike Mullen, who advised against an attack on Iran.

Chairman TOWNS. Without objection, so ordered.

Mr. KUCINICH. Thank you, Mr. Chairman.

Chairman TOWNS. On that note, I now recognize the gentleman from Missouri, Mr. Luetkemeyer.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

Chairman TOWNS. For 3 minutes.

Mr. LUETKEMEYER. Thank you.

I think that today we need to acknowledge the fact that we have a very fragile political situation in the Middle East and that Iran is a major portion of that problem. I think the ranking member alluded to the situation that has been brewing now for many, many years. This is not a new situation, but now it has continued to grow and fester to the point where we need to acknowledge what is going on and need to take some action.

The first thing that needs to happen is that we, as a country, and the President himself, needs to acknowledge that terrorism exists. These people are there wanting to do us harm. Many Americans, Mr. Chairman, believe that the President doesn't understand the threat and is ill-prepared to meet it. According to surveys, 57 percent of Democrats, 59 percent of Independents, 80 percent of Republicans think the President has not been tough enough on Iran.

Meanwhile, the President's reticence to support popular opposition to the Ahmadinejad regime has extracted an incalculable cost to our strategic efforts and the Nation's moral standing. Indeed, President Obama's general approach to Iran seems to be based on the absurd belief that the Iranian nuclear program has been encouraged by American belligerence and American diplomatic intransigency. In response, President Obama has offered a course

of conciliation and supplication. This response is beyond naive; it is very dangerous.

I think it is also important to note that, going forward, the fact that we are here today discussing sanctions would seem to indicate that the tacit acknowledge that the past program and protocol of holding hands and the approach of trying to be friends with these people at the expense of our friend, Israel, an ally there in the Middle East, has not worked.

I look forward to the discussion and I yield back the balance of my time. Thank you, Mr. Chairman.

Chairman TOWNS. Thank you. I thank the gentleman for his statement and I now ask unanimous consent to leave the record open for 7 days so Members may submit their opening remarks and questions for the record.

We have two panels today. The first panel, we will turn to them now.

Mr. Robert J. Einhorn, who is Special Advisor for Nonproliferation and Arms Control with the U.S. Department of State.

Our next witness is Mr. Daniel Glaser, Deputy Assistant Secretary for Terrorist Financing and Financial Crimes at the U.S. Department of Treasury.

The next witness is Mr. Joseph A. Neurauter, Deputy Associate Administrator with the Office of Acquisition Policy at the U.S. General Services Administration.

Our final witness in this panel is Mr. Joseph A. Christoff, who is the Director of International Affairs and Trade at the U.S. Government Accountability Office.

It is committee policy that all witnesses are sworn in, so if you would stand and raise your right hands.

[Witnesses sworn.]

Chairman TOWNS. Let the record reflect that the witnesses all answered in the affirmative.

You may be seated.

I will begin with you, Mr. Einhorn. Of course, as you know, the lights start off on green, then go down to 1 minute and it turns to yellow, and then, after that, it turns to red. Now, red means stop, so we would appreciate it if you would recognize that, which will allow the Members to have an opportunity to raise questions with you. You may begin, and you have 5 minutes.

STATEMENTS OF ROBERT J. EINHORN, SPECIAL ADVISOR FOR NONPROLIFERATION AND ARMS CONTROL, U.S. DEPARTMENT OF STATE; DANIEL GLASER, DEPUTY ASSISTANT SECRETARY FOR TERRORIST FINANCING AND FINANCIAL CRIMES, U.S. DEPARTMENT OF THE TREASURY; JOSEPH A. NEURAUTER, DEPUTY ASSOCIATE ADMINISTRATOR, OFFICE OF ACQUISITION POLICY, U.S. GENERAL SERVICES ADMINISTRATION; AND JOSEPH A. CHRISTOFF, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

STATEMENT OF ROBERT J. EINHORN

Mr. EINHORN. Thank you very much, Chairman Towns. Mr. Issa, members of the committee, thank you very much for the opportunity to appear before you this morning.

A nuclear-armed Iran would severely threaten the security and stability of a part of the world crucial to our interests and to the health of the global economy.

In the face of this challenge, American policy is straightforward. We have pursued our broad policy goals through both engagement and pressure. We have sought to sharpen the choice now before the Iranian leadership.

Last year we embarked on an unprecedented effort to engage with Iran. Engagement is both a test of Iran's intentions and an investment in a partnership with a growing coalition of countries deeply concerned about Iran's nuclear ambitions. We have sought and continue to seek opportunities for Iran to demonstrate convincingly that its nuclear program is intended entirely for peaceful purposes. These opportunities have not been embraced by Iran.

Iran's intransigence left the international community no choice but to employ a second tool of diplomacy, namely, pressure. The adoption of U.N. Security Council Resolution 1929 was an essential first step in that effort, building upon and strengthening previous sanctions resolutions.

It bans transfers of major conventional weapon systems to Iran; it bans all Iranian activities related to ballistic missiles that could deliver a nuclear weapon; it establishes a framework for cargo inspections to detect and stop Iran's smuggling and acquisition of illicit items; it prohibits Iran from investing abroad in sensitive nuclear activities, such as uranium mining; it creates important new tools to help block Iran's use of the international financial system to fund and facilitate its nuclear and other destabilizing weapons programs; it targets directly the role of the Islamic Revolutionary Guard Corps in Iran's proliferation efforts, adding 15 IRGC entities to the list of designees for asset freeze; and, for the first time, the Security Council highlighted formally in the Security Council Resolution the potential links between Iran's energy sector and its nuclear ambitions.

Our goal now is to ensure the most aggressive implementation of these sanctions as possible. We are not alone. The European Union has acted strongly to followup by endorsing a series of significant steps, as have Australia and Canada. We have called on states around the world to take additional measures, and will continue to engage with these partners.

Our efforts to implement and endorse the multilateral sanctions are supplemented by a number of important national tools, in particular, the Iran Sanctions Act and the recently passed Comprehensive Iran Sanctions, Accountability, and Divestment Act. As was the case with the original Iran Sanctions Act, the obligations of the new legislation are already a regular part of our dialog with foreign governments and the private sector.

Our efforts have yielded significant results. At least $50 billion to $60 billion in oil and gas development deals have either been put on hold or have been discontinued in the last few years, due in part to our conversations with companies about the threat of ISI sanctions. Our pressure has contributed to the decisions by major international oil companies such as Total, Statoil, ENI, Lukoil, and Repsol not to undertake any new activities in Iran. In addition, major fuel suppliers, such as Vitol, Shell, Reliance, IPG, Glencore, and Trafigura have announced that they will no longer sell refined petroleum products to Iran. The net result is that Iran now faces profound challenges in securing the foreign investment in its energy sector that it desperately needs.

The administration has also undertaken to review past activity that could trigger sanctions under the ISA to ensure that we are appropriately implementing the act. We have already seen that pressure, in combination with other goals, can have an impact on Iran. Through rigorous trade restrictions and active work to interdict WMD trade, illicit WMD trade, we have denied Iran access to items that it needs for its nuclear program.

As Treasury Deputy Assistant Secretary Glaser can describe in greater detail, Iran is having greater difficulty in obtaining access to financial services that are the lifeblood of international commerce and Iran's proliferation programs. The international private sector has grown wary of conducting business with any Iranian banks. International financial institutions have voluntarily gone beyond their legal requirements to curtail their interactions with Iran.

The same can be said of Iran's government-owned shipping industry, which lacks both credibility as a legitimate entity and has difficulty obtaining foreign insurance for most of its fleet. Impeding Iran's shipping lines access to foreign ports hinders Iran's ability to exploit those ports for proliferation purposes.

Chairman TOWNS. Mr. Einhorn, could you summarize? Your time is up. Could you summarize?

Mr. EINHORN. Sure.

The designation of IRGC's construction arm, Khatam al-Anbiya, has had a similar effect: the company is pulling out of operations in South Pars, Iran's major natural gas field, and KAA referenced recent sanctions in its announcement on why it was doing so.

So, in conclusion, our aim has been to use these tools of pressure to sharpen the choice that the Iranian government faces and to press it to negotiate seriously with the international community and the P5+1 countries on its nuclear program. Pressure is meant to complement, not replace, the diplomatic solution to which we and our partners are still committed. We continue to acknowledge Iran's right to pursue civilian nuclear power, but with that right comes a profound responsibility to meet its international obliga-

tions. Our foremost objective is a durable diplomatic solution to the world's concerns about Iran's nuclear program. There is growing international pressure on Iran to live up to its obligations and growing international isolation for Iran if it does not.

Security Council Resolution 1929——

Chairman TOWNS. Mr. Einhorn, Mr. Einhorn——

Mr. EINHORN. I am just finishing, Mr. Chairman.

The Comprehensive Iran Sanctions Accountability and Divestment Act, and the amplifying efforts that I have discussed help significantly sharpen that choice for Iran. We are pleased that Congress has given the administration the tools to increase pressure even further. We will continue to work very hard to implement them and continue to urge our partners to follow suit with their own tough national sanctions to complement Resolution 1929.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Einhorn follows:]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Thank you.

Chairman TOWNS. Thank you.
Mr. Glaser.

STATEMENT OF DANIEL GLASER

Mr. GLASER. Thank you, Chairman Towns, Ranking Member Issa, distinguished members of the committee. It is a pleasure to appear before you today.

Over the last several weeks, the international community and the United States have significantly enhanced our ability to apply financial pressure on Iran and obstruct its ability to further develop its nuclear capabilities. In particular, new sanctions adopted by the United Nations, United States, and allies such as the European Union, Canada, and Australia, highlight Iran's increasing isolation. These multilateral and national measures give us new and powerful tools that enable us, acting in concert with the private sector, to increase the financial pressure on Iran and further protect the international financial system from Iranian abuse.

Our objective over the next few months will be to broaden and deepen the existing sanctions framework. We will, of course, begin by implementing the provisions of the newly enacted Comprehensive Iran Sanctions, Accountability, and Divestment Act, and by continuing to take actions under existing sanctions authorities. These domestic actions will be accompanied by a strong diplomatic effort to ensure that the financial isolation of Iran is not limited to the countries that have already acted, but in fact extends throughout the world.

A series of U.N. Security Council resolutions form the corps of the international community's Iran sanctions framework. This framework was substantially strengthened last month with the adoption of U.N. Security Council Resolution 1929. UNSCR 1929 contains important new financial provisions that should meaningfully impact Iran's ability to access the international financial system.

This progress at the U.N. has been enhanced by a number of significant national measures taken by the United States and our allies. In the United States, the Comprehensive Iran Sanctions, Accountability, and Divestment Act provides the Treasury Department with a powerful new set of tools with which to put additional financial pressure on Iran, particularly relating to corresponding banking. In addition, the Treasury Department continues to use preexisting sanctions authorities to designate individuals and entities involved in facilitating both Iran's WMD programs and its support for terrorism. On June 16th, Secretary Geithner announced numerous Iran designations under our counter-proliferation authority, including Post Bank and several entities related to the IRGC.

Many of our partners have also taken recent action. Just this week, the EU adopted a Common Position on Iran sanctions. The Common Position substantially augments the EU's current sanctions program and not only implements but goes well beyond Europe's obligations under UNSCR 1929. It imposes a range of restrictions with regard to business with Iran in the trade, energy, and transportation industries.

With regard to financial services, the Common Position designates seven Iranian banks, designates the IRGC and others, freezing their assets and prohibiting them from engaging in nearly all transactions. The EU also imposed a set of systemic measures aimed at restricting Iran's ability to abuse the European financial system.

Australia and Canada have also taken substantial steps beyond what is required by UNSCR 1929. Like the United States and the EU, Australia has recently designated Bank Mellat and the head of the IRGC's construction arm. Indeed, just this morning, just within the last few hours, Australia announced that it is designating over 100 individuals and entities connected to Iran's nuclear program and revealed new restrictions on Australian businesses dealing with Iran's oil and gas sector.

Canada has also adopted systemic measures that go well beyond UNSCR 1929. In that respect, all of these countries represent a model for the rest of the world to emulate.

As I mentioned earlier, our objective is to broaden and deepen the international sanctions framework. At the same time, we will continue to engage with the private sector, describing the potential effects of the new Iran sanctions legislation on their business and encouraging them to curtail their business with Iran.

As Mr. Einhorn just said, we have already seen how this is producing results. The IRGC's construction arm, Khatam al-Anbiya, recently pulled out of developing the South Pars gas field. The recent imposition of sanctions on the IRGC and on Khatam al-Anbiya is likely to have played a significant role in this decision, as international corporations are increasingly unwilling to do business with those entities.

We will continue to put in the hard work required to ensure broad, global implementation of sanctions. Actions by the United States, EU, Canada, and Australia should be reinforced by the actions of countries in Asia, the Middle East, and South America. Mr. Einhorn and I, as well as many of our other colleagues, will be traveling to those regions in the weeks to come to encourage them to do just that.

Recent actions have demonstrated that the international community is increasingly united in its efforts to apply financial pressure on Iran. This effort will make Iran's choice increasingly clear: to choose the path of engagement offered by President Obama and the international community or to further deepen its isolation.

Thank you, Chairman. I welcome any questions.

[The prepared statement of Mr. Glaser follows:]

DAS GLASER TESTIMONY, HOUSE OVERSIGHT & GOVERNMENT REFORM COMMITTEE

I. Introduction

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

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

II. The International Community's Iran Sanctions Framework

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

A. UN Security Council Resolutions

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

1. Pre-UNSCR 1929 Financial Sanctions Framework

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

- Bank Sepah, an Iranian bank that provided support to several entities involved in developing Iran's nuclear program. Prior to the adoption of UNSCR 1929, Sepah was the only financial institution designated by the UN, and thereby subject to a global asset freeze and transaction prohibition;

- UNSCRs 1737, 1747, and 1803 also designated a range of individuals and entities affiliated with the Islamic Revolutionary Guard Corps (IRGC). The IRGC is involved in Iran's missile program, supports international terrorism, and suppresses internal dissent. The IRGC designations were particularly consequential, not only because of the IRGC's involvement in a range of illicit activity, but also because the IRGC maintains a far-flung network of commercial activity, both within Iran and throughout the world, that can be disrupted by the imposition of UN sanctions.

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

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

- The financial provisions of Resolution 1803 broadened the systemic safeguards relating to Iran. First, the Resolution called upon states to exercise vigilance in providing public

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

2. UNSCR 1929

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

The Resolution imposes sanctions on:

- One further Iranian-owned bank, the First East Export Bank (FEEB), which is owned by Bank Mellat. The Resolution also notes that Bank Mellat has facilitated hundreds of millions of dollars in transactions over the last seven years for Iranian nuclear, missile and defense entities;

- Khatam al-Anbiya (KAA), the IRGC's main construction arm, and fourteen entities owned or controlled by KAA. KAA is involved in major construction and engineering projects throughout Iran, and KAA subsidiaries were involved in the construction of Iran's uranium enrichment site at Qom;

- Additionally, UNSCR 1929 designates several entities that are owned or controlled by Iran's national maritime carrier, the Islamic Republic of Iran Shipping Lines (IRISL). Since January 2009, IRISL has been publicly implicated in multiple shipments of arms-related material from Iran to Syria in violation of UN Security Council Resolution 1747.

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

- The Resolution calls upon all member states to "prevent the provision of financial services, including insurance or re-insurance...if they have information that provides reasonable grounds to believe that such services...could contribute to Iran's proliferation-sensitive nuclear activities" (emphasis added);

- UN member states are also called upon to prohibit the opening of new branches, subsidiaries, or representative offices of Iranian banks, and also to prohibit Iranian banks from establishing or maintaining correspondent banking relationships if states reasonably believe that these activities could contribute to Iran's proliferation-sensitive nuclear activities;

- UNSCR 1929 decides that all states shall require their nationals and firms incorporated in their territory or subject to their jurisdiction to exercise vigilance when doing business with entities incorporated in Iran or subject to Iran's jurisdiction, including those of the IRGC and IRISL, if they have information that provides reasonable grounds to believe that such business could contribute to Iran's proliferation-sensitive nuclear activities;

- The Resolution Calls upon States to take appropriate measures that prohibit financial institutions within their territories or under their jurisdiction from opening representative offices or subsidiaries or banking accounts in Iran if they have information that provides reasonable grounds to believe such financial services could contribute to Iran's proliferation-sensitive nuclear activities.

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

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

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

B. The Global Response

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

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

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

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

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

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

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

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

- The Common Position prohibits member states from entering into new commitments for grants, financial assistance or concessional loans to the Government of Iran;

- It is no longer permitted to provide insurance or re-insurance to the Government of Iran, or to entities incorporated in Iran;

- The EU now requires its member states to exercise enhanced monitoring over all the activities financial institutions in their jurisdictions undertake with Iranian banks, in particular the Central Bank of Iran, or financial institutions controlled by persons domiciled in Iran;

- Iranian-domiciled banks operating in EU member states must notify the appropriate authorities of all funds transfers they undertake.

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

2. Action Taken by the U.S. Government

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

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

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

- Javedan Mehr Toos, an entity linked to the procurement of centrifuge related equipment for Iran's uranium enrichment efforts. Javedan Mehr Toos is a procurement broker for

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

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

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

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

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

- The first category of sanctionable activity encompasses those transactions that foreign banks know, or should know, facilitate the Government of Iran's attempts to acquire WMD or WMD delivery systems, or to provide support for terrorism. This includes facilitating the efforts of the Central Bank of Iran or any other Iranian financial institution to carry out such activity. Foreign financial institutions should therefore exercise the highest possible levels of vigilance when conducting business with Iranian entities lest they run afoul of this provision of the CISADA;

- Next, a foreign financial institution will jeopardize its U.S. correspondent relationships if the foreign financial institution knows, or should know, that it is facilitating the activities of natural or legal persons subject to financial sanctions under Iran-related resolutions of the UN Security Council;

- Finally, a foreign financial institution's correspondent relationships in the U.S. can be prohibited or severely restricted if the foreign financial institution knows or should know that it facilitates significant transactions for the IRGC or any agents or affiliates of the IRGC that have been sanctioned under U.S. authorities, or for a financial institution that has been sanctioned by the U.S. government for facilitating Iranian support to international terrorism or its WMD proliferation program.

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

3. Additional National Measures Taken by Australia and Canada

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

- Almost immediately after UNSCR 1929 was adopted, Australia announced that it was going to go beyond the designations in the Resolution's annex. On June 15, it announced that it had imposed sanctions on Bank Mellat, IRISL, and IRGC General Rostam Qasemi;

- On July 26, Canada also announced substantial new actions that go beyond UNSCR 1929's terms. Canada's sanctions:

    - Bar dealings with designated individuals and entities;

    - Ban new investments in the Iranian oil and gas sector; and

    - Prohibit establishing correspondent banking relationships with Iranian financial institutions, or purchasing any debt from the government of Iran. They also prohibit providing or acquiring financial services to allow an Iranian financial institution (or a branch, subsidiary or office) to be established in Canada, or vice versa.

III. The Private Sector's Response

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

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

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

IV. Next Steps

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

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

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

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

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

V. Conclusion

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

Chairman TOWNS. Thank you very much, Mr. Glaser, for your statement.

Mr. Neurauter.

STATEMENT OF JOSEPH A. NEURAUTER

Mr. NEURAUTER. Good morning, Chairman Towns and distinguished members of the committee. Thank you for providing me the opportunity to testify on the implementation of Iran's sanctions.

Section 102 of the act we have been discussing this morning requires that no later than 90 days after the enactment of the act, the Federal Acquisition Regulation [FAR], shall be revised to require a certification from each person that is a prospective contractor stating that the person, and any person owned or controlled by that person, does not engage in any activity for which sanctions may be imposed under the act.

The FAR is overseen by the Federal Acquisition Regulatory Council, which consists of the Administrator for Federal Procurement Policy, along with three signatories from DOD, GSA, and NASA, respectively.

To work on a rule, we open a FAR case, and this case, No. 2010–012, opened on July 14, 2010, and assigned to the FAR Acquisition Law Team, whose responsibilities include foreign acquisitions and sanctions activities. The FAR case was opened as an Interim Rule due to the time line requirements of the act. Interim Rules become effective upon publication in the Federal Register. We project that the publication of this rule will occur on or before September 29, 2010, a date that falls within the timeframe provided by the act.

The Law Team held its first meeting on July 20, 2010, to begin drafting the FAR text to implement Section 102 of the act. The Team is drafting solicitation provisions, contract clauses, and a preamble that will be published with the rule to help the public and the affected stakeholders understand the new rule. The Team is consulting with Department of State's Terrorism, Finance, and Economic Policy Office, and Treasury's Office of Foreign Assets Control as part of this effort. This is what we have accomplished so far, and we certainly have a sense of urgency in this matter.

Let me now briefly describe where we go from here. Going forward, once the Law Team finishes developing the new or revised FAR text and the Federal Register notice, the Team's proposal will be discussed by two councils, the Civilian Agency Acquisition Council and the Defense Acquisition Regulations Council. These bodies are staffed with acquisition policy officials who square their agency's views and offer refinements, as necessary, to address any concerns and achieve consensus on FAR changes and supporting materials.

After GSA's Office of General Counsel goes over the agreed-upon Rule for legal sufficiency, the case will be forwarded to the Office of Management and Budget for final review. Subsequent to that, the Regulatory Secretary and GSA will then prepare the rule for formal publication, obtain signatures from GSA, DOD, and NASA, and transmit the Rule to the Federal Register.

I want to personally assure you, Mr. Chairman and distinguished members of the committee, that we take this matter very seriously

and are fully confident that everyone working together in the FAR rulemaking process, we will complete this FAR case on time. We know how vital it is to expedite the process and get this done.

Thank you very much for the opportunity to testify here today, and I look forward to any questions you may have.

[The prepared statement of Mr. Neurauter follows:]

STATEMENT OF

JOSEPH A. NEURAUTER

DEPUTY ASSOCIATE ADMINISTRATOR
OFFICE OF ACQUISITION POLICY
U.S. GENERAL SERVICES ADMINISTRATION

BEFORE THE

COMMITTEE ON OVERSIGHT AND
GOVERNMENT REFORM

U.S. HOUSE OF REPRESENTATIVES

JULY 29, 2010



Good morning, Chairman Towns and distinguished members of the Committee. Thank you for providing me with the opportunity to testify on the implementation of Iran sanctions. Section 102 of the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (Pub. L. 111-195, enacted July 1, 2010) requires that no later than 90 days after the enactment of the Act, the Federal Acquisition Regulation (FAR) shall be revised to require a certification from each person that is a prospective contractor stating that the person, and any person owned or controlled by the person, does not engage in any activity for which sanctions may be imposed under the Iran Sanctions Act.

The FAR is overseen by the Federal Acquisition Regulatory Council (FAR Council) which consists of the Administrator for Federal Procurement Policy, the Director, Defense Procurement and Acquisition Policy (DPAP), Department of Defense (DoD); the Deputy Associate Administrator & Senior Procurement Executive (SPE), General Services Administration (GSA); and the Assistant Administrator for Procurement, National Aeronautics and Space Administration (NASA).

On July 14, 2010, FAR Case 2010-012 was opened by the Defense Acquisition Regulations Council (DARC) and was assigned to the FAR Acquisition Law Team, whose responsibilities include foreign acquisitions and sanctioned activities. The FAR Case was opened as an Interim Rule due to the timeline requirements of the Act. Interim rules become effective upon publication in the Federal Register. We project that publication of this rule will occur on or before September 29, 2010, a date that falls within the timeframe required by the Act. Once published, the public may comment on the new FAR contents for 60 days. Comments received will be considered during formulation of the final rule.

The Law Team held its first meeting on July 20, 2010, to begin drafting the FAR text to implement section 102 of the Act. The team is drafting solicitation provisions, contract clauses, and a preamble that will be published with the rule to help the public and affected stakeholders understand the new rule. The Team is consulting with the Department of State's Terrorism Finance and Economic Policy Office and Treasury's Office of Foreign Assets Control (OFAC) as part of this effort. This is what we have accomplished thus far and we certainly have a sense of urgency in this matter.

Let me now describe what will occur over the next few weeks. Going forward, once the Law Team finishes developing the new or revised FAR text and the Federal Register Notice (FRN), the Team's proposal will be discussed by the Civilian Agency Acquisition Council and the Defense Acquisition Regulations Council. These bodies are staffed with acquisition policy officials who share their agencies' views and offer refinements, as necessary, to address any concerns and achieve consensus on FAR changes and supporting materials. After GSA's Office of General Counsel goes over the agreed-upon rule for legal sufficiency, the case will be forwarded to the Office of Management and Budget for final review. The Regulatory Secretariat in GSA will then prepare the rule for formal publication, obtain signatures from GSA, DoD, and NASA, and transmit the rule to the Federal Register.

I want to personally assure you, Mr. Chairman, and distinguished members of the Committee, that we take this matter very seriously and are fully confident that, working with everyone involved in the FAR rule-making process, we will complete this FAR case on time. We know how vital it is to expedite the process and get this done.

Thank you very much for the opportunity to testify before you here today. I look forward to any questions you may have.

Chairman TOWNS. Thank you very much for your statement.
Mr. Christoff.

STATEMENT OF JOSEPH A. CHRISTOFF

Mr. CHRISTOFF. Mr. Chairman, members of the committee, thanks for inviting GAO to this important hearing. I am here today to discuss our work on the implementation of U.S. sanctions against Iran. The United States has banned most trade and investment with Iran, prohibited firms from shipping U.S. goods through other nations, and constrained investments in Iran's energy sector.

The Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 expands existing sanctions and requires the administration to report on its implementation efforts.

My testimony will discuss three key challenges the United States faces in: first, deterring the illegal transshipment of U.S. goods to Iran; second, restricting foreign investments in Iran's energy sector; and, third, assessing the effectiveness of U.S. sanctions. I also will discuss how the new act addresses these challenges.

First, we found that Iran has circumvented the U.S. trade ban by transshipping U.S. military and dual-use items through other countries. Between 2007 and 2008, the United States prosecuted 30 firms and individuals for illegally transshipping U.S. aircraft components, night vision goggles, and other sensitive technologies to Iran. In particular, the United Arab Emirates, Malaysia, and Singapore have served as key transshipment routes for U.S. goods.

The new act authorizes the President to designate a country as a destination of diversion concern if the country continues to allow illegal transshipments of U.S. goods. The United States would either provide technical assistance to strengthen the country's export controls or restrict U.S. exports to the country.

Second, we found that the United States faces challenges in restricting foreign investments in Iran's energy sector. Iran seeks such investments to increase production from its vast oil reserves, the third largest in the world. According to the IMF, Iran's oil production has remained virtually flat in recent years, and will likely stagnate without more investment. In addition, Iran must import about 130,000 barrels of gasoline each day to meet domestic demand.

In March we identified 41 foreign firms that had commercial activities in Iran's energy sector between 2005 and 2009. Seven had contracts with the U.S. Government valued at almost $880 million. Under existing law, foreign firms that invest more than $20 million in Iran's energy sector in any 12-month period are subject to U.S. sanctions. However, the only time the United States tried to impose sanctions was in 1998, when it determined that the investments of three foreign energy firms were sanctionable. At that time, the Secretary of State waived the sanctions, citing U.S. national interests.

The new act requires additional action on the part of the President. The President is now required to investigate any report of sanctionable activity where there is credible evidence, and determine in writing to the Congress whether the activity had in fact occurred. The President would then be expected either to impose or waive sanctions.

Finally, we found that U.S. agencies had not collected data on the results of the sanctions they enforced and had not established baseline information for monitoring and reporting. In addition, we found no comprehensive assessment of the effectiveness of U.S. sanctions. A comprehensive assessment becomes more critical as the new act expands sanctions and imposes new reporting requirements. For example, the United States can now sanction foreign firms that sell refined petroleum products or sensitive communications technologies to Iran. And the administration must now report on foreign firms' investments in Iran's energy sector, the activities of foreign export credit agencies, and destinations of diversion concern. A comprehensive assessment would provide important information on whether or not the sanctions helped the United States achieve its security and foreign policy goals.

Mr. Chairman, Mr. Issa, that concludes my statement and I look forward to your questions.

[The prepared statement of Mr. Christoff follows:]

United States Government Accountability Office

GAO

Testimony
Before the Committee on Oversight and Government Reform, House of Representatives

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IRAN SANCTIONS

New Act Underscores Importance of Comprehensive Assessment of Sanctions' Effectiveness

Statement of Joseph A. Christoff, Director
International Affairs and Trade



GAO-10-928T

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss our work on the implementation of U.S. sanctions against Iran. My testimony will discuss the continuing challenges the United States faces in (1) deterring the illegal transshipment of U.S. goods to Iran, (2) restricting foreign investment in Iran's energy sector, and (3) assessing the overall effectiveness of U.S. sanctions. In addition, I will discuss how the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (signed into law on July 1, 2010) addresses these challenges.

The United States has imposed multiple sanctions against Iran to deter it from developing its nuclear program, supporting terrorism, and abusing human rights. The United States has banned most U.S. trade and investment with Iran and prohibited firms from knowingly transshipping U.S. goods to Iran through other nations. The United States has also acted to limit Iran's ability to explore for, extract, refine, or transport its petroleum resources. The Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 expands existing sanctions against Iran and requires the Administration to report on information related to the sanctions.

My statement is drawn from prior GAO work related to sanctions against Iran.[1] We conducted this work in accordance with all sections of GAO's Quality Assurance Framework and generally accepting government auditing standards, as appropriate. Those standards require that we plan and perform the audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[1]GAO, *Iran Sanctions: Firms Reported to Have Commercial Activity in the Iranian Energy Sector and U.S. Government Contracts*, GAO-10-721T (Washington, D.C.: May 12, 2010); *Firms Reported to Have Commercial Activity in the Iranian Energy Sector and U.S. Government Contracts*, GAO-10-639R (Washington, D.C.: May 4, 2010); *Firms Reported in Open Sources as Having Commercial Activity in Iran's Oil, Gas, and Petrochemical Sector*, GAO-10-515R (Washington, D.C.: March 23, 2010); *Iran Sanctions: Complete and Timely Licensing Data Needed to Strengthen Enforcement of Export Restrictions*, GAO-10-375 (Washington, D.C.: March 4, 2010); and *Iran Sanctions: Impact in Furthering U.S. Objectives Is Unclear and Should Be Reviewed*, GAO-08-58 (Washington, D.C.: December 18, 2007).

Summary

Iran is obtaining U.S. military and dual-use goods (civilian goods with potential military applications) that are illegally transshipped through intermediaries in third-party nations, most notably the United Arab Emirates, Malaysia, and Singapore. U.S. agencies have conducted investigations to uncover Iranian procurement networks and prosecuted at least 30 firms and individuals between 2007 and 2009. The Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 requires the President to designate a country as a Destination of Diversion Concern if certain criteria are met. Moreover, the President shall impose a licensing requirement upon certain U.S. exports to the designated country unless the President makes a number of determinations, including determining that it is appropriate to provide technical assistance to strengthen the country's export control systems.

At least 41 foreign firms had commercial activity in Iran's energy sector between 2005 and 2009. Of these firms, seven had contracts with the U.S. government valued at almost $880 million. The Iran Sanctions Act of 1996 (ISA) provides for sanctions against persons (firms and individuals) who invest more than $20 million in Iran's energy sector in any 12-month period. However, the United States has not sanctioned firms under the ISA for investing in Iran's energy sector. The Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 requires the President to investigate reports of certain sanctionable activity where credible evidence is received and make a determination in writing to Congress whether such activity has indeed occurred. The President would then be expected either to impose or waive sanctions.

We previously recommended that the Administration improve the disparate data collected on Iran sanctions, establish a baseline of information on Iran sanctions, and conduct an overall assessment of the sanctions' impact in achieving U.S. foreign policy goals. Recent congressional action has expanded sanctions against Iran and imposed new reporting requirements on the Administration. These actions underscore the importance of comprehensive assessments of the effectiveness of U.S. sanctions against Iran.

Background

U.S. exports to Iran are severely restricted by U.S. laws and regulations.[2] The U.S. trade ban generally prohibits exports of U.S. goods (including dual-use goods) to countries other than Iran without a Treasury Department license if the exporter has reason to know the goods are specifically intended for transshipment to Iran.[3] Foreign firms are generally prohibited from knowingly re-exporting goods on the Commerce Department's list of controlled dual-use goods to Iran even if those goods were originally legally exported from the United States to a third country under a Commerce license.[4] For example, dual-use U.S. goods exported to countries other than Iran under a Commerce license may not be subsequently transshipped to Iran without a Treasury license if the exporter knew or had reason to know that such goods were intended for Iran. The Departments of Commerce, Defense, Homeland Security, Justice, and the Treasury investigate allegations of illegal transshipment of U.S. goods to Iran. Exporters who knowingly ship U.S. goods to Iran through other countries without a Treasury license are subject to prosecution by the Department of Justice.

Iran has the world's third largest oil reserves, or about 140 billion barrels, and produces about 4.2 million barrels per day. However, Iran's oil production has remained virtually flat in recent years and will likely stagnate in the medium term due to insufficient investment, according to the International Monetary Fund. Iran requires increasingly modern and advanced oil recovery technologies to stop natural declines of oil production, but has found advanced technology difficult to import due to international sanctions and high costs. According to the Department of Energy (DOE), Iran does not currently have sufficient refining capacity to meet its domestic demand for gasoline. Iran imported approximately 130,000 barrels of gasoline per day in 2009, as well as other refined products such as diesel fuel. Iran's nine refineries are operated by the National Iranian Oil Refining and Distribution Company, according to DOE. With the potential participation of foreign companies, Iran plans to add capacity at eight refineries to fully meet domestic demand for gasoline by 2013 or 2014, according to DOE officials.

[2]See generally, 31 C.F.R. part 560.

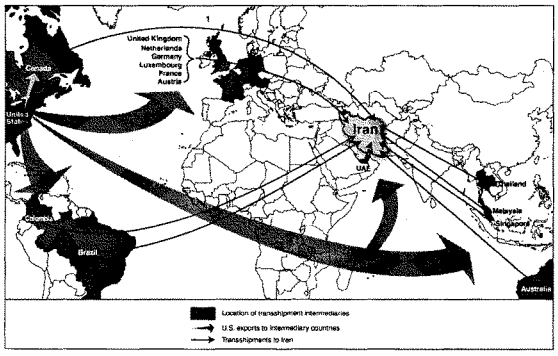
[3]31 C.F.R. § 560.204.

[4]31 C.F.R. § 560.205.

Iran Obtains Illegal Transshipments of U.S. Military and Dual-Use Goods through Other Countries; New Act Calls for Identification of Destinations of Diversion Concern

The United States banned nearly all trade and investment with Iran in 1995 after banning imports from that country in 1987. According to a Treasury official, the trade and investment ban is aimed at making it more difficult for Iran to procure U.S. goods, services, and technology, including those that could be used for terrorism or proliferation. However, as we have reported, attempts have been made to circumvent the trade ban through the transshipment of U.S. exports through third countries. U.S officials identified several locations that serve as transshipment points for military and dual-use goods destined for Iran, including the United Arab Emirates (UAE), Malaysia, Singapore, Thailand, Australia, Canada, Colombia, Brazil, Austria, France, Germany, Luxembourg, The Netherlands, and the United Kingdom (see figure 1).

Figure 1: Illegal Transshipment Routes to Iran



Source: GAO analysis of Justice Department data; Map Resources (map).

A 2009 Justice Department report cited 30 cases that involved the use of intermediaries in these countries. More than half of the cases listed involved the use of intermediaries in the UAE for transshipment. About 20 percent involved the use of intermediaries in Malaysia and Singapore. U.S. goods involved in these cases included U.S. military aircraft components, laboratory equipment, specialty alloy pipes, night vision goggles, and sensitive technologies sent to Iranian missile and nuclear entities.

U.S. officials stated that the UAE has taken steps to address the use of its territory for transshipment. They noted that the UAE has increased cooperation with U.S. enforcement entities and enacted new export control legislation in 2007. According to the UAE government, the new law bans the export/re-export of strategic goods (including arms and military hardware, chemical and biological materials, and dual-use goods) without a special license, and specifies penalties that include imprisonment or fines. Commerce officials stated that the law contains the basic elements of an export control regime to combat transshipment. However, Commerce officials have reported a high rate of unfavorable end-use checks for U.S. items exported to the UAE and U.S. officials note the potential shift of illegal transshipment operations to other nations, such as Malaysia and Singapore.

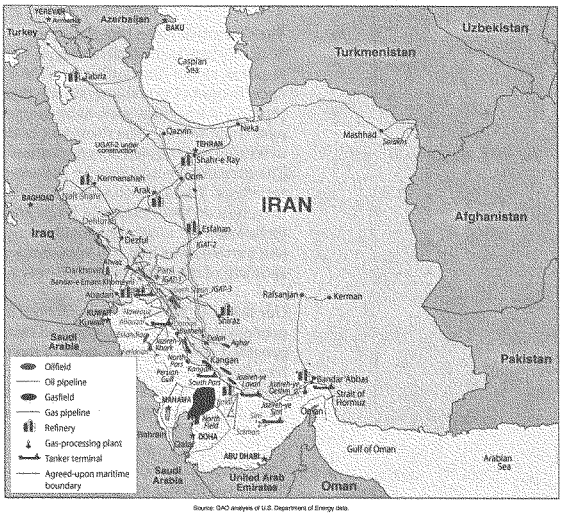
The Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 addresses the use of intermediaries to transship military and dual-use items to Iran. Under the Act, the Director of National Intelligence must identify to the President, relevant agency heads, and appropriate congressional committees the countries whose governments the Director believes allow the transshipment or diversion to Iran of certain U.S. goods, services or technologies. Moreover, the President shall designate a country as a Destination of Diversion Concern if the President determines that the government of the country allows substantial diversion of specified U.S. goods, services, or technologies through the country to Iranian end-users or Iranian intermediaries. Upon designation, the President must submit to the appropriate congressional committees a report identifying the countries of concern and listing the items that are being diverted through each respective country. After designation, the President shall require a license to export to the designated country the specified U.S. goods, services, or technologies. This licensing requirement may be delayed if the President makes a number of determinations including determining that it is appropriate to provide technical assistance to strengthen the country's export control systems.

Foreign Firms Maintain Commercial Ties to Iran's Energy Sector; New Act Requires President to Begin Investigations and Report on Firms' Investments in Iran's Energy Sector

Iran's energy sector is vital to its economy and government. In recent years, oil export revenues have accounted for 50 to 76 percent of the Iranian government's revenues and 24 percent of Iran's gross domestic product. However, Iran has not reached peak crude oil production levels since 1978, does not produce sufficient natural gas for domestic use, and lacks the refining capacity to meet domestic demand for gasoline. Accordingly, Iran is seeking the participation of foreign firms in providing financing and technical assistance in numerous energy projects.

Based on our review of open source information, we identified 41 firms that had commercial activity in the Iranian energy sector between 2005 and 2009 (see app. 1). Open source information stated that these firms supported activities throughout Iran that involved the exploration and development of oil and gas, petroleum refining, or petrochemicals, including the construction of pipelines and tankers for the transport of oil or gas (see fig. 2).

Figure 2: Map of Iranian Oil, Gas, and Petrochemical Activities



Source: GAO analysis of U.S. Department of Energy data.

Of the 41 firms, seven had contracts with the U.S. government (see app. II for these firms). From fiscal years 2005 through 2009, the U.S. government obligated almost $880 million in contracts to these seven firms. U.S. agencies obligated almost 90 percent of these funds for purchases of fuel and petroleum products overseas.

ISA provides for sanctions against persons who invest more than $20 million in Iran's energy sector in any 12-month period. ISA authorizes the President, who delegated authority to the Secretary of State, to ban such persons from U.S. government procurement. However, the Secretary of State has not determined that a firm's activities have met the legal criteria for sanctions under the Iran Sanctions Act since 1998. At that time, the Secretary waived the imposition of sanctions upon three foreign energy firms—Total (France), Gazprom (Russia), and Petronas (Malaysia). In waiving the sanctions, the Secretary cited the European Union's cooperation on counterterrorism efforts involving Iran and the possibility that the Union would take the issue to the World Trade Organization.

The Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 requires additional action on the part of the President. The new act requires, rather than authorizes, the President to initiate an investigation upon receipt of credible evidence that a person is engaged in certain prohibited activities such as investment in the development of Iran's petroleum sector.[5] The President is also required to make a determination in writing to Congress about whether such activity has indeed occurred. The President would then be expected either to impose or waive sanctions. The Act also requires the President to submit a report to Congress on investments in Iraq's energy sector since January 2006, including a list of all significant energy related joint ventures, investments, and partnerships Iran has with entities from other countries and an estimate of the value of these investments.

Our list of 41 firms with commercial activity in Iran's energy sector has prompted reaction from the cited firms. Upon request, 13 of the 41 firms provided comments on a draft of the report. Since the report was released, four firms have provided additional comments. Tecnimont (Italy) stated that it had canceled its involvement in an Iranian energy project due to lack of financing. Statoil (Norway) confirmed that it had frozen new

[5]Pub. L. No. 111-195, § 102(g). This reporting requirement applies only to activities described in section 5(a) of the ISA.

investments in Iran's South Pars natural gas field and halted oil exploration and development activities in Iran. Repsol (Spain) provided us a copy of its May 2010 letter to the Iranian government discontinuing its participation in a $10 billion project to develop Iran's Persian LNG project. Repsol's withdrawal from the project will be effective July 31, 2010. We also received a letter from Ashok Leyland Project Services of India stating that it had not made binding agreements regarding the cited projects and would not take actions that violate laws or expose it to U.S .sanctions.[6]

New Act Underscores Importance of Comprehensive Assessment of Sanctions' Effectiveness

Additional sanctions in the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 and new reporting requirements underscore the importance of comprehensive assessments of U.S. sanctions' effectiveness in deterring Iran's support for terrorism and continued nuclear proliferation. In December 2007, we recommended that the Administration complete such an assessment. We found that U.S. agencies—State, Treasury, Commerce, Homeland Security, and others—collected disparate data on the multiple sanctions they implemented.

Accordingly, we recommended that U.S. agencies consider collecting and analyzing data on, but not limited to,

- the number of goods seized, penalties imposed, and convictions obtained under the trade ban (Homeland Security, Treasury, Commerce, Justice);
- sensitive items diverted to Iran through transshipment points (Commerce and the intelligence community);
- the amount of assets frozen resulting from financial sanctions (Treasury and the intelligence community); and
- the extent of delays in foreign investment in Iran's energy sector (State, Energy, and the intelligence community).

The data should then be used to establish baseline information for continuous monitoring and periodic reporting on what U.S. sanctions have achieved.

[6]The firm also stated that it, rather than "Hinduja," should have been identified as a firm with commercial activities in Iran's natural gas sector.

The Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 expands the number of activities that are sanctionable. For example, the Act requires the President to impose sanctions against persons or entities that

- export at least a certain value of refined petroleum products to Iran,
- sell at least a certain value of services and technology to maintain or expand Iran's refinery capacity
- export sensitive technologies that the Iranian government can use to monitor or jam its citizens communications, and
- commit human rights abuses against Iranian citizens.

The Act also adds reporting requirements that increase the transparency of the Administration's actions, but also underscore the importance of having a framework to utilize the reports' data and provide a comprehensive assessment. For example, the Administration must report on investments in Iran's energy sector, the activities of foreign export credit agencies, and the number of countries of diversion concern.

These expanded sanctions and reporting requirements underscore the importance of improving data collection, establishing a baseline, and comprehensively assessing the impact of sanctions on Iran. Such assessments are important because they provide the Administration and Congress with important information on the impact of existing and new sanctions and the extent to which these collective sanctions further the achievement of U.S. foreign policy and security goals toward Iran.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions that you or other members may have at this time.

GAO Contacts and Staff Acknowledgments

Should you have any questions about this testimony, please contact Joseph A. Christoff at (202) 512-8979, or christoffj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals who made key contributions to this statement include Tet Miyabara (Assistant Director), Pierre Toureille, Grace Lui, Jon Fremont, Jennifer Bryant, and Debbie Chung.

Appendix I: Foreign Firms Publicly Reported to Have Commercial Activity in the Iranian Oil, Gas, or Petrochemical Sectors As Of March 2010

Firm[a]	Country[b]	Sector
1. ABB Lummus	Not applicable	Refining, petrochemicals
2. Amona	Malaysia	Oil exploration and production
3. Belneftekhim	Belarus	Oil exploration and production
4. China National Offshore Oil Corporation	China	Natural gas
5. China National Petroleum Corporation	China	Oil exploration and production, natural gas
6. Costain Oil, Gas & Process Ltd.	United Kingdom	Natural gas
7. Daelim	South Korea	Natural gas
8. Daewoo Shipbuilding & Marine Engineering	South Korea	Oil tankers
9. Edison	Italy	Oil exploration and production
10. ENI	Italy	Oil exploration and production
11. Gazprom	Russia	Oil exploration and production, pipeline
12. GS	South Korea	Natural gas
13. Haldor Topsoe	Denmark	Refining
14. *"Hinduja"* (Ashok Leyland Project Services)	*"United Kingdom"* (India)	Oil exploration and production, natural gas
15. Hyundai Heavy Industries	South Korea	Oil tankers
16. INA	Croatia	Oil exploration and production, natural gas
17. Indian Oil Corporation	India	Natural gas
18. Inpex	Japan	Oil exploration and production
19. JGC Corporation	Japan	Refining
20. Lukoil	Russia	Oil exploration and production
21. LyondellBasell	Netherlands	Petrochemicals
22. Oil India Ltd.	India	Natural gas
23. Oil and Natural Gas Corporation	India	Oil exploration and production, natural gas
24. OMV	Austria	Natural gas
25. ONGC Videsh Ltd.	India	Natural gas
26. Petrobras	Brazil	Oil exploration and production
27. Petrofield	Malaysia	Natural gas
28. Petroleos de Venezuela S.A.	Venezuela	Natural gas
29. Petronet LNG	India	Natural gas
30. PGNiG	Poland	Natural gas
31. PTT Exploration & Production	Thailand	Natural gas
32. Repsol	Spain	Natural gas
33. Royal Dutch Shell	Netherlands	Natural gas
34. Sinopec	China	Oil exploration and production, refining
35. SKS Ventures	Malaysia	Natural gas
36. Snamprogetti	Italy	Pipeline
37. StatoilHydro	Norway	Oil exploration and production, natural gas
38. Tecnimont	Italy	Petrochemicals
39. Total	France	Natural gas
40. Turkish Petroleum Company	Turkey	Natural gas
41. Uhde	Germany	Petrochemicals

Source: GAO analysis of open source information.

[a]Following the March 2010 publication of this table, four firms (Ashok Leyland, Repsol, Statoil, and Tecnimont) informed us that they had not gone forward with the projects cited in the table.

[b]The country listed is the physical location of the firm.

Appendix II: Firms Reported in Open Sources as Having Both Commercial Activity in the Iranian Energy Sector and U.S. Government Contracts

	U.S. Government obligations					
Firm/country[a]	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**	**FY 2009**	**Total**
Repsol/Spain	$40 million	$37 million	$110 million	$81 million	$51 million	**$319 million**
Total/France	$0	$27 million	$0	$154 million	$131 million	**$312 million**
Daelim Industrial Co./South Korea	$0	$0	$0	$0	$111 million	**$111 million**
ENI/Italy	$9 million	$88 million	Less than $100,000	$0	$0	**$97 million**
PTT Exploration and Production/Thailand	$21 million	$4 million	$6 million	$1 million	$3 million	**$35 million**
Hyundai Heavy Industries/South Korea	$1 million	$2 million	$1 million	$0	$0	**$5 million**
GS Engineering and Construction/South Korea	Less than $100,000	$0	$0	$0	$0	**Less than $100,000**
Total	**$71 million**	**$158 million**	**$117 million**	**$236 million**	**$296 million**	**$879 million**

Source: GAO analysis of Federal Procurement Data System-Next Generation records and other government records.

Note: Totals may not add due to rounding.

[a]The country listed is the physical location of the firm as reported in open sources.

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Chairman TOWNS. Thank you very much.

Let me thank all of you for your statement. Now we have the question and answer period.

Let me begin with you, Mr. Glaser. The Treasury Department has had some success in getting certain financial institutions to stop doing business with Iran. The new U.S. sanctions target certain banks. Why shouldn't the U.S. Government target all foreign banks that do business with Iran?

Mr. GLASER. Why shouldn't we target? Well, I think that is the goal. I think the goal that we have at the Treasury Department, what we have been trying to achieve over the past few years is to create a dynamic in the international financial system that encourages banks throughout the world, no matter where they are, no matter what their size is, to make the decision not to do business with Iran.

With respect to the actual legal authorities we have, I think Congress made the right decision in the types of activities that it chose to target. I think it is important that we keep our sanctions activities based conduct focused to demonstrate, to get to Mr. Kucinich's point, that the goal here is not to harm the people of Iran.

So by focusing on U.N.-designated entities, by entities that have been designated by the Treasury Department for being involved in terrorism and for being involved in proliferation, which, frankly, is virtually all of the Iranian banks, we get the effect that I think we are looking for, which is increased financial pressure on Iran, increased difficulty for Iran to engage in regular international transactions, increased ability to obstruct Iran's proliferation-related transactions, while at the same time ensuring that, when we go and talk to other countries about this and try to enlist their support, we can emphasize that this is a conduct-based effort, this is an activity-based effort; what we are targeting is the illicit conduct that Iran is engaged in.

Chairman TOWNS. Thank you very much. There is nothing that we need to do legislatively in order to make it possible for you to have more success?

Mr. GLASER. Mr. Chairman, I think you have just done legislatively something very important to allow us to have more success. As you have indicated, and as I indicated in my testimony, I think we have had tremendous progress over the last 3 or 4 years in creating a shift in attitude among international financial institutions away from Iran.

We have been largely successful in that, but we have not been completely successful in that. There do still remain financial institutions that we are concerned about that are engaged in business with Iranian institutions that are engaged in deceptive financial practices, that are designated by the United Nations, that are designated by the United States, that are designated by the European Union and Canada and Australia, and it is important that we be able to get at those institutions; and that is precisely what the new legislation allows us to do.

You have given us 90 days to issue regulations under that bill. We have every intention of issuing those regulations in the time allotted to us and we have every intention of robustly and responsibly implementing that legislation. I think we have a pretty good

track record of using the authorities that have been given to us by Congress to target banks that we think pose a threat to the international financial system, a threat to U.S. security, and a threat to the U.S. financial system, and we will certainly continue to do so.

Chairman TOWNS. Thank you very much.

Mr. Christoff, let me direct this question to you. Your report identified 41 foreign firms with commercial activity in Iran's energy sector. You have named names. What reactions have you gotten from those firms? And let me also ask what reactions have you gotten from the State Department and Treasury, as well?

Mr. CHRISTOFF. Well, let's start with the reaction from the firms. There were many firms that did not comment on our report, and we gave them a full opportunity to comment. Generally, those firms were from China, India, Russia, and Korea. The European companies did comment, and I think Websol of Spain, in particular, met with GAO twice now over the past 3 months since we issued our list. They gave us a letter which they had sent to the Iranian government indicating that they were pulling out of the $10 billion L&G project, where they had a 25 percent stake. They just met with us again on Monday and said that they had informed their partner Shell that they were officially pulling out effective July 31st, the day after tomorrow.

Other companies such as Shell told us that they were still considering the extent to which they were going to continue their investments. They also have a 50 percent stake in a $10 billion project. I would think, though, that with the new EU sanctions, they would be accelerating their decisions as to whether or not they are going to continue with those kinds of investments.

State Department's reactions. We have, in the past, back in 2007, we also put out a list of companies that had commercial activities in Iran's energy sector. We have been told by that bureau within State Department that is responsible that they are reviewing those kinds of lists and anticipate that there will be actions taken, but we are not aware of what those specific actions will be.

Chairman TOWNS. Thank you very much.

My time has expired. I now yield 5 minutes to the gentleman from California, Ranking Member Congressman Issa.

Mr. ISSA. Thank you, Mr. Chairman.

Mr. Einhorn, I listened for about 10 minutes to your 5 minute opening statement. If I believe everything you said, things are going great; it is all working, you're having tremendous accomplishment. Would you like to shorten that and characterize it perhaps a little differently just so that I not misunderstand? Because everything you talked about, I heard it again and again, and I reread it while the others were speaking. You are telling me it is all working; after more three decades, suddenly it is all working. Is that what you want us to have us leave believing?

Mr. EINHORN. Congressman, what I would ask you to recognize is that we are working aggressively to implement the law and to implement and to achieve the objectives of the law, which is to reduce investments in Iran's petroleum sector.

Mr. ISSA. Mr. Einhorn, did you seek this legislation on your watch?

Mr. EINHORN. I am sorry?

Mr. ISSA. Did you seek this legislation on your watch? Is this legislation you would have had us pass?

Mr. EINHORN. The administration worked very closely with Members of Congress on this legislation. We believe it is strong legislation; that is why the President signed it on July 1st.

Mr. ISSA. Then, Mr. Einhorn, why all the out clauses? Why is it the administration wanted something that didn't tie its hands one bit, but gave the symbolism of strength because there are many things that could be done, but ultimately the President still has tremendous waiver authority under the current law?

Mr. EINHORN. The administration worked with the Congress to develop a tool that could be effective, and sometimes you need flexibility in the tool to persuade key targets to do what we want them to do, and we have used that flexibility to good effect.

Mr. ISSA. Thank you, Mr. Einhorn. Thank you.

Mr. Glaser, you were a little less rosy, but you are at the tip of the spear; you have to actually follow the money, is that right?

Mr. GLASER. Yes, certainly, part of it is following the money. Part of it is just applying broad systemic pressure.

Mr. ISSA. OK, the UAE is very often mentioned. On one hand we have their leader outright making statements that are very bold, and on the other hand we have some of the Emirates openly trading with Iran, isn't that true?

Mr. GLASER. I don't know about the trade side, but on the financial side there are certainly financial——

Mr. ISSA. Financial and others.

Mr. GLASER. Absolutely.

Mr. ISSA. There is movement of goods and money. It is a facilitation, but it is a facilitation in one region. What are you going to be able to do about that? You have a partner here who doesn't have control, and I think this is something Mr. Christoff touched on, is we have this lack of control. What are you going to do to empower a union, a federation of Emirates that is one of the key challenges to this sanction working?

Mr. GLASER. Thank you for the question. As I said in both my oral and written remarks, it is not enough what has happened to date. We have seen vigorous implementation of the U.N. resolution in Europe, in America, Canada, Australia; and now our challenge is to ensure that it is vigorously implemented elsewhere, and I specifically mentioned the Middle East as one of the key places.

And it goes without saying, but I will say UAE is absolutely key in that as well. I visited the UAE many times; my boss, Stuart Levey, is planning to go to the UAE in the next couple of weeks, and an important part of that discussion is going to be the provisions of the new legislation, the provisions that force banks to choose to put their corresponding banking at risk with the United States if they continue to engage in relationships and significant relationships with designated Iranian banks. That is going to be an important part of that discussion.

Mr. ISSA. I appreciate that.

Mr. Christoff, among other things, you touched on this and some of the other failures over time. You probably would not characterize the current success at the same level as others. Iran is in the proc-

ess of what they call privatization, and it is a shell game. They announce that they are going to sell something from the government and then people who somehow have money, but in fact the only thing they have ever been is connected to their military, buy it.

As that privatization goes on, isn't it going to get harder and harder to enforce a sanction that right now is failing already? And if so, what do we need to do to create a regime in which individuals who can operate much more globally, and without the cover of the government, are in fact part of a shell game of buying assets, often nuclear-related?

Mr. CHRISTOFF. I think you are right, and privatization is going to be a challenge in the future.

Mr. ISSA. Or crony privatization, if you will.

Mr. CHRISTOFF. Absolutely. But also I think you made a very good point about having more of a collective approach to dealing with the UAE in this transshipment issue. I really think that is an important issue. The UAE is now the No. 1 exporter of goods and services to Iran. The UAE remains the No. 1 country that the Commerce Department is concerned about with these post-shipment verifications that fail. We sell our goods to the UAE; we go over and inspect them; they are either not there or they are not being used as intended. So there needs to be a concerted focus on the United Arab Emirates.

Mr. ISSA. Thank you.

Mr. Chairman, in closing, I went into Libya on the first trip into Libya after we lifted all visitation sanctions, it was in a U.S. military aircraft, and we had several hours before we met with their "leader," and what I discovered was that there was more American goods, more American brand names in Libya on that first trip than I would typically see at Wal-Mart.

So I have been somebody who is critical not of the laws we pass; I think the sanctions we are passing are right and they are attempting to give real power, but it is very clear that unless we get implementation from the administration, some day, somewhere, we are going to have an event no different than October 23, 1983, at the Beirut barracks, where 241 Marines lost their lives. The next one will be nuclear and it will be exponentially greater, and it is likely to be here in the United States.

I yield back.

Chairman TOWNS. That is why we are having this hearing.

Yes, Congresswoman Maloney for 5 minutes.

Mrs. MALONEY. First of all, I would like to thank you, Mr. Chairman, for having the hearing and all of the panelists for your testimony and for your commitment of implementing the sanctions. I would like to direct my question to Mr. Neurauter, since this committee has direct responsibility, both legislatively and with oversight over procurement.

Mr. Neurauter, under the new sanctions signed by the President, GSA is required to revise the Federal Acquisition Regulations to require a certification from each person that is a prospective contractor; that the person, and any person owned or controlled by the person, does not engage in any activity for which sanctions may be imposed under Section 5 of the Iran Sanctions Act. Specifically, can GSA commit to meeting the timetable? You have committed to

meeting the timetable under the law to require this particular part to certify that contractors are not conducting any prohibited business.

Mr. NEURAUTER. Yes, we are definitely committed to doing that. We are definitely committed to having the interim rule in place. The folks in GSA are fully aware that this has started. Because the key is to implement the rule once it is in effect, and that is what we will do.

Mrs. MALONEY. Well, specifically what steps has GSA taken to ensure that companies that are making accurate and complete certifications, how do you know they are telling you the truth when they sign that box? Are you reviewing it or doing any research to make sure that they are accurate in what they are saying? Because obviously many companies have been conducting business in the prior sanctions that we had before the world, actually?

Mr. NEURAUTER. In the context of certifications and representations, that is a normal part of our business, and that is what companies do, and they certify as to many things.

Mrs. MALONEY. But what do you do to make sure that what they are certifying is accurate? What if a company knowingly makes a false certification and you find out, as we found out in Mr. Christoff's report, that many companies were doing business with America and Iran, in direct conflict with the prior Iran sanctions act? What do we do if a company knowingly signs that box and made a mistake or is just outright lying?

Mr. NEURAUTER. Speaking from my view as the GSA Suspension and Debarment official, I am very concerned about contractor integrity and honesty. If that kind of situation comes to my attention, if need be, I will ask the IG to investigate further to get me the facts; otherwise, I have the ability to call in the company and ask them whether the certification was accurate or not and, if not, to tell me what the facts are.

Mrs. MALONEY. The question is what if you find out that they made a mistake or were outright lying? Is there a fine? Do you debar them? Do you terminate the contract? What do you do if you find that situation?

You know, there was this one article that was in the New York Times—I would like permission to put it in the record, Mr. Chairman—about U.S.'s richest companies defying its policies on Iran. This was in March 6, 2010, and it talks about companies that were defying our law, yet getting billions, literally, in American contracts.

What happened? Did we terminate that contract? Did we fine the people? If you find someone knowingly really violates the law, you said you would do an IG investigation. What if the IG investigation comes back, or the investigation by the New York Times comes back and says that they are defying our policies, violating the law? Do we find them? Do we terminate our Government contracts with them? What do we do?

Mr. NEURAUTER. Specifically, I can speak to what I would do. If I find that contractor non-responsible based upon an integrity issue, I would debar them.

Mrs. MALONEY. You would debar them.

Mr. NEURAUTER. Yes.

Mrs. MALONEY. But there is no real requirement in law. What happened to these companies that are getting billions in American contracts and defying prior Iranian sanctions? Did anything happen to these companies?

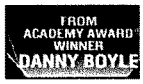
Mr. NEURAUTER. I don't know, ma'am.

Mrs. MALONEY. Well, could you find out and get back to us and let us know?

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March 6, 2010

U.S. Enriches Companies Defying Its Policy on Iran

By JO BECKER and RON NIXON

The federal government has awarded more than $107 billion in contract payments, grants and other benefits over the past decade to foreign and multinational American companies while they were doing business in Iran, despite Washington's efforts to discourage investment there, records show.

That includes nearly $15 billion paid to companies that defied American sanctions law by making large investments that helped Iran develop its vast oil and gas reserves.

For years, the United States has been pressing other nations to join its efforts to squeeze the Iranian economy, in hopes of reining in Tehran's nuclear ambitions. Now, with the nuclear standoff hardening and Iran rebuffing American diplomatic outreach, the Obama administration is trying to win a tough new round of United Nations sanctions.

But a New York Times analysis of federal records, company reports and other documents shows that both the Obama and Bush administrations have sent mixed messages to the corporate world when it comes to doing business in Iran, rewarding companies whose commercial interests conflict with American security goals.

Many of those companies are enmeshed in the most vital elements of Iran's economy. More than two-thirds of the government money went to companies doing business in Iran's energy industry — a huge source of revenue for the Iranian government and a stronghold of the increasingly powerful Islamic Revolutionary Guards Corps, a primary focus of the Obama administration's proposed sanctions because it oversees Iran's nuclear and missile programs.

Other companies are involved in auto manufacturing and distribution, another important sector of the Iranian economy with links to the Revolutionary Guards. One supplied container ship motors to IRISL, a government-owned shipping line that was subsequently blacklisted by the United States for concealing military cargo.

Beyond $102 billion in United States government contract payments since 2000 — to do everything from building military housing to providing platinum to the United States Mint — the companies and their subsidiaries have reaped a variety of benefits. They include nearly $4.5 billion in loans and loan guarantees from the **Export-Import Bank**, a federal agency that underwrites the export of American goods and services, and more than $500 million in grants for work that includes cancer research and the turning of agricultural byproducts into fuel.

In addition, oil and gas companies that have done business in Iran have over the years won lucrative drilling leases for close to 14 million acres of offshore and onshore federal land.

In recent months, a number of companies have decided to pull out of Iran, because of a combination of pressure by the United States and other Western governments, "terrorism free" divestment campaigns by shareholders and the difficulty of doing business with Iran's government. And several oil and gas companies are holding off on new investment, waiting to see what shape new sanctions may assume.

The Obama administration points to that record, saying that it has successfully pressed allied governments and even reached out directly to corporate officials to dissuade investment in Iran, particularly in the energy industry. In addition, an American effort over many years to persuade banks to leave the country has isolated Iran from much of the international financial system, making it more difficult to do deals there.

"We are very aggressive, using a range of tools," said **Denis McDonough**, chief of staff to the **National Security Council**.

The government can, and does, bar American companies from most types of trade with Iran, under a broad embargo that has been in place since the 1990s. But as The Times's analysis illustrates, multiple administrations have struggled diplomatically, politically and practically to exert American authority over companies outside the embargo's reach — foreign companies and the foreign subsidiaries of American ones.

Indeed, of the 74 companies The Times identified as doing business with both the United States government and Iran, 49 continue to do business there with no announced plans to leave.

One of the government's most powerful tools, at least on paper, to influence the behavior of companies beyond the jurisdiction of the embargo is the Iran Sanctions Act, devised to punish foreign companies that invest more than $20 million in a given year to develop Iran's oil and gas fields. But in the 14 years since the law was passed, the government has never enforced it, in part for fear of angering America's allies.

That has given rise to situations like the one involving the South Korean engineering giant Daelim Industrial, which in 2007 won a $700 million contract to upgrade an Iranian oil refinery.

According to the Congressional Research Service, the deal appeared to violate the Iran Sanctions Act, meaning Daelim could have faced a range of punishments, including denial of federal contracts. That is because the law covers not only direct investments, such as the purchase of shares and deals that yield royalties, but also contracts similar to Daelim's to manage oil and gas development projects.

But in 2009 the United States Army awarded the company a $111 million contract to build housing in a military base in South Korea. Just months later, Daelim, which disputes that its contracts violated the letter of the law, announced a new $600 million deal to help develop the South Pars gas field in Iran.

Now, though, frustration over Iran's intransigence has spawned a growing, if still piecemeal, movement to more effectively use the power of the government purse to turn companies away from investing there.

Nineteen states — including New York, California and Florida — have rules that bar or discourage their pension funds from investing in companies that do certain types of business in Iran. Congress is considering legislation that would have the federal government follow suit, by mandating that companies that invest in Iran's energy industry be denied federal contracts. The provision is modeled on an existing law dealing with war-torn Sudan.

Obama administration officials, while indicating that they were open to the idea, called it only one variable in a complex equation. Right now, the president's priority is on breaking down Chinese resistance to the new United Nations sanctions, which apply across borders and are aimed squarely at entities that support Iran's nuclear program.

But Representative Ron Klein, a Florida Democrat who wrote the contracting provision moving through Congress with the help of a lobbying group called United Against Nuclear Iran, said it offered a way forward with or without international agreement.

"We need to send a strong message to corporations that we're not going to continue to allow them to economically enable the Iranian government to continue to do what they have been doing," Mr. Klein said.

An Unused Tool

Sending a strong message was Congress's intention when it passed the Iran Sanctions Act in

1996.

The law gives the president a menu of possible punishments he can choose to levy against offending companies. Not only do they risk losing federal contracts, but they can also be prevented from receiving Export-Import Bank loans, obtaining American bank loans over $10 million in a given year, exporting their goods to the United States, purchasing licensed American military technology and, in the case of financial firms, serving as a primary dealer in United States government bonds or as a repository for government funds.

Congress is now considering expanding its purview to a broader array of energy-related activities, including selling gasoline to Iran, which despite its vast oil and gas reserves has antiquated refineries that leave it heavily dependent on imports.

From the beginning, though, the law proved difficult to enforce.

European allies howled that it constituted an improper attempt to apply American law in other countries. Exercising an option to waive the law in the name of national security, the Clinton administration in 1998 declined to penalize the first violator — a consortium led by the French oil company TotalFina, now known as Total.

The administration also indicated that it would waive future penalties against European companies, winning in return tougher European export controls on technology that Iran could convert to military use.

Stuart E. Eizenstat, who as the deputy Treasury secretary handled those negotiations, said the law let Iran "exploit divisions between the U.S. and our European allies."

Waiving it, though, was followed by additional investments in Iran — and more government largesse for the companies making them.

In 1999, for instance, **Royal Dutch Shell** signed an $800 million deal to develop two Iranian oil fields. Since then, Shell has won federal contract payments and grants totaling more than $11 billion, mostly for providing fuel to the American military, as well as $200 million in Export-Import loan guarantee and drilling rights to federal lands, records show.

Shell has a second Iranian development deal pending, but officials say they are awaiting the results of a feasibility study. In the meantime, the company continues to receive payments from Iran for its 1999 investment and sells gasoline and lubricants there.

Records show Shell is one of seven companies that challenged the Iran Sanctions Act and received federal benefits.

John R. Bolton, who dealt with Iran as an under secretary of state and United Nations ambassador in the Bush administration, said failing to enforce the law by punishing such companies both sent "a signal to the Iranians that we're not serious" and undercut Washington's credibility when it did threaten action.

Mr. Bolton recalled what happened in 2004 when he suggested to the Japanese ambassador that Japan's state-controlled oil exploration company, Inpex, might be penalized for a $2 billion investment in the Azadegan field in Iran. "The Japanese ambassador said, 'Well, that's interesting. How come you've never sanctioned a European Union company?' " Mr. Bolton recounted.

Inpex was never penalized, though several years later it decided to reduce its stake in the Iranian project. And to Mr. Bolton's chagrin, the Bush administration did not act on reports about other such investments, neither waiving the law nor penalizing violators.

Recently, after 50 lawmakers from both parties complained to President Obama about the lack of enforcement and sent him a list of companies that apparently violated the law, the State Department announced a preliminary investigation. Officials said that they were looking at 27 deals, and that while some appeared to have been "carefully constructed" to get around the letter of the law, they had identified a number of problematic cases and were focusing on companies still active in Iran.

Competing Interests

Among the companies on the list Congress sent to the State Department is the Brazilian state-controlled energy conglomerate Petrobras, which last year received a $2 billion Export-Import Bank loan to develop an oil reserve off the coast of Rio de Janeiro. The loan offers a case study in the competing interests officials must confront when it comes to the Iran Sanctions Act.

Despite repeated American entreaties, Petrobras had previously invested $100 million to explore Iran's offshore oil prospects in the Persian Gulf.

But the Export-Import Bank loan could help create American jobs, since Petrobras would use the money to buy goods and services from American companies. Perhaps more important, it could help develop a source of oil outside the Middle East.

After The Times inquired about the loan, bank officials said that they asked for and received a letter of assurance from Petrobras that it had finished its work in Iran. A senior White House official, in a Nov. 13 e-mail message, said that while it was the administration's policy to warn companies against such investments, "Brazil is an important U.S. trading partner and our

discussions with them are ongoing."

But if the administration hoped that the loan would bring Brazil in line with its objectives in Iran, it would soon prove mistaken.

On Nov. 23, Iran's president, Mahmoud Ahmadinejad, visited Brazil, and the two countries agreed to share technical expertise on energy projects. Iranian officials said they might offer Petrobras additional incentives for further investment.

The visit infuriated American officials, who felt it undercut efforts to press Iran on its nuclear program while lending international legitimacy to the Iranian president. Brazil's relationship with Iran has also complicated American maneuvering at the United Nations, where Brazil holds a rotating seat on the Security Council. Just last week, Brazil's president, Luiz Inácio Lula da Silva, restated his opposition to the administration's sanctions proposal, warning, "It is not prudent to push Iran against a wall."

Carter Lawson, the Export-Import Bank's deputy general counsel, acknowledged that Mr. Ahmadinejad's visit was "problematic for us, and it raised our antenna." He said that since December the bank had been operating under a new budget rule requiring borrowers to certify that they had no continuing operations in Iran's energy industry, and was carefully monitoring Petrobras's activities.

In the meantime, Petrobras's Tehran office remains open. And Diogo Almeida, the acting economic attaché at the Brazilian Embassy in Iran, said that while Petrobras was currently assessing how much it could invest in Iran, given the huge discovery off Rio de Janeiro, company officials were in active discussions with the Iranian government and were interested in pursuing new business.

Opportunities for Profit

For all the American rules and focus, there is still plenty of room for companies to profit in crucial areas of Iran's economy without fear of reprisal or loss of United States government business.

Auto companies doing business in Iran, for instance, received $7.3 billion in federal contracts over the past 10 years. Among them was Mazda, whose cars in Iran are assembled by a company called the Bahman Group. A 45 percent share in Bahman is held by the Sepah Cooperative Foundation, a large investment fund linked to the Revolutionary Guards, according to Iranian news accounts and a 2009 RAND Corporation report prepared for the Defense Department.

A Mazda spokesman declined to comment, saying the company was unaware of the links.

Even companies based in the United States, including some of the biggest federal contractors, can invest in Iran through foreign subsidiaries run independently by non-Americans.

Honeywell, the aviation and aerospace company, has received nearly $13 billion in federal contracts since 2005. That year it acquired Universal Oil Products, whose British subsidiary is working on a project to expand gasoline production at the Arak refinery in Iran. Universal recently received a $25 million federal grant for a clean-energy project in Hawaii.

In a statement, Honeywell said it had told the State Department in January of 2009 that while it was fulfilling its Arak contract, it would not undertake new projects in Iran.

Ingersoll Rand, another American company with foreign subsidiaries, says it is evaluating its "minor" business in Iran in light of the political climate. But for now, according to a spokesman, Paul Dickard, it continues to sell air-compression systems with a "wide variety of applications," including in the oil and gas industries and in nuclear power plants.

Senator **Byron L. Dorgan**, a North Dakota Democrat, tried to close the foreign subsidiary loophole after a furor erupted in 2004 over **Halliburton**, former Vice President Dick Cheney's old company, which had used a Cayman Islands subsidiary to sell oil-field services to Iran. But he said he was unable to overcome business opposition.

William A. Reinsch, president of the National Foreign Trade Council, lobbied against Mr. Dorgan's bill and has opposed other unilateral sanctions. He argues that their futility can be seen in the intransigence of the Iranian government and the way American oil companies have simply been replaced by foreign competitors. Moreover, many foreign companies with business interests in Iran are also large American employers; deny them federal contracts and other benefits, Mr. Reinsch said, "and it's those workers who will pay the price."

But Hans Sandberg, senior vice president of Atlas Copco, which is based in Sweden, offered a different perspective. Atlas Copco's sales of mining and construction equipment to Iran are dwarfed by its American business, including military contracts. If forced to choose, he said: "It would be no problem. We wouldn't trade with Iran."

Eric Owles contributed reporting.

This article has been revised to reflect the following correction:

Correction: March 10, 2010

An article on Sunday about United States government contracts and other benefits received by companies doing business in Iran misstated the date Honeywell, the aviation and aerospace company, notified the State Department that, while a British subsidiary would finish a refinery project in Iran, it would not undertake new projects there. It was January 2009, not last January.

Mr. NEURAUTER. Yes.

Mrs. MALONEY. The new sanctions also prohibit the head of an executive agency from entering into or renewing a contract for the procurement of goods or services with a person that exports sensitive technology to Iran. What role will GSA play in administering this portion of the law? That is a very sensitive area, sensitive technology. What role will GSA play in administering this section of the law?

Mr. NEURAUTER. Of this statute here?

Mrs. MALONEY. Yes.

Mr. NEURAUTER. As far as I know, that would be included in the FAR case.

Mrs. MALONEY. That will be included.

My time has expired. Thank you very much. Thank you for your service.

Chairman TOWNS. The gentlewoman's time has expired.

I now yield to the gentleman from Indiana, Congressman Burton.

Mr. BURTON. One of the things that has concerned me was I guess back during the Clinton administration, Madeline Albright waived the penalties on a Russian company and, I think, a South American company because they had done business with Iran, in violation of the law. I think it was Gazprom 1998 and Petronas Oil Companies.

But Madeline Albright waived them at the direction of the President, and the President said that the United States would not impose sanctions on violators from the European Union, presumably with the hope that the EU would, instead, immediately take action on its own, but it didn't. So these early sanctions made it clear to violators that they were not seriously threatened by the sanctions.

One of the things that concerns me, as I said before, and I think Mr. Issa mentioned as well, is that there is so much waiver authority by the President on almost every one of the sanctions that are in the bill, which I opposed in the conference committee. But, nevertheless, it is in there, and I just would like to, once again, express my concern about that, because, in the past, no President, going back to beyond Clinton, has ever imposed any sanctions that have been carried through.

The other thing I would like to ask is I noticed in the United Nations legislation it does provide a mechanism for civil penalties for financial institutions that are involved in any kind of a bank transaction of a $250,000 penalty or an amount that is twice the amount of the transaction that is the basis of the violation. But one thing that I can't really ascertain is whether or not the language in the bill that we passed provides a mechanism for freezing Iranian assets in the United States. I am not sure that the U.N. resolution does as well.

Can you tell me, any of you, whether or not freezing assets in banks, their money in the United States, is allowed in the bill that we passed and went through conference committee, or in the U.N. or any of the other bills that passed, the EU or any of them? Freezing their assets, absolutely saying you cannot let them have their money.

Mr. GLASER. Most Iranian assets in the United States would already be frozen now under a whole wide variety of Iran sanctions

legislation. The Treasury Department, over the past few years, has designated most Iranian banks under our counter-terrorism or counter-proliferation authority, that freezes their assets to the extent that there are assets in the United States. There would be, frankly, very few assets, if any, of those banks in the United States.

So I think the problem that the bill was trying to get at with respect to banks was not freezing their assets that are under U.S. control, because there aren't any assets under U.S. control, and we have already designated these banks and applied sanctions on them. What I think it was trying to get at was third-party banks that were providing these designated Iranian banks indirect access into the United States.

That is what the bill tries to get at and I think it was a very important problem that Congress identified and it is something that we are going to try to use to solve. But the assets of these banks, to the extent in U.S. jurisdiction, are likely already frozen.

Mr. BURTON. Mr. Einhorn, you are with the State Department. In the event that General Electric, which has been accused of doing business through their subsidies with Iran, if they continue to do business in any way and there are sanctions imposed upon them because of that business being conducted, would the State Department in any way recommend a waiver of that penalty? Because that has been done, as I said before, by Madeline Albright during the Clinton administration.

Mr. EINHORN. Congressman, without reference to any particular U.S. entity——

Mr. BURTON. Well, any company. I just used that as an example.

Mr. EINHORN. Any company, when we get information, credible information that a company is involved in sanctionable activity under the law, we will examine this very closely. We will go to the company itself; we will go to U.S. embassies, see what they can find out; we will inquire of the intelligence community.

Mr. BURTON. Let me just say will the recommendation of the State Department be that they will not waive the sanctions to the President?

Mr. EINHORN. I can't predict what the recommendation of the State Department will be; it will depend on the situation. You mentioned, Congressman Burton, you talked about waiver authority and so forth.

Sometimes it is very useful to have that authority in there, and I will tell you why. Sometimes you deal with a company that may have engaged in sanctionable activity. What you want them to do is to stop that activity and to pledge not to repeat it again. You need some flexibility in the law essentially to bargain with that company. And if there is a situation where a company has stopped all sanctionable activity and pledges not to resume it, then perhaps the waiver of authority, the ability to waive sanctions is a useful tool to stop that sanctionable activity, and that is worthwhile.

Chairman TOWNS. The gentleman's time has expired.

I now recognize the gentleman from Illinois, Congressman Quigley.

Mr. QUIGLEY. Thank you, Mr. Chairman.

Mr. Einhorn, I guess what you are getting from some of these questions is whether or not any administration has been strong enough on any of these sanctions through time. While I have faith in this administration, with all due respect, I am not sure your testimony would evoke greater faith that we would move forward appropriately with the new sanctions. From page 4 of your testimony: In this review, we identified a number of cases dating from before the Obama administration which appeared problematic and warranted more thorough consideration.

Given the extraordinary circumstances here, and the fact that the timeframe for a viable deliverable weapon seems to be collapsing upon itself, what does problematic mean? If you add that into the equation, and the fact that we are reading articles every day about how spry other countries seem to be circumventing these actions, are we spry enough? Are we forceful enough? And can you be a little more forceful from that testimony?

Mr. EINHORN. Thank you, Congressman. I can't speak for previous administrations. I certainly can't speak for the 8 years of the George W. Bush administration, where no determinations were made, no sanctions were made, no determinations of even sanctionability. All I can speak for is the Obama administration; and Secretary Clinton, early on, instructed us to act aggressively to implement the law. We have carried out a thorough review of a large number of cases. We winnowed those down to less than 10.

We are now in the process of engaging other agencies. The Secretary of State has been delegated authority to take decisions. We have to get the input from other agencies; we will provide that input to Secretary Clinton and she will make decisions. I would say that she, before very long, will have to make determinations under the law as to the sanctionability of this relatively small number of cases, fewer than 10.

Mr. QUIGLEY. And can you ballpark the timeframe here?

Mr. EINHORN. She wants us to move expeditiously. As I say, the dossiers are out to other agencies. We need to hear back from them, get their recommendations, and feed those to the Secretary, and she can make decisions.

Mr. QUIGLEY. And I appreciate that.

For the panel, switching directions, given the short timeframe we have with you, to the extent you can, tell us a little more of your thoughts about how China plays into this equation, filling the gap, perhaps flooding everything else, overwhelming everything else we are trying to do here.

Mr. CHRISTOFF. I think China is one of the countries in which the U.S. attention has to turn to. The EU sanctions were passed, but China has gone, over the past 15 years, from having minimal trade with Iran to being either the first or the second biggest importer and exporters of goods and services to Iran. They are aggressive in investing in Iran's energy sector. Their companies have been sanctioned under the nonproliferation provisions multiple times, to no effect. So that is the next country that I think we need to turn our attention to.

Mr. QUIGLEY. And by attention, your suggestions?

Mr. CHRISTOFF. Mr. Einhorn certainly has some suggestions, but I think there has to be a recognition that, at least with some of the

nonproliferation sanctions, when you have Chinese companies that have been sanctioned three or more times, there has to be a re-evaluation of the effectiveness of those particular sanctions, because it is not changing their behavior.

Mr. EINHORN. If I can just followup, Congressman. You are right to identify China. China is of concern to us in this regard. China has backfilled, when a number of responsible countries has distanced themselves from Iran. We need to speak with the Chinese.

We have begun to raise this at the highest levels with Chinese leaders. Deputy Assistant Secretary Glaser and I will be going to China in August to begin a dialog, and this dialog will be pursued at all levels. We need for them to enforce the Security Council resolutions conscientiously, and we also need for them not to backfill when responsible countries have distanced themselves from Iran.

Mr. QUIGLEY. Thank you, Mr. Chairman.

Chairman TOWNS. Thank you very much.

I now yield 5 minutes to the gentleman from Tennessee, Mr. Duncan.

Mr. DUNCAN. Thank you, Mr. Chairman.

I want to read some quotes from when this issue, a couple of times that it came up before, and if there is any time left, then I would be happy for you to respond.

A little over 3 months ago, the Congressional Quarterly, on April 22nd, had an article that said, "Business groups say the House and Senate bills could effectively prohibit U.S. businesses from partnering with certain foreign companies even if the relationships have nothing to do with Iran." Then they added: "The National Association of Manufacturers released a study arguing that at least $25 billion in exports and 210,000 jobs could be lost if sanctions legislation is enacted."

The next day, in the Hill newspaper, Patrick Disney and Lara Friedman, and I am not familiar with who they are, wrote this in an article, they said: The United States has sanctioned Iran for decades, with little to show for it, and added that, "Certain sanctions have unambiguously failed to achieve their objective, contributing instead to the suffering of ordinary Iranians."

Last December 15th, the National Security Subcommittee had a hearing in this very room in which I participated, and four witnesses testified, and I will tell you that all four of them were against sanctions. Dr. George Lopez, Chair of the Kroc Institute at Notre Dame, said that sanctions "will inflict economic pain in Iran, but produce no political gain on issues important to the United States. In fact, research on the history of sanctions cases predicts that these sanctions imposed on this Iranian government in the manner imposed in H.R. 2194 will do more harm than doing nothing."

James F. Dobbins, director of the International Security and Defense Policy Center, said that while sanctions are sometimes appealing, they are not without cost to the imposing states and "some of that cost is eventually transferred to the American taxpayer. Further, sanctions against Iran are not likely to alter Tehran's nuclear policies. Sanctions will weaken the state economically and even militarily that imposes it, and strengthen the regime's domes-

tic support and hold on power." In other words, strengthen Iran's hold on power.

Journalist Robin Wright said, "The regime could exploit new sanctions as an excuse to clamp down further on the opposition" and said, "Sanctions also hold the potential to hurt the public more than the regime."

Finally, Suzanne Maloney, a senior fellow at the Brookings Institute, said, "Sanctions do not offer a cure-all or a silver bullet for resolving our longstanding concerns about Iranian policy. There should be no illusions about the likelihood that even more rigorous and more broadly implemented sanctions can produce a reversal of Iran's nuclear calculus."

What I am concerned about is that sanctions will end up hurting the poor and lower income people of Iran more than anybody, while doing very little good for us. And I noticed that Mr. Christoff said, in his testimony a while ago, that because these sanctions we have imposed now are the toughest ever, that we need to very soon have a very good analysis of the effectiveness of these sanctions.

Now, if anyone wishes to respond. Yes, sir, Mr. Einhorn.

Mr. EINHORN. Thank you, Congressman, for the question. There is a long debate on the utility of sanctions; do they work, what is their impact, and so forth. Our view is that sanctions are not an end in themselves; they are a vehicle for changing Iran's behavior. We want them to recalculate costs and benefits and come up with a conclusion that they are better off ending their defiance of the international community and meeting their international obligations.

I think, until recently, Iranians have been very self-confident that they could have their cake and eat it too; they could have their nuclear ambitions, but they could also have good commercial financial relationships with the international community.

What we have been trying to do is turn up the pressure on Iran so that it has to make a choice between one or the other, and there is pretty good evidence coming in every day that Iranians are feeling the pressure. Every day another major company decides to distance itself from Iran, and we think Iran is beginning to feel the heat.

We read in the papers by Iranian economists that their economic situation is worsening, that oil production is declining, that the cost of imports is increasing because of the difficulty of getting financing. So we believe we have begun to turn the corner on this and that Iran is feeling the pressure, but we have to continue stepping that up.

Mr. DUNCAN. Well, let me just say, because my time is up, we have given people in our Government great power through this sanctions legislation. But I hope that power is exercised in a humane and judicious manner so that we don't end up hurting an awful lot of people in the process.

Chairman TOWNS. The gentleman's time has expired.

I now recognize Mr. Foster from Illinois.

Mr. FOSTER. Thank you, Mr. Chairman.

Director Christoff, were the Chinese companies that were sanctioned state-owned or privately-owned companies?

Mr. CHRISTOFF. I don't know that, Mr. Foster, but I can try to get that information for you for the record.

Mr. FOSTER. OK. Well, what I am getting at is whether it is reasonable to view the Chinese government as basically a holding company, so that the sanctions—you know, presumably, if there is a subsidiary that violates the sanctions, that reflects onto the holding company as a general principle. Is that how it works?

Mr. CHRISTOFF. Yes.

Mr. FOSTER. So in the case, which I think is likely, that at least some of these sanctioned companies, you could make a reasonable logical argument that in fact the holding company, namely, the Chinese government, might be sanctioned as a whole. I am just wondering if you can explore that for the record.

Mr. CHRISTOFF. Yes, I will look into that.

Mr. FOSTER. Deputy Secretary Glaser, what do you view the biggest holes are in the financial net that we are trying to cast around the IRGC? For example, how are illicit arms or technology shipments typically paid for? Are there enhancements to the international reporting that would really do you a lot of good that we could encourage at the congressional level?

Mr. GLASER. Thank you for the question. I am glad you focused on the IRGC, because I think that is really one of the key entities we should be looking at. The IRGC is engaged in the whole range of bad conduct that we associate with Iran, from proliferation activities, terrorist activities, suppression of democracy within Iran. The IRGC is engaged across the board. It is also a very attractive target because they have such extensive economic and financial networks both within Iran and throughout the world. So that is their strength, but it is also their weakness; it also creates a target-rich environment.

The challenge that we have had up until, really, the last month is getting universal action with respect to the IRGC. We have had tremendous success with that recently with 1929, and really most especially with the European Union's Common Position this week, which applies sanctions to the IRGC and Europe across the board, the IRGC as an entity plus numerous subsidiaries.

Again, the challenge I don't think is a legislative one; I don't think it is an authority challenge. The challenge is to make this as broad and deep as possible, to get out on the road, to present information to the private sector, to present information to foreign governments to let them know what kind of activity the IRGC is engaged in in their countries, and then expect them to live up to their obligations under international law and under the domestic law.

That is what we have been doing and that is what we are doing. And as Mr. Einhorn said, I think we are starting to see that is working. And we both mentioned it, but I think it is worth underscoring, Khatam al-Anbiya is one of the primary companies owned by the IRGC, and they just had to pull out of South Pars, and they had to pull out because, as they themselves admitted, it was against Iran's national interest for them to be involved because they couldn't get the international——

Mr. FOSTER. Well, are you seeing evidence that individuals are transferring money to private accounts offshore that you can't identify in havens, or is that something with acceptably?

Mr. GLASER. Well, the issue of bank secrecy havens is a broader issue than it applies to Iran.

Mr. FOSTER. Absolutely.

Mr. GLASER. Look, the Iranians are very sophisticated and they are very smart, and they have complex financial systems, and they know how to engage in deceptive financial practices, and they do. And we try to prevent that from happening, but the fact of the matter is that, on a case-by-case basis, on a transaction-by-transaction basis, they are going to be able to do transactions that they want to do. The challenge is on the systemic level, because you can't run an economy on deceptive financial practices. So the challenge is to make it costly or risky or less effective for them to do that, and I do think we are succeeding in that.

Mr. FOSTER. OK.

Mr. Einhorn, the Iran Sanctions Act, as recently amended, states that the President shall initiate an investigation when credible evidence is presented, and I think a report within 180 days. How is that going?

Mr. EINHORN. Well, Congressman, this law was only enacted less than a month ago, and we are now in the process of figuring out how to implement it effectively and how to deal with the 180-day period. Often, thorough investigations of these activities take longer than 180 days because often you get some initial public indication that a deal is in the works, but it may not be consummated for 3, 5, 10 years. So it is a challenge to wrap everything up in 180 days. We are trying to figure out how to do that.

Mr. FOSTER. But you are committed to——

Mr. EINHORN. Absolutely.

Mr. FOSTER [continuing]. At least some kind of finding in 180 days?

Mr. EINHORN. Absolutely. We are committed to implementing that aspect of the law, all aspects of the law.

Chairman TOWNS. The gentleman's time has expired.

I now yield to the gentleman from Arizona, Congressman Flake.

Mr. FLAKE. I thank the Chair and I thank those who have testified. I am sorry I missed part of it; other obligations. So I hope you are not plowing the same ground here.

Mr. Einhorn, in your view, let me just step back, is it possible to have an effective sanctions regime without the active participation of Russia and China?

Mr. EINHORN. As your question implies, it is very important for Russia and China to be involved. They were involved to some extent already, in the sense that they voted for Security Council Resolution 1929, which is the base for many of the national measures that have subsequently been taken. So that is positive.

But we also need their effective enforcement of 1929, and we also ask them to recognize their responsibility as permanent members of the Security Council to go beyond 1929 and to join with the European Union and us and the Australians and Canadians and have a strong regime of pressure that can move Iran to meet its international obligations. But Russia and China are very important.

Mr. FLAKE. Very important, but not really helping is what you are saying?

Mr. EINHORN. Well, recently Russia took an important decision: it decided that, in accordance with the Security Council resolution, it would not deliver an advanced air defense system, the S–300, to Iran. We have been pressing Russia very hard for a number of years not to make that delivery, and they have agreed not to make it, and that is positive.

Mr. FLAKE. Should we worry about getting too far ahead of our allies, European allies and ahead of Russia and China as well? I mean, there are two schools of thought here: if we lead, they will follow; but there is also the notion that if we get too far out ahead, they won't. Where do you think we are now? Do we risk getting too far ahead so we don't have active, enthusiastic ongoing cooperation, not just public, but privately, in enforcing these resolutions as well with Russia and China?

Mr. EINHORN. We are very grateful that the European Union took the decision it took this week. It set some very high standards for sanctions. We will use those high standards in our discussions. Danny Glaser and I will be in Seoul and in Tokyo next week to see if Japan and South Korea could come up to that mark. We will also go to China later in the month. It is important that China step up and recognize its international responsibilities here.

Mr. FLAKE. We keep saying that we are targeting the regime and not the people of Iran; we are just looking at items that would help them build nuclear capacity. How is gasoline used to build nuclear capacity?

Mr. EINHORN. Well, gasoline is not directly used, obviously, to build nuclear capacity, but I think by putting some pressure on their access to refined petroleum products you encourage them to recompute what is in their best interest and to recognize that unless they stop their defiance of the international community, the future for Iran will look a lot dimmer; and hopefully they are coming to that conclusion.

Mr. FLAKE. That is my point. It is not directly, but we all know how these sanctions regimes usually work. They only work if you have leaders that care a little more bout the plight of the people. I mean, if we thought rationally, we certainly wouldn't have had the same embargo we have had in Cuba for 50 years, for example.

So I worry that we say publicly we don't want to hurt the Iranian people, we don't want to drive them into the arms of the regime, but then we target items that have nothing to do with building nuclear capacity, but would provide a pinch on the people without hurting the regime. We all know the regime finds ways certainly when we see just example after example after example of ways that the black market works here, and our own Secretary of State has used the term "leaky," these sanctions are leaky, and that is quite an understatement.

Anyway, thank you for your testimony.

Mr. EINHORN. If I could just respond to that. All sanctions regimes are leaky to some extent, but what we are seeing here is that the sanctions are becoming more and more comprehensive, and that is good. As far as dealing with the people of Iran is concerned, our intention is not to harm the people of Iran. Our intention is to get the leadership of Iran to reconsider. And that is why we have done things like ensure that organizations like the IRGC

and IRISIL, the Iran shipping line, is specifically targeted. That will be an important signal to the elites of Iran.

Chairman TOWNS. The gentleman's time has expired.

I now recognize the gentleman from Maryland, Congressman Van Hollen, for 5 minutes.

Mr. VAN HOLLEN. Thank you, Mr. Chairman.

Thank all of you for your testimony today. I just want to followup on some of the questions that have already been asked. I think, obviously, there is consensus. To the extent we can broaden those countries that are participating in the sanctions, obviously, they are much more effective. The step the EU took recently was another positive measure.

To what extent does the sanctions regime that we have here overlap with what the EU has done, and what specific steps are we taking now with the EU to make sure that we have uniform enforcement as much as possible?

Mr. EINHORN. Mr. Glaser may want to add to this. We have the most comprehensive sanctions regime against Iran than any other country in the world. You realize that.

Mr. VAN HOLLEN. Yes.

Mr. EINHORN. I think what the Europeans did this week really closed that gap quite significantly. There are still differences, but the gap was closed significantly, and I think it was probably a very rude shock to the leaders of Iran to see the strength of the steps they took.

Mr. VAN HOLLEN. Just to followup, there has been some concern expressed about the relationship with some of the banks in Germany, specifically, with respect to Iran. Could you comment on that, especially in light of the decision taken by the EU, how the EU decision will impact especially the question of German banks doing business with Iran?

Mr. GLASER. Well, I think the EU decision, the EU Common Position is going to significantly impact any German banks or any European banks that are doing business with Iran. So any German banks that are doing business with any of the seven banks designated by the EU will have to stop. Any German or other European banks that do any sizable transaction with Iran will have to get preapproval for that transaction, and they have to wait 4 weeks for that preapproval. So it is really a huge step forward.

That said, there are some German banks, there is one German bank that was discussed in the press, EIH, that does remain a concern for us, and that is something that we continue to discuss with the Europeans, and with Germany in particular. I think their business will inevitably decline based on the new EU measures, but it is something that is going to remain a subject of conversation between us and our allies in Germany.

Mr. VAN HOLLEN. Mr. Einhorn, you mentioned the fact that China had voted for the resolution of the United Nations. Obviously, they also worked very hard to weaken some aspects of the proposal we put forward, so I am pleased to hear you are going to be traveling there in the near future.

How do you grade the prospects for getting the Chinese to really be serious about this effort in Iran? I think it is clear, based on their actions to try to dilute sanctions at the United Nations, that

they are obviously not onboard. What goals do you have specifically for that trip? How would you measure success in your discussions with the Chinese?

Mr. EINHORN. Two important criteria. One is that they enforce the letter of Resolution 1929 conscientiously, and that if there are Chinese entities that are in any way assisting, for example, the missile programs in Iran, that China take strong steps against those entities. That is one. Second, we want China to recognize its responsibility not to backfill when responsible governments show restraint and distance themselves from Iran. That will be very important.

The Chinese will argue that they have important energy security needs, tremendous demands for energy; they need to do what is necessary to ensure energy security. In our view, they are overachieving in terms of their energy security needs. We think they have to kind of rebalance their priorities and recognize that, as a permanent member of the Security Council, it is their responsibility to prevent proliferation and to put pressure on Iran and persuade Iran not to pursue nuclear weapons.

Mr. VAN HOLLEN. Thank you.

My last question relates to the standard that applies to granting a waiver of the sanctions. As I understand the legislation, the standard is that it will be vital to the national security interests of the United States and that the government with primary jurisdiction over the sanctions violator is closely cooperating with the United States in this effort.

This is probably by way of a comment more than a question, but I think it is absolutely essential that we keep that standard as tight as possible. For example, I think it would be very difficult to argue today that the Chinese or the Russians were meeting the intent of that language with respect to cooperation, given their conduct.

So I would hope that you send the right signal to others as to how you interpret that, because you don't want a flexible interpretation of the rule to send a green light to others that they are going to be able to get away with this. So I hope that discretion will be pursued in a way that maximizes a tight uniform sanctions regime.

Thank you, Mr. Chairman.

Chairman TOWNS. I thank the gentleman from Maryland.

I now yield 5 minutes to the gentleman from Utah, Congressman Chaffetz.

Mr. CHAFFETZ. Thank you.

Thank you all for being here, I appreciate it. For the sake of clarity, in a rapid fashion, I am looking for like a "yes" or "no" here. I just want to make sure that each of your organizations are committed to the timetables laid out in legislation. You have the infrastructure, you have the resources, and that you are going to be able to make the timetables that are implemented in the legislation. Perhaps we can start with Mr. Einhorn.

Mr. EINHORN. If you want a "yes" or "no," yes.

Mr. CHAFFETZ. Is there anything in your way to making sure that you get these done? Please continue down the line.

Mr. GLASER. Yes.

Mr. NEURAUTER. Yes.

Mr. CHRISTOFF. We don't have anything to implement, but we assure continued oversight on the part of GAO to make sure they are implementing it.

Mr. CHAFFETZ. Thank you. Thank you.

Chairman TOWNS. So that is a "yes," right?

Mr. CHAFFETZ. That is a "yes." That is an absolutely. That is good to hear. Mr. Einhorn, let's talk for a moment, if we could, about Turkey, given the recent situation. Can you assess the level of commitment that they have to helping and assisting in these efforts?

Mr. EINHORN. We believe the government of Turkey shares our objective of preventing Iran from getting nuclear weapons. We appreciate the hard work that Turkey has put in in trying to persuade Iran to adopt a more reasonable position. Sometimes we differ with Turkey on tactics.

For example, Turkey joined with Brazil and Iran in what was called the "Tehran Declaration" in May, and they supported what we considered to be an unacceptable version of a proposal we supported back in October on refueling the Tehran Research Reactor. We didn't appreciate the timing because it was on the eve of voting on the U.N. Security Council resolution, and perhaps some of the participants had in mind derailing that vote on a Security Council resolution. So sometimes we disagree with Turkey on tactics, but we believe their motivation is good. They want to solve this Iran nuclear issue just as we do.

Mr. CHAFFETZ. Mr. Glaser, any sense or any assessment of using the Patriot Act along the way, if we need to use that authority?

Mr. GLASER. We have a wide variety of authorities under the Patriot Act, under IEPPA. We consider all of those authorities. Any authority that we have that we think we can put to good use would be considered.

Mr. CHAFFETZ. As the Treasury, and then I would like to go to State, if I could. My time will run short here. Just very rapidly because time is so short, what are your top three concerns about really fully implementing all these sanctions? What are the three things that you are worried about that are obstacles we need to overcome to actually fully implement? Yes, please.

Mr. GLASER. To fully implement? I keep coming back. The challenge is to make these sanctions as broad as possible, and what I mean by that is vigorous global implementation. That is the big challenge. We now have the tools, we have the authorities really throughout the world. The challenge is global implementation. And when I say deep, I mean countries going, as appropriate and as necessary, beyond the scope of what——

Mr. CHAFFETZ. So which three countries, then, would you be most worried about?

Mr. GLASER. Well, I will tell you which three regions I think need to be focused on right now, and that is the Middle East, Asia, and South America. Europe has taken strong action; we have taken strong action in North America; Australia has taken strong action. And as Mr. Einhorn said, Bob and I are going to be traveling to Japan and South Korea next week; we are going to be in China later in the month. Asia is important. My boss, Stuart Levey, as

I said before, is going to be in the UAE in the next couple of weeks. The Middle East is important. South America is important too.

Mr. CHAFFETZ. Mr. Einhorn.

Mr. EINHORN. I would agree with Danny's characterization. I would just say it is very important to maintain the momentum. Since June, when the Security Council resolution was adopted, there have been a series of actions, including U.S. Executive order designations. We talked about Australia, Canada, Europe, and so forth. We have to keep up the momentum.

Part of this is psychological. Part is practical, on-the-ground, what is happening economically, but part of it is psychological. We have to demonstrate to Iran's leaders that the situation is going to deteriorate, it is going to continue to deteriorate unless they change their behavior. So keeping the momentum up throughout this summer, into the fall, will be critical.

Mr. CHAFFETZ. Thank you.

Mrs. MALONEY [presiding]. The gentleman's time has expired.

Ms. Chu. Thank you, Madam Chair.

The U.N. Sanctions Resolution 1929 was a positive step; however, the financial sanctions in the resolution left something to be desired. For example, only one new bank was added to the list of sanctioned entities. And even here in the United States, sanctions announced by the Treasury Department last month added only one bank to the list of those sanctioned.

Is the Treasury Department aware of foreign financial institutions that continue to conduct business with sanctioned Iranian banks? And what steps is the Treasury Department taking to ensure corresponding relations between the United States and foreign banks are not being abused by Iran to gain access to U.S. financial markets?

Mr. GLASER. Thank you for the question. I certainly agree that the financial component of this whole effort is key to its success. I actually was pleasantly surprised by how strong the 1929 was on the financial side. I think we got some really, really important provisions in there that we have been looking for for a long time, especially with respect to correspondent banking. And you saw that the EU picked right up on that and themselves even went beyond the U.N. in terms of correspondent banks.

So I think it is becoming really, just in the past month, increasingly difficult for Iran to access the international financial systems through its correspondent banking networks. And that has been reducing. Over the past 3 years or so we have been having a lot of success in banks moving out of the Iran business.

Now, the question is, as you raise, what do we do with respect to the few remaining that are continuing to do this business. As we discussed earlier, Congress just gave us very, very important new authority on that, and the Treasury Department has 90 days to issue regulations that, when applied, would severely restrict or cut-off a third-party bank's corresponding relationship with the United States if it is doing business with a designated Iranian entity. And we have every intention of meeting that 90-day deadline of issuing those regulations, and we intend to implement the law that Congress gave us.

Our hope, though, is that banks around the world, the few remaining, see the choice that they have to make, that they are going to make the economically intelligent decision as to what to do. That has been a part of our strategic dialog with the international financial sector for years now, and I think that is working. There are some banks, even after that, that aren't exposed to the United States that we would have less leverage on, and we are going to have to come up with creative ways of dealing with them as well. But this is something that we have been seized with for a long time, and it is really what we see as one of our main contributions to the effort, is to do precisely what you are suggesting.

Ms. CHU. Actually, I am aware about the designation process taking too long to complete, and many companies and banks, including, for instance, subsidies of previously sanctioned entities, going unsanctioned, for example, IRISIL, Iran's state shipping company, and the process there, because after the U.S. initially sanctioned this company, they began to evade it by renaming ships and establishing front companies to take over ownership of the vessels.

And last month, more than a year later, the Treasury Department finally updated its sanctions on IRISIL; yet, even this failed to identify multiple front companies that were identified by the Commerce Department as it relates to the transfer of this speed boat from a South African company to an Iranian company last year.

So what is going on with actions against these numerous IRISIL front companies, some of which have already been identified by the Commerce Department?

Mr. GLASER. You raise a very important point, and it is a challenge that we face, and we face it every day. Chairman Towns, in his opening remarks, said sanctions can't just be a "cat and mouse" game, and I wrote it down when he said it because I thought it was an extremely important point.

There are two components to our sanctions regime with respect to Iran, and with respect to a lot of different sanctions regimes we have, but certainly with Iran: The targeted side and the systemic side. And if they are not both working, especially the systemic side, then you are not going to get the results you are looking for.

So, yes, there is a cat and mouse aspect to it, and that is what you are referring to, which is we take an action and then that causes a response, and we have to catch up to the response. And if that is the only way we do it, that is not going to be successful, because it is much easier to change a company's name than it is to go through a procedure that has due process and fairness in it, and take a formal government action that has an impact on people. So that is always going to be an issue.

What that has to be combined with is strong systemic protections: obligations on banks and on other private sector entities to themselves be careful, to in themselves understand who they are dealing with, to themselves prevent themselves from being abused by Iranian entities, by Iranian banks, by IRISIL, and that is part of all this.

Mrs. MALONEY. Thank you.

Mr. Luetkemeyer is recognized.

Mr. LUETKEMEYER. Thank you, Madam Chairman.

Mr. Einhorn, just quickly, I have some concerns with regard to just the general activity over in the Middle East. It would seem as though, with the recent agreement with Syria that Iran has had, the recent testing of the missiles that now, I think, 1,200 miles is what their reach is, that they have made tremendous progress with regards to developing and putting in place a plan not only to make, but also deliver, nuclear arms. Where are we at?

Mr. EINHORN. Congressman, what you just cited is a source of concern to us. It is not just a question of Iran making progress in its centrifuge enrichment program; it is progress in means of delivering a possible nuclear weapon; and they have been making progress in their missile program, and that is a problem. The new Security Council resolution specifically prohibits Iran from any activities related to ballistic missiles that can carry nuclear weapons, and——

Mr. LUETKEMEYER. What is the enforcement mechanism?

Mr. EINHORN [continuing]. That gives us leverage. When we believe there is a shipment to Iran from any country that could support their missile program, we will utilize the inspection provisions of that resolution to try to interdict it.

Mr. LUETKEMEYER. OK, there is another country that may be even more interested in what is going on over there than what we are, and that is Israel. Are we discussing the sanctions with them, more than just sending them copies of our newspapers every day? Do we have detailed briefings with the Israeli officials to where they are drawn in to these discussions, made a part of what is going on so that they are informed and can have some input? Because I am sure they have as good, or better, intelligence of what is going on as we have because of the dramatic impact it has on them.

Mr. EINHORN. Absolutely, Congressman. We are in close touch with the Israelis. As a matter of fact, this afternoon we have a meeting with a senior Israeli team to talk about Iran and to talk about sanctions, and they are an important source of information. We cooperate on intelligence matters with lots of friendly countries around the world, but Israeli intelligence is particularly good.

Mr. LUETKEMEYER. Where are we going with our relationship with Israel? It seems it is kind of a cold relationship at this point with this administration. Are we starting to warm up to them a little bit? Are we starting to work with them a little bit more? Because I know they are not very happy, from what I understand, with what has been going on.

Mr. EINHORN. Well, my impression is that Prime Minister Netanyahu's recent visit was very successful. We are strengthening the relationship all the time, and I think today's consultations on Iran is an example of how closely we can work with the State of Israel.

Mr. LUETKEMEYER. OK, through this process, is there some sort of retribution or some sort of sanction or some sort of pressure that we are going to be putting on Syria and other countries in the area, just immediate area, besides Russia and China, that are helping the Iranians?

Mr. EINHORN. Syria is on our list of state sponsors of terrorism.

Mr. LUETKEMEYER. Right. They admit that they are terrorists, is that right?

Mr. EINHORN. There are many, well, they are on our list.

Mr. LUETKEMEYER. OK.

Mr. EINHORN. And there are many sanctions that apply to Syria for that and other reasons, including Syria is a big importer of missile technology, which is a problem also. So we have reached out to Syria. We are trying to explore whether there is the basis for some meaningful dialog, but we do so without any illusions about the nature of the regime and about some of its ambitions in the area of weapons of mass destruction.

Mr. LUETKEMEYER. OK.

With that, Madam Chair, I yield the balance of my time to Mr. Burton.

Mr. BURTON. I just want to make a real brief comment. I know the four of you have a great responsibility because of the legislation we passed, and I know Mr. Flake and others have indicated that maybe, you know, these sanctions won't work. But I would just like to say that those who are aware of history realize that this may be one of the last chances we have to stop Iran from getting nuclear weapons.

And I would like to remind you and everybody else that what happened back in the late 1930's led to 50-some million people being killed because we didn't do everything necessary to stop the Luftwaffe, Hitler and everything else. And I think Mr. Ahmadinejad is one that can be equated with possibly Hitler, and I think it is very important that we do everything possible to stop them with their nuclear program so we don't have to face that prospect.

With that, I thank the gentleman for yielding.

Mrs. MALONEY. Thank you very much.

Mr. Connolly.

Mr. CONNOLLY. Thank you, Madam Chairwoman. I am going to plead in advance with the panelists. Thank you for being here. You need to speak into the microphone like this; otherwise you cannot be heard. You sound muffled and I missed much of your testimony. So please. The acoustics are terrible here. We are going to fix that, though.

The Washington Post, Mr. Einhorn, had a story last week about South Pars and how sanctions may actually be having the intended effect, although the Chinese and the Malaysians are trying to pick up some of the slack. Would you agree with that assessment? And are there other salient examples of where we can point concretely and say that is because of sanctions?

Mr. EINHORN. I think it is accurate. I do think it is accurate. I think the Iranians are having some difficulty getting investment in some of the big projects, including South Pars. Danny Glaser talked about Khatam al-Anbiya withdrawing from that project. I mentioned in my testimony major oil companies that have pulled back from their interest in Iran. So I do believe that these sanctions are having the desired effect of discouraging investment in Iran's petroleum sector.

Mr. CONNOLLY. You mentioned, speaking of China, that the State Department has elevated this to the highest level and it is now a

topic of conversation when we have diplomatic discussions. What is the nature of the representation and what is the nature of the response?

Mr. EINHORN. Well, we invested a lot of diplomatic time and effort on the European Union's recent decision at every level of Government. A number of us traveled to Europe and spoke to Europeans. Danny Glaser's boss, Stuart Levey, played an important role in this. Secretary Clinton has been very active on the telephone and in her meetings. Vice President Biden, President Obama, all of them have put a lot of effort into making these sanctions work and generating pressure that can lead to a change in Iran's behavior.

Mr. CONNOLLY. Yes, but you are not giving us any reassurance that the Chinese care or are receptive to your message. In fact, there is some evidence they don't.

Mr. EINHORN. I mentioned before that after China's yes vote, which was a good thing, China remains a matter of concern, and China is going to be the focus of very high level attention over the next weeks and month. But China needs to be an important part of this international effort to put pressure on Iran.

Mr. CONNOLLY. Well, Mr. Glaser, the March GAO report on enforcing restrictions recommended that the Department of Treasury should be ensuring that they are developing the capability to provide all other Federal agencies that are relevant, and Congress, with complete and timely information concerning all licenses issued for the export of goods to Iran. What progress have we achieved on that recommendation in the Treasury Department?

Mr. GLASER. I believe that was a recommendation made to an office of the Treasury Department called the "Office of Foreign Assets Control."

Mr. CONNOLLY. Can I tell you I cannot hear you, Mr. Glaser?

Mr. GLASER. I am sorry. I apologize, Mr. Congressman.

That recommendation, I believe, was made to a portion of the Treasury Department called the Office of Foreign Assets Control, so I will have to take that question back to them, and we can provide you an answer.

Mr. CONNOLLY. Would you get back to us for the record, please? Thank you.

Let me ask U.N. Security Resolution 1540 obligates U.N. member states to develop and enforce measures to prevent the proliferation of weapons of mass destruction to non-state actors. Presumably, that resolution has direct relevance to Iran, even though it is not called Iran sanctions, but it certainly has direct relevance. Have we been able to use that resolution in our diplomatic efforts to ensure compliance with Iran sanctions and/or to encourage others to sort of try to see this issue our way? Mr. Einhorn.

Mr. EINHORN. Congressman, 1540 may be an indirect way of addressing the question of Iran. It has basically been seen as a vehicle for strengthening the capacity of lots of countries around the world to cope with the threat of terrorism, the threat from non-state actors. Iran is a state sponsor of terrorism; it has given support to a number of terrorist organizations. We need to increase the ability of countries to cope with that threat, whether coming from Iran or other terrorists.

Mr. CONNOLLY. Thank you. My time has expired.

Mrs. MALONEY. Thank you. The gentleman's time has expired.

Mr. CONNOLLY. My time has expired. Thank you, Madam Chairwoman.

Mrs. MALONEY. Mr. Issa.

Mr. ISSA. Thank you, Madam Chair.

Mr. Christoff, in addition to the 41 companies and all the other research you did in your April report, you have also, I assume, observed one of the subjects that is talked about a lot, the gasoline that has to be imported into Iran. Is that not so?

Mr. CHRISTOFF. Yes. In fact, Mr. Issa, we are planning on issuing a report next week, as soon as we get all comments from a variety of companies that we have identified in open sources as selling refined petroleum products, particularly gasoline, to Iran.

Mr. ISSA. And without asking you to get ahead of your own report, for all practical purposes, Iran is not suffering; they are getting that 145,000 or so barrels of gasoline and petroleum products they need, right?

Mr. CHRISTOFF. Well, the spot market is such that it is a very fungible product, and you can get the product even though the costs might be an additional cost to get the product. You can still get the product.

Mr. ISSA. So bottom line is at least that part of the sanction not so good.

Mr. CHRISTOFF. Well, it has just started.

Mr. ISSA. As long as they have money, they get the fuel.

Mr. CHRISTOFF. Well, I think it has just started. I mean, these new sanctions were just imposed this week, in which the State Department would have to begin identifying companies and starting to enforce sanctions against those who in fact do sell refined petroleum products to Iran.

Mr. ISSA. But we leaned on Kazakhstan a long time ago, a country that could deliver the refined petroleum quicker, cheaper, easier, because they are in the closest proximity to Tehran, which is where the ultimate shortage is. The shortage is in the north, not the south. And it didn't help that they didn't supply it; they still got it over this period leading up to this week, is that right?

Mr. CHRISTOFF. They need 140,000 barrels of gasoline every day. That is their domestic shortage. According to even intel sources, they are working to try to increase their refining capacity, but they are still going to be dependent upon imports.

Mr. ISSA. OK. Well, you know, Iraq was the same way, and they simply built a pipeline in addition to all the other leakage, shipped oil to Syria, Syria refined it, took a big cut and sent a certain amount back. And it wasn't until after we took Baghdad and bombed that pipeline that we actually stopped it.

Mr. Einhorn, that takes me back, if you will. You have been on the ground and working in this one unique area since Nixon, is that true?

Mr. EINHORN. That is right. Not in this specific area, but I began government service in 1972.

Mr. ISSA. And you have been, more or less, in nonproliferation and related subjects for much of that time.

Mr. EINHORN. That is correct.

Mr. ISSA. So when you began there were five countries that had nukes, right, the Gang of Five?

Mr. EINHORN. Roughly.

Mr. ISSA. Roughly?

Mr. EINHORN. Roughly five.

Mr. ISSA. My recollection, as a younger man, it wasn't India, it wasn't Pakistan, it wasn't Israel, it wasn't North Korea, and it wasn't Iran; it was the United States, the Soviet Union, China, the U.K., and France. Pretty much right?

Mr. EINHORN. Those were the acknowledged nuclear weapon states.

Mr. ISSA. Right. I realize that there is declared and undeclared. And I realize if Japan wanted a nuclear weapon, it could probably produce it in 90 days. I mean, there are people who have the capability, if they chose to.

What I find amazing is I want sanctions to work. I want peaceful activities to work. I want this country that has resisted reform since the revolution 30 years ago, I want it to work. I wanted North Korea to respond. Now, you were clearly on the ground in the Clinton administration when we used a combination of sanctions and gifts to North Korea, and they gave us a promise and they lied to you. They got away with it. Now they have the bomb.

Why in the world is it any different with Iran? Why is it that Iran, who has a close relationship with North Korea on this particular subject, why is it that we shouldn't believe they are just lying to you, cheating you, delaying you, and ultimately they are going to end up exactly like North Korea? Except the difference is North Korea is not killing people in Lebanon and in Israel every day. They are not exporting free and subsidizing terrorism. They can barely feed their own people.

Why is it that I shouldn't believe that this is a much bigger threat than the failure, a decade ago, to deal with North Korea before they got a weapon? Because this is a country with money, money to buy that gasoline somehow, and everything else. Please.

Mr. EINHORN. Clearly, Iran has not earned our trust. Quite the opposite.

Mr. ISSA. Hell, they haven't even given back our embassy.

Mr. EINHORN. This is a government we do not trust. Its track record has been very poor in terms of meeting its obligations, fulfilling its commitments. So we remain skeptical about their behavior.

But there is a difference between Iran and North Korea, and it is an important difference. North Korea's leaders don't seem to mind being isolated. In fact, they may believe that isolation is the only way their regime can survive.

Iran has different priorities. Yes, they want to move their nuclear ambitions forward, but they always want to be seen as a respected member of the international community. They need commerce. They need trade. They need to engage with the world. We need to demonstrate to them that they can't have their cake and eat it too. They can't have their nuclear ambitions and have these good relations with the rest of the world.

Mr. ISSA. Thank you. My time has expired.

Mr. Chairman, I would at least take this opportunity to say I agree with everything that Mr. Einhorn said, that they want to be respected. I would strongly suggest that as we get into looking at figure sanctions, we recognize that as long as the world allows them to have embassies and allows them to hold our embassy hostage, that we are in fact still allowing them to have normalized relationships with virtually every country on Earth and then hope that sanctions will work.

I, for one, believe that we need to take another step and a step that is far greater than sanctions, before we do military, but I certainly believe we need to take another step. And I would hope that as we continue looking at this program, if we see it fail, you will join with me in trying to find additional steps to give pressure against Iran.

I yield back, Mr. Chairman.

Chairman TOWNS [presiding]. Thank you very much. And that is the reason why we are having this hearing, no question about it.

I now yield 5 minutes to Congresswoman Marcy Kaptur from the great State of Ohio, in fact, my classmate. Thank you.

Ms. KAPTUR. That is right. Thank you, Mr. Chairman, very much. Glad to see you with the gavel.

Thank you, gentlemen, for appearing. Mr. Glaser, I just wanted to ask you, to whom do you report at the U.S. Department of Treasury? Who is your superior?

Mr. GLASER. My direct superior is Assistant Secretary Cohen, and he in turn reports to Under Secretary——

Ms. KAPTUR. Assistant Secretary who?

Mr. GLASER. David Cohen. And he reports——

Ms. KAPTUR. David Cohen. What is his title?

Mr. GLASER. Assistant Secretary for Terrorist Financing and Financial Crimes. And he reports to Under Secretary Levey.

Ms. KAPTUR. And he reports to who?

Ms. GLASER. Under Secretary Stuart Levey, who is the Under Secretary for Terrorism and Financial Intelligence.

Ms. KAPTUR. Thank you for placing that on the record. Let me just state that I believe history will show that since World War II U.S. relations with Iran have been very counterproductive to our own interests, both in terms of the advancement of democratic ideals across that vast region, along with the lack of promotion of competitive markets for goods.

Sadly, so much of that history, I think, will show that oil has been a great diversion for this country. I keep thinking to one of the commandments in my own faith: Thou shall not covet thy neighbor's goods.

My question is how does one implement sanctions in a manner that supports U.S. democratic ideals and reform across an undemocratic and mercantilist Middle East? I think one can argue geostrategically the impact of current sanctions actually operates against U.S. long-term interests, because what we are seeing is a backfill of connectivity by us by China, by Russia. You have admitted in your own testimony about the United Arab Emirates. One can look at other countries. So it must be really frustrating for you to enforce a sieve.

I also wanted to just place on the record, for history's sake, back in 1953, since World War II, really, our relations with Iran, we never seem to get it right. There was a coup back in the early 1950's when someone by the name of Mohammed Mosadec was installed. Well, he had actually taken office earlier in a democratic election. But then in 1953, by spontaneous combustion, he was removed and the Shah of Iran, when we were growing up, we remember him as children, became head of that country.

But the reason the other guy was removed is he was actually trying to change, attempting to reform the monopoly control that one company had over the extraction of oil from Iran. That company was called the Anglo-Persian Oil Co., commonly known now as "BP."

So I think it is important for us to remember a little bit of history here.

And through the decades of the 1950's, 1960's, and 1970's, the Shah's rule became more and more repressive. I can remember the Savac, studying the Savac when I was in college, and trying to understand what that was all about.

Then in 1979, some of us lived through the Iranian revolution, when the Shah was removed and U.S. hostages were taken, and the American people were just stunned by it. Terry Anderson, from my own State, an ABC reporter, was taken in that and ultimately released, thank God.

But then, after all that happened, and I remember those hostages were returned on the day Ronald Reagan became President. Remember that? Some of the people here remember that.

Then, for the next decade we enlisted Iraqi dictator Saddam Hussein to do some dirty bidding, and there was a terrible war between Iran and Iraq. Millions of people died.

So there is a little backdrop to why the Iranians also, looking through whatever lens they are looking through, as they look at us and they look across that region, might feel vulnerable.

I am not defending their government. I don't defend any government in that region. And I certainly don't defend the economic interests that try to exploit all of them.

But in thinking about the future, if in fact we are to be a democratic Nation, one that also believes in competitive markets, the report from the GAO shows that, well guess who has their fingers in the till over there? Halliburton. If you look at the amount of money that they get in Government contracts, Halliburton, $27.1 billion. Well, who is a bigger investor in Halliburton? The former Vice President of our country, for heaven sake. And their fingers aren't clean.

It seems like the public and private interests get all mixed up here, and then we try to use these pitiful sanctions, which look good on paper and look like we are really doing something. But they don't do anything to promote our geostrategic interest. They don't do anything to bring competitive markets. They don't do anything to promote democracy in that part of the world. And I feel sorry for our country. I feel sorry for the road that we are on here because I don't see that it is really hurting Iran in any way, and it is certainly, most importantly, not advancing the cause of democracy.

So in terms of two-way trade, my question goes to the future generation. That is a literate country. There were hundreds of thousands of students demonstrating for democracy in that country, and there were some sanctions that apparently made it very difficult for them to be able to communicate with the West, with others, in their efforts to try to democratize inside that country.

And my question is, is the administration, or has the administration taken action to allow hardware, software, and technology used to access the Internet to be legally exported to Iran? How do we incentivize future democratic reforms and many of the literate people in that country that can't connect to the rest of the world, who are part of the future, so they don't stub their toe and kill millions of more people, as the last generation has done for 50 years, in that extremely important but troubled region? What are we doing to promote connectivity between those who love democracy?

Mr. EINHORN. That you, Congresswoman. We very much support your strong statement of support for human rights in Iran. It is very important to us.

Ms. KAPTUR. Thank you.

Mr. EINHORN. It is also important that civil society in Iran be able to express themselves, that they have free and secure access to the Internet. The State Department has worked very closely with the Treasury Department to ensure that U.S. sanctions do not prevent access to tools that allow the Iranian people to freely access the internet.

State did a waiver recently that enabled Treasury to publish a general license in the Federal Register in March that authorizes U.S. companies to make mass market personal communication software available inside Iran. It is very important that they have the tools to communicate with one another, and we are trying to make that possible. And any adjustments in the sanctions law that are necessary, we will seek to adopt.

Ms. KAPTUR. You know, I just wanted to say for the record finally, Mr. Chairman, I represent many people who have immigrated from that part of the world, and this Ahmadinejad, they always have him on TV, and he goes to the U.N. and really doesn't do a very good job for his own people. But the people who hold the real power in that country are many of the clerics, and it just seems to me that anything we can do to bridge walls is extraordinarily important.

I don't share many of my colleagues' view that the answer to everything is military action against any troubled state. But I think that the power of literacy inside that country, unlike Afghanistan, is so important. Anything one can do to encourage connectivity and enhance those individuals within that country that are trying to meet the rest of the world in a peaceful way is worth the effort, and I would hope you would think hard about that in the important roles that you have. And also on the oil side to promote competitiveness.

Chairman TOWNS. The gentlewoman's time has long expired.

Ms. KAPTUR. Thank you, Mr. Chairman.

Chairman TOWNS. I now recognize the gentleman from Illinois, Congressman Davis.

Mr. DAVIS. Thank you very much, Mr. Chairman, and let me thank you for calling the hearing.

Mr. Einhorn, let me ask you how does the State Department measure success in terms of what would be a successful implementation of sanctions against Iran? Could you share that with us?

Mr. EINHORN. Ultimately, the measure of success is whether Iran changes its behavior. That is what we are looking for. But intermediate steps involve putting serious economic pressure on Iran so that it recomputes its calculation in costs and benefits, and realizes that the future is going to look bleaker and bleaker unless it alters its behavior and stops its defiance of the international community. That is what we are looking for.

Mr. DAVIS. So one could reasonably say that the purpose of sanctions is to change behavior——

Mr. EINHORN. Exactly.

Mr. DAVIS [continuing]. Of whoever it is that is being sanctioned. Let me ask are there any items that are not covered? What are we trying to prevent Iran from doing?

Mr. EINHORN. The combination of the law the Congress recently gave to us, as well as the recent Security Council resolution, as well as our own executive authorities, the combination of all those tools I think give us what we need to pursue an effective strategy of pressure against Iran.

Mr. DAVIS. Are there any items that we would say it is quite all right if we were to interact with those items getting into the country?

Mr. EINHORN. There are many items. For humanitarian purposes, to deal with medical problems, there are all kinds of items that are legitimate. We are not trying to interrupt legitimate trade, certainly not trade having to do with humanitarian, civilian kinds of uses. But we are primarily going after their programs to acquire weapons of mass destruction, advance conventional weapons, and other sensitive items. We are not interested in a total embargo of Iran; that is not what we are trying to do.

Mr. DAVIS. So there is a humanitarian component to the sanctions, especially as it relates to medicine or medical technology or lifesaving instruments, or advances that may have been made in one country that have not necessarily been made in another country. We are saying that it is quite all right.

Mr. EINHORN. That is right. We don't intend to block Iran's access to those.

Mr. DAVIS. Let me ask if each of you perhaps would address this question. Our Government has awarded more than $107 billion in contract payments, grants, and other benefits over the past decade to foreign and multinational American companies while they were doing business in Iran. Is there any way that one could suggest that this is somewhat conflicting in terms of the overall purpose of sanctions to try and change the behavior of another nation?

Mr. EINHORN. This development, these interactions were what led to an important provision of the new comprehensive sanctions law. I think it was Mr. Neurauter who spoke to that and can describe to you what is involved. But the idea is to avoid such contractual arrangements between the U.S. Government and these

other entities that have dealings with Iran, especially dealings that are sanctioned under our law.

Mr. CHRISTOFF. Mr. Davis, if I could add to that. That connection is changing behavior, and I will give you the best example. Repsol, which is a Spanish conglomerate, had, based on our report, over $343 million in contracts with the U.S. Government. They also were investors in Iran's energy sector. They have since made the decision this week to pull out of this $10 billion South Pars project and no longer invest in Iran.

Mr. DAVIS. So we would agree, though, that this whole business of sanctions does have a level of complexity that sometimes the average citizen, unless they take a good look, may not fully understand what is taking place in relationship to them and what they have actually accomplished and what they have actually meant?

Mr. CHRISTOFF. Absolutely. And I would also note that one other decision that Repsol made was the divestment clauses in the new act. They were concerned about shareholders divesting in their firm as one of the reasons why they pulled out of the South Pars project.

Mr. DAVIS. Thank you very much.

And that too is one of the reasons, Mr. Chairman, that I appreciate your calling this hearing, to try and bring as much clarify to actions that are taken so that the only way we experience this democracy that my representative friend from Ohio, Ms. Kaptur, was talking about is that people be able to understand what it is that the Government is doing, what it is that the Government is trying to do, and what the intents are. So I thank you again for the hearing and I yield back the balance of my time.

Chairman TOWNS. Thank you very much for your participation as well.

I now yield to the gentleman from California, the ranking member, Congressman Issa.

Mr. ISSA. Thank you, Mr. Chairman.

Just to wrap up a little bit, Mr. Christoff, in the committee's report, I hope you have looked at it, Ms. Kaptur really sort of talked to this point when she said Halliburton, $27.1 billion. First of all, just for the record, my understanding is the Vice President, when he became Vice President, relinquished all stock in the company, most of which, all of which, was not by purchase, but by having been an executive there, and is not an investor.

But notwithstanding her not understanding what an investor is, perhaps, Halliburton is $27.1 billion. That is how much they got for servicing the need for the U.S. Government. Do you know what they received, some subsidiary of Halliburton received for participation with Iran during that same period of time?

Mr. CHRISTOFF. I don't know those details, sir.

Mr. ISSA. So, actually, how much money somebody got from the United States isn't particularly important at all. What is important is how important was Iran to these subsidiaries. And if I understand correctly, under prior law a subsidiary, wholly owned, not wholly owned, joint venture, controlled, uncontrolled, to be honest, they were allowed to do this. So everything that is here about these companies prior to just a short period ago, they were doing things that were perfectly routine, legal, and not prohibited by Executive order or any other law.

Mr. CHRISTOFF. The new act has changed that. Subsidiaries are now affected, but previously they were not.

Mr. ISSA. So back to the sanctions. I have been very tough on Mr. Einhorn, but I want to go to you based on past performance. Compliance with the past laws by companies seems to be reasonably good, and the past service and sales and how everyone was circumventing, they were simply complying with the law and meeting their responsibility to their stockholders. Haven't we, with the last sanction regime, changed the message to them relative to the best interest of their stockholders?

Mr. CHRISTOFF. You have definitely changed the message, I think particularly with the divestment clauses, because they are hearing opportunities for shareholders to speak with their voices and pull out of those companies that continue to invest in Iran.

Mr. ISSA. Mr. Glaser, I want to close with just a question to you. The U.S. financial system is a relatively open system. The chairman and I might disagree on whether or not, no, we might agree, but disagree with Treasury on whether or not we have given you all the tools of transparency that we would like you to have in the way of data bases and so on.

But the U.S. companies, companies with a presence and are reporting in the United States, wouldn't it be fair to say that you get good transparency on them, and if they continue, directly or indirectly, to trade with Iran, you will be able to detect that and thus sanction them? In other words, do you have those tools?

Mr. GLASER. Yes, I think that we know what is going on——

Mr. ISSA. OK. Would you, in closing, for me, our partners in Europe on this measure who have promised to do the same thing, do they have the same tools? And the final question, if you answer that they do, is: are they going to use them as aggressively as you will?

Mr. GLASER. I have been at this for a few years now. I really do think Europe has come a long——

Mr. ISSA. That is why you get to be here before us. We ask the experts.

Mr. GLASER. It is an honor. I think Europe has come a long way and, again, this has been a very surprising 6 weeks. The U.N. went farther than I personally thought they would. The EU went considerably farther than I would have predicted, if you had asked me 3 months ago how far will the EU go. In all sincerity, I think there is a real growing international consensus that something needs to be done and that countries need to take responsibility.

Does that mean we are not going to have issues to work out with particular European countries? I was talking to Mr. Van Hollen about one of those. There is going to continue to be issues, but I do think Europe is serious about this and I think they have been a good partner.

Mr. ISSA. Thank you.

Mr. Einhorn, the last word goes to you, as long as you include in it letting us know how our former colleague, Ms. Tauscher, is doing.

Mr. EINHORN. You know Ellen Tauscher. She has a lot of spirit, a lot of fight, a lot of grit. She is going to have a rough patch, but

she is going to come out of it fine. And I will send to her your best wishes.

Mr. ISSA. Thank you very much. Please do.

Thank you. Yield back.

Chairman TOWNS. Please associate me with that as well.

Let me just close with you, Mr. Glaser, and I guess Mr. Einhorn, both. First of all, GAO has identified 41 foreign firms with commercial activity in Iran. Do you agree with that, 41, the number?

Mr. GLASER. This is really something that is outside of the Treasury Department's jurisdiction. We target, with our particular authorities, entities that are engaged in illicit activity, be it proliferation or terrorism. The Treasury Department is not keeping track of foreign companies that are doing business in Iran as a broad matter; that would be for the Commerce Department or others.

Chairman TOWNS. Mr. Einhorn, do you agree with the numbers?

Mr. EINHORN. I am sorry, could you repeat that, Mr. Chairman?

Chairman TOWNS. GAO has identified 41 foreign firms with commercial activity in Iran's energy sector. First of all, do you agree with the number?

Mr. EINHORN. We examined all of those cases very carefully and, as I mentioned before, we winnowed that number down to less than 10. These are a number of entities that are very problematic. I have to say that a number of them have been engaged in sanctionable activity. But as I also said before, we are reaching the conclusion of this process; it is out for interagency views, and Secretary Clinton will make her decisions on this in a short period ahead.

Chairman TOWNS. What can you do about these companies, even the 10 that you——

Mr. EINHORN. Well, it is important to recognize that a number of the entities in this small list have already stopped or are in the process of stopping their engagement in Iran's petroleum sector. So I think what we found is the law is working. The threat of penalties has encouraged these countries to get out of the business of dealing with Iran. So it is quite effective.

Chairman TOWNS. Let me just close by asking is there anything more that we need to do on this side of the aisle, in terms of from a legislative standpoint, in order to make this effective?

Mr. EINHORN. I think you have just given us a big and important tool to tackle this threat, and you did that only less than 4 weeks ago. We have to work hard within the administration to figure out how best to implement this law to maximum effect. So for the time being we have nothing else to request of you.

Mr. GLASER. I agree with Mr. Einhorn. I think you just passed a very important new piece of legislation. We are in the process of implementing that and I think it is going to have a powerful impact.

Mr. NEURAUTER. Mr. Chairman, we are proceeding to implement the rule required by the act, and we will do so.

Mr. CHRISTOFF. I would encourage vigorous and continuous oversight on the part of the Congress to ensure not just that the old sanctions are being enforced, which many had not been, but the

host of new sanctions that are on the plates of the executive branch.

Chairman TOWNS. Thank you very, very much for actually——

Mrs. MALONEY. Would the gentleman yield?

Chairman TOWNS. I would be delighted to yield.

Mrs. MALONEY. Thank you very much.

I really would like to ask Mr. Neurauter and Mr. Christoff something that has come up throughout this hearing, and that is the report that throughout the last decade GSA spent roughly $170 billion of taxpayers' money contracting with 74 companies doing business in Iran at the exact same time we were trying to put pressure on Iran.

And my question is, basically how did this happen? Did the fact that these companies were doing business with Iran ever come up when you were reviewing the contracts or signing contracts in GSA? Did anyone from anywhere in the Federal Government point out we shouldn't be giving part of our Federal procurement to companies that were really in direct violation of our stated foreign policy goals? Did anyone ever talk to you, Mr. Neurauter, about these contracts and that they should not be getting $170 billion in taxpayer money when we are trying to impose sanctions?

Mr. NEURAUTER. The short answer is no, I have not been involved in these matters. I will be happy to look into this and get back to you for the record. I returned to GSA 2 years ago as the Director of the Office of Acquisition Integrity, with my duties as Suspension and Debarment Official. But before that I was at HUD as the senior procurement executive and was not aware of any such matters at HUD. But I will be happy to look further into this.

Mrs. MALONEY. If you could, and get back to us.

Mr. Christoff, do you want to comment on it? How did this happen that we are handing out billions in Federal contracts to companies in direct violation of our stated policy goals, foreign policy and stated laws of the country?

Mr. CHRISTOFF. Well, first I would state that, as we all know, it is the responsibility of the executive branch to investigate companies, determine what is credible evidence, and try to impose sanctions. The number that I think you are referring to is the New York Times article, where there was over $100 billion in contracts. When I looked at their list, many of those companies are companies that would not be sanctionable under what was then the laws of the land. Companies that were in the automobile industry, for example, would not have been——

Mrs. MALONEY. Would they be sanctionable now under this law?

Mr. CHRISTOFF. Not necessarily.

Mrs. MALONEY. Why not?

Mr. CHRISTOFF. Because it still doesn't cover items such as the automobile industry. And there were a lot of companies on that list that dealt in the automobile community.

Mrs. MALONEY. Well, maybe we should cover them with sanctions.

I just want to mention, Mr. Glaser, that the Treasury Department has done a very good job, and I compliment you on the work you have done. As a member of the Financial Services Committee, my time is up and we don't have time to go further, we have an-

other panel, but I have a series of questions, respectfully, I would like to place in writing to you so that we can get these answers, and I congratulate you on your work.

Chairman TOWNS. Without objection, so ordered.

Mrs. MALONEY. Also the State Department for your international work to get compliance. Thank you very much.

Chairman TOWNS. Thank you very much.

Now, let me just say to the Members that within a few minutes we will have two votes on the floor, so what I would like to do is to adjourn until 1:30. We will reconvene at 1:30. I am sorry about that, but we have to vote around here. And if we don't vote, they talk about us. So this panel is actually dismissed and the committee will adjourn until 1:30 and we will come back.

[Recess.]

Chairman TOWNS. The committee will reconvene.

I would like to welcome our second panel. As with the first panel, it is committee policy that all witnesses are sworn in, so please stand and raise your right hands as I administer the oath.

[Witnesses sworn.]

Chairman TOWNS. Let the record reflect that they both answered in the affirmative.

You may be seated.

Mr. Avi Jorisch is the founder and president of the Red Call Intelligence Group. Welcome.

And Mr. Mark Dubowitz is the executive director of the Foundation for Defense of Democracies.

Your formal testimony is in the record, so if you could just summarize within 5 minutes, which would allow the committee members to raise questions with you, we would appreciate it.

Why don't we start with you, Mr. Jorisch?

STATEMENTS OF AVI JORISCH, PRESIDENT, RED CELL INTELLIGENCE GROUP; AND MARK DUBOWITZ, EXECUTIVE DIRECTOR, FOUNDATION FOR DEFENSE OF DEMOCRACIES

STATEMENT OF AVI JORISCH

Mr. JORISCH. Thank you. Chairman Towns, Ranking Member Issa, distinguished Members of Congress, thank you very much for your service to our country and for holding this very important hearing and giving me the opportunity to present some testimony to you.

Today, the world's attention has turned to Iran's defiance of the international community in regards to its nuclear program, but there isn't a lot in terms of material in terms of the banking community and how we might use sanctions in order to really make the Iranians feel financial pain.

Today, per the topic of this hearing, I would like to outline the implementation of sanctions against the Iranian regime specifically focusing on the banking community. First, I will go over an overview of the Iranian banking community, the international sanctions against the Iranian regime, which banks are still in the market, which our previous panel touched on just a little, and the Iranian banks around the world, and wrap up with a little bit of the legislation that was just enacted.

If I could start with the first slide. That is the second slide.

[Slide shown.]

Mr. JORISCH. When I started looking at the Iranian banking community a few months ago, there was very little in terms of information as to actually which banks were actually in the Iranian market, so I started doing a tremendous amount of research looking at which banks are there, and what I found out is as follows. If you look on the screen—that is already the fourth slide. Could we go back to the first slide? There are 30 Iranian banks in the market, and some of those banks have been sanctioned by the United Nations; some of those banks have been sanctioned by the United States.

If you go to the second slide.

[Slide shown.]

Mr. JORISCH. We will just go over the international sanctions regime and the domestic sanctions regime. The United Nations has basically designated four Iranian banks: Sepah, Saderat, Melli, and the First East Export Bank of Malaysia. That is what the United Nations has done in terms of the four Security Council resolutions in the last few years. The United States has taken a step further.

If we can go to the next slide.

[Slide shown.]

Mr. JORISCH. The United States has essentially designated another 13 banks. Now, I don't expect you to remember these banks, but essentially we have a total of 17 banks that have been designated by the U.S. Government for its proliferation of weapons of mass destruction.

So that was the first kernel. What I started figuring out was I wanted to see, OK, now that I know which banks are actually in Iran and what banks have been sanctioned by the international community and by the United States, who are they actually doing business with.

And there was very little in terms of information; what were their correspondent banks, which were the banks around the world that were actually helping them out. There was no name and shame; there was certainly no bank accounts in the open sphere. So I wanted to put that all together.

So what I started to do was I spoke to every compliance officer I knew in terms of getting information about how we could figure out who was actually helping the Iranian banks conduct their business, and what I found was very interesting. I found some open research and resources that pointed to something called the correspondent banking relationship. In short, when a bank does not have a physical presence in a country, it tasks another bank and acts in its steed to actually conduct its business; and in this case I managed to chart out all of the Iranian banks and their relationships, and what I found out was fascinating.

First, you see these 17 banks here.

If you go to the next slide.

[Slide shown.]

Mr. JORISCH. There were banks around the world that were providing it with currencies. You will see here the dollar, the Euro, the pound, the yen, etc. But what was more interesting, not only was

the currencies, but which banks were actually conducting this business.

If you go to the next slide.

[Slide shown.]

Mr. JORISCH. You will see before you a complete list of 44 banks around the world.

Go to the next slide.

[Slide shown.]

Mr. JORISCH. Those 44 banks are providing Iran with correspondent banking services, and they are household names: ING, Bank Tokyo Mitsubishi, Commerce Bank, Deutsche Bank. And I was able to provide all the bank account numbers and the swift codes for these correspondent accounts. So, in other words, mapping out a financial map of these particular financial institutions.

Then I wanted to figure out how to basically give leverage to Congress, so what I did was I mapped that back to the United States. So, in other words, so you have the Iranian banks in the center, then you have the banks around them that were supporting them, and then which banks in the United States supporting those banks.

If you go to the next slide, it will probably clarify things. One more.

[Slide shown.]

Mr. JORISCH. So you will see in the center there are 30 Iranian banks. Four have been designated by the United Nations, 17 were designated by the United States. Then there are 44 international banks that are servicing the designated entities, and then there are banks in the United States that are supporting those banks. The lever point is actually which U.S. banks are doing business with the international community who is doing business with designated entities. So there you have examples like JPMorgan, Wells, Bank of New York that are doing business with the Deutsche banks, the Commerce banks, the INGs, the Tokyo Mitsubishis that are doing business with the designated entities.

I would be remiss if I didn't mention where Iran itself had branches around the world.

If you go to the next slide.

[Slide shown.]

Mr. JORISCH. There are U.N. and U.S. designated banks that have offices all over the world, including Asia, Europe, South America.

And if you go to the next slide.

[Slide shown.]

Mr. JORISCH. You will see there you have Iranian-designated banks operating in Afghanistan, Armenia, Hong Kong, Paris, Frankfurt, Hamburg, Athens, Baghdad, Rome, and a bunch of other well-known places. And these are designated banks by the United Nations that are operating in friendly countries.

Let me wrap up by talking a little bit about the sanctions regime and CISADA, the Comprehensive Iran Sanctions and Divestment Act.

Some of the Members of Congress talked about this waiver ability. I would point out that in the way that CISADA was actually written, this is an unbelievable bill. It is a sunlight bill. If the Gov-

ernment actually asks for a waiver, it has to actually come back to you and tell you why it is asking for that waiver. That is No. 1.

No. 2, I would ask you to remember that what brought down the South African apartheid regime was actually banking sanctions, not anything else.

Finally, this is basically a clean hands bill. U.S. banks now need to certify not only who their customers are, but who their customers' customers are; and this is a sea change. So, in other words, JPMorgan of Boni or Citibank are going to have to declare that not only they are not doing business with a designated entity, but none of their customers' customers, none of the banks that they are working with are dealing with designated entities.

With the passing of CISADA, we have all the tools necessary to pursue and punish banks doing business with Iran. If we are truly going to stop Iran from pursuing nuclear weapons, it would be prudent for us to use all the arrows in our quiver.

Thank you for your time, and I am open to any questions you might have.

[The prepared statement of Mr. Jorisch follows:]

Avi Jorisch Testimony
House Committee on Oversight and Government Reform – 29 July 2010

Distinguished Members of Congress, thank you for your service to our country and for giving me the opportunity to participate in this very meaningful hearing.

Today, the world's attention has turned to Iran's defiance of the international community in pursuing its nuclear program and its sponsorship of terrorist organizations. What is less well-known are those methods that the Government of Iran is using to facilitate its proliferation and terrorism activities through the world's financial system, namely, using its state-owned banks and an array of front companies and other deceptive techniques, specifically designed to evade the controls of responsible financial institutions.

Today, per the topic of our hearing, I would like to outline the implementation of sanctions against the Iranian regime, specifically focusing on the banking sector.

There are currently 30 Iranian-owned banks (see Appendix A). In addition, there is an international and domestic sanctions regime in place against a great number of these banks.

UNITED NATIONS SANCTIONS

The United Nations Security Council has passed four resolutions targeting Iran's nuclear activities: UNSCR 1737 in December 2006, UNSCR 1747 in March 2007, UNSCR 1803 in March 2008 and now the most recent UNSCR 1929 passed in June 2010. All have expressed "serious concern" over International Atomic Energy Agency (IAEA) reports regarding the regime's nuclear program.

Three of the four resolutions have also made reference to Iranian financial institutions. UNSCR 1747 enacted sanctions against Bank Sepah and Bank Sepah International. UNSCR, 1803, called on all countries to "exercise vigilance" over any institutions dealing with Iranian banks and their foreign subsidiaries, in particular Bank Melli and Bank Saderat. Although the UN did not officially sanction Melli and Saderat, both banks have been implicated in illicit international activity. The most recent resolution, UNSCR 1929, designated the First East Export Bank, located in Malaysia and a subsidiary of Bank Mellat.

CURRENT STATUS OF U.S. SANCTIONS

The United States first targeted the Iranian financial sector in earnest on June 29, 2005, when President Bush signed Executive Order (EO) 13382. President Obama has used this order to target additional Iranian banks. With this measure, Washington has sought to curb the spread of weapons of mass destruction by freezing the assets of proliferators and their supporters, and by barring them from the U.S. financial and commercial systems.

In addition, the Treasury Department has warned foreign banks and companies doing business with Iran that they, too, could lose access to U.S. markets if they deal with entities connected to terrorism or the nuclear industry.

U.S. sanctions have had an impact on the Iranian banking system—specifically, by prohibiting American institutions from dealing with suspect Iranian banks, and by convincing international institutions to sever ties as well.

To date, over 80 financial institutions around the globe have either completely cut off or significantly reduced their relationship with Iran.

Unfortunately, many institutions continue to do business with the Islamic Republic, essentially undermining the overall sanctions effort.

To date, the Treasury Department has designated 17 Iranian banks per EO 13382, charging them with the use of deceptive financial practices to support terrorist groups and the nuclear program (See Appendix B).

These banks are still able to procure much needed hard currency in order to fund its illicit behavior.

OPEN SOURCE INTELLIGENCE

Open source intelligence sheds light on which banks around the world are providing correspondent banking services to designated and non-designated Iranian banks.

A few words about correspondent banking: When a bank does not have a branch in a foreign country, it often allows a local bank to supervise its financial affairs there and essentially act as its agent. The correspondent bank is then empowered to provide credit, deposit, collection, clearing, and payment services to customers in the main bank's name. Simply stated, this allows a bank to conduct business in a given country without needing a physical presence there. Correspondent banks also provide access to foreign currencies and local markets.

The Iranian regime has developed relationships of this sort all over the world, giving it access to a variety of currencies (See Appendix C)

According to open source research, there are 44 banks around the world that are providing correspondent services to the 17 US-designated banks. (See Appendix D)

- Of these 44 banks, 24 have a physical presence in the US and all but three maintain US correspondent banking relationships.
- In addition, 18 US banks are providing the 44 with correspondent banking services (See Appendix E)

In other words, we in the United States potentially wield a tremendous amount of sway over almost every bank that is doing business with designated Iranian banks.

Avi Jorisch Testimony
House Committee on Oversight and Government Reform – 29 July 2010

IRANIAN BANKS AROUND THE WORLD

There are also a great number of Iranian banks operating around the world. Many of the designated Iranian banks, including those named by the UN, have physical branch operations throughout Asia, Europe, and the Middle East, in cities such as Baghdad, Beirut, Doha, Dubai, Frankfurt, Hong Kong, Hamburg, Istanbul, London, Moscow, Seoul, and Paris. In other words, some of America's closest allies have publicly claimed that they support sanctions against Iran while at the same time allowing the regime free access to the international financial sector and hard currency. If we are really serious about a meaningful sanctions regime, we are going to have to reach out to our allies and encourage them to close down the international branches of designated Iranian banks. Otherwise, Iran will continue to have a free access to the international financial markets.

COMPREHENSIVE IRAN SANCTIONS, ACCOUNTABILITY AND DIVESTMENT ACT (CISADA)

The Comprehensive Iran Sanctions, Accountability, and Divestment Act, is a major accomplishment. CISADA, as it is now commonly referred to as, has a small but important section on financial transactions. While the regulations have yet to be written, Congress has essentially passed what I like to call a "clean hands" bill. US banks will now have an obligation to know not only who their customer is, but who their customer's customer is. US Banks will have to certify to the government that they and their customers have no direct or indirect business ties to designated Iranian banks. CISADA now forces international banks to choose between the US market and doing business with designated Iranian banks.

While everything, of course, depends on the implementation of CISADA, it appears unlikely that when put to the test, banks currently doing business with designated Iranian banks will choose to continue doing so if they will lose access to the U.S. market. This is an impactful victory for Washington.

If and when these banks do in fact pull out of the designated Iranian banking market, it will represent a tremendous financial loss and not a small amount of heartache for Iran.

With the passing of CISADA, we have all the tools necessary to peruse and punish companies doing business with Iran. If we are truly going to stop Iran from pursuing nuclear weapons, it might be prudent to use some if not all the arrows in our quiver.

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Appendix A – Comprehensive List of Iranian Banks

1. Arian Bank (Afghanistan)
2. Banco Internacional de Desarrollo CA (Venezuela)
3. Bank of Industry and Mine (Iran)
4. Bank Mellat (Iran)
5. Bank Melli (Iran)
6. Bank Melli Iran ZAO (Russia)
7. Bank Saderat (Iran)

8. Bank Sepah (Iran)
9. Central Bank (Iran)
10. Export Development Bank of Iran (Iran)
11. EN Bank PJSC (Iran)
12. Europäisch-Iranische Handelsbank AG (Germany)
13. First East Export Bank (Malaysia)
14. Futurebank BSC (Bahrain)
15. Karafarin (Iran)
16. Kargoshaee Bank (Iran)
17. Keshavarzi (Iran)
18. Maskan (Iran)
19. Melli Bank PLC (United Kingdom)
20. Mellat Bank SB CJSC (Armenia)
21. Parsian (Iran)
22. Pasargad (Iran)
23. Persia International Bank PLC (United Kingdom)
24. Post Bank (Iran)
25. Refah (Iran)
26. Saman (Iran)
27. Sarmaye (Iran)
28. Saderat Bank PLC (United Kingdom)
29. Sepah Bank PLC (United Kingdom)
30. Tejarat (Iran)

Appendix B – Iranian Banks Designated for WMD Proliferation

1. Arian Bank (Afghanistan)
2. Banco Internacional de Desarrollo CA (Venezuela)
3. Bank Mellat (Iran)
4. Bank Melli (Iran)
5. Bank Melli Iran ZAO (Russia)
6. Bank Saderat (Iran)
7. Bank Sepah (Iran)
8. Export Development Bank of Iran (Iran)
9. First East Export Bank (Malaysia)
10. Futurebank BSC (Bahrain)
11. Kargoshaee Bank (Iran)
12. Melli Bank PLC (United Kingdom)
13. Mellat Bank SB CJSC (Armenia)
14. Persia International Bank PLC (United Kingdom)
15. Post Bank
16. Sepah Bank PLC (United Kingdom)
17. Saderat Bank PLC (United Kingdom)

Appendix C – List of Currencies Available to Iranian Banks

1. U.S. dollar (USD)
2. Euro (EUR)
3. Asian Monetary Units via the Asian Clearing Union (ACU)
4. Armenian dram (AMD)
5. Australian dollar (AUD)
6. British pound sterling (GBP)
7. Canadian dollar (CAD)
8. Danish krone (DKK)
9. Hong Kong dollar (HKD)
10. Indian rupee (INR)
11. Japanese yen (JPY)
12. Norwegian krone (NOK)
13. Omani riyal (OMR)
14. Qatari riyal (QAR)
15. Russian ruble (RUB)
16. Saudi riyal (SAR)
17. Swedish krona (SEK)
18. Swiss franc (CHF)
19. Turkish lira (TRY)
20. United Arab Emirates dirham (AED)

Appendix D – Banks Around the World Providing Correspondent Services to Iranian Banks Designated by the US

1. Ameriabank CJSC (Armenia)
2. Raiffeisen Zentralbank Österreich AG (Austria)
3. UniCredit Bank Austria AG (Austria)
4. Alubaf Arab International Bank BSC (Bahrain)
5. Future Bank BSC (Bahrain)
6. Sonali Bank Limited (Bangladesh)
7. Fortis Bank SA/NV (Belgium)
8. Danske Bank A/S (Denmark)
9. Société Générale (France)
10. BHF-BANK Aktiengesellschaft (Germany)
11. Commerzbank AG (Germany)
12. Deutsche Bank AG (Germany)
13. Landesbank Baden-Württemberg (Germany)
14. UniCredit Bank AG(Germany)
15. ING NV (Holland)
16. Habib Bank Limited (India)
17. State Bank of India (India)
18. United Bank Ltd (India)
19. Bank of the Middle East Iraqi Investment (Iraq)
20. Trade Bank of Iraq (Iraq)
21. Intesa Sanpaolo SpA (Italy)
22. Mizuho Corporate Bank Ltd (Japan)
23. Sumitomo Mitsui Banking Corporation (Japan)
24. The Bank of Tokyo-Mitsubishi UFJ Ltd (Japan)
25. DnB NOR Bank ASA (Norway)
26. Nordea Bank Norge ASA (Norway)
27. BankMuscat SAOG (Oman)
28. Qatar National Bank SAQ (Qatar)
29. VTB Bank (Russia)
30. Riyad Bank (Saudi Arabia)
31. Aresbank SA (Spain)
32. Banco Santander SA (Spain)
33. Banque Marocaine du Commerce Exterieur International SA (Spain)
34. Bank of Ceylon (Sri Lanka)
35. Nordea Bank AB (Sweden)
36. Skandinaviska Enskilda Banken AB (Sweden)
37. Svenska Handelsbanken AB (Sweden)
38. Banque de Commerce et de Placements SA (Switerland)
39. United Bank AG (Switzerland)
40. Zürcher Kantonalbank (Switzerland)
41. Türkiye Halk Bankasi AS (Turkey)
42. TÜRKiYE iS BANKASI AS (Turkey)
43. Dubai Islamic Bank PJSC
44. Emirates NBD Bank PJSC

Appendix E - U.S. Banks Conducting Business with International Banks that Service Designated Iranian Banks

1. Bank of America NA
2. The Bank of New York Mellon
3. The Bank of Tokyo-Mitsubishi UFJ Ltd
4. Citibank
5. Commerzbank AG
6. Credit Suisee AG
7. Deutsche Bank Trust Company Americas
8. Habib American Bank
9. HSBC Bank USA NA
10. Intesa Sanpaolo SpA
11. JPMorgan Chase Bank NA
12. MashreqBank PSC
13. Mizuho Corporate Bank USA
14. Société Générale
15. Standard Chartered Bank
16. State Bank of India
17. Sumitomo Mitsui Banking Corporation
18. Wells Fargo Bank NA

Chairman TOWNS. Thank you very much for your testimony.
Mr. Dubowitz.

STATEMENT OF MARK DUBOWITZ

Mr. DUBOWITZ. Thank you very much. Thank you, Chairman Towns and Ranking Member Issa, and distinguished members of the committee. And thank you, Mr. Jorisch, for his work on banking.

President Obama has made it very clear that stopping Iran's nuclear weapons is a priority. His administration can potentially achieve this by striking at the Iranian energy sector. Let's be clear: the Iranian energy sector is the lifeblood of the Iranian regime. Oil export revenues constitute 80 percent of export earnings, 76 percent of government revenues. Iran's natural gas reserves are second in the world only to Russia's.

Energy wealth enables the Iranian regime to fund its proliferation and terrorism activities, as well as a vast system of repression. The threat of sanctions has persuaded many foreign companies to stop doing business with Iran, but many more remain. The regime increasingly relies on the Islamic Revolutionary Guard Corps to manage the energy industry, and this makes IRGC leaders and IRGC entities prime targets for sanctions. The U.S. Treasury has adopted this approach, as we heard this morning, with IRGC designations in 2007 and 2010 for proliferation in terrorist activities.

Mr. Chairman, as we heard this morning, international energy sanctions are gaining significant support abroad. The new U.N. Security Council resolution establishes for the very first time the nexus between the Iranian energy sector and proliferation activities, and this is a very important development. In fact, this development provided political cover to the EU, Canada, and Australia to finally impose their own tough energy sanctions.

In parallel, as we heard this morning, the new U.S. legislation expands the Iran Sanctions Act and it goes after almost all of the Iranian energy supply chain, almost all. And we can talk about what it doesn't address in Q&A.

Now, critics, as we heard, dismiss sanctions as a feckless measure that will enrich Chinese and Russian opportunists at the expense of Americans and Europeans. I believe that energy sanctions are not a silver bullet. But they are silver shrapnel, and shrapnel can wound this regime as part of a comprehensive economic warfare strategy.

The mere possibility of energy sanctions has had an impact. During Ahmadinejad's first 4 years in office, foreign direct investment plummeted by 64 percent, from $4.2 billion to $1.5 billion. In fact, without an annual investment of $25 billion, Iran could become a net importer of oil.

Now, the Iranians despise this regime not only for its human rights abuses, but for the disastrous state of the economy. Imagine what Syria sanctions, vigorously enforced, could do. This presents an opportunity to policymakers. We can leverage the economic malaise in Iran and the political frustration as expressed by the Green Movement, the Bazari merchant class, and disaffected clerics.

Now, this is not to say that sanctions are going to have their desired impact. Iran has decades of experience circumventing sanc-

tions. It is implementing countermeasures today. It is using fund companies and cutouts and smuggling, and hot spots for this activity include Dubai and Malaysia, Turkey, Hong Kong, and Singapore.

Furthermore, if sanctions are not enforced, companies may assess that their interests are really not in jeopardy given Washington's poor historical record of sanctions enforcement, and we are going to face serious challenges to enforcement from China and Russia, but also Turkey and Iraq, Brazil, Venezuela, and perhaps even India.

This administration now has more authority to counter the Iranian threat than any administration in U.S. history, and it should be commended for establishing broad international support for these sanctions. But let's be clear: we only have a very limited window before Iran realizes its nuclear ambitions.

To this end, I present to you the following recommendations. The first is enforce U.S. law. The credibility of sanctions depends on the willingness of the United States to sanction violators. Nothing will focus minds like stiff penalties and the denial of Federal contracts. It is worth remembering that the U.S. Government imposed almost $1 billion worth of fines against three European financial institutions for violations of U.S. sanctions law. That sent a ripple of fear through the financial industry. We need to send the same ripples of fear throughout the energy sector.

Also remember that this new law is not just about gasoline. In addition to banking sanctions, it also leverages the full scope of U.S. laws by sanctioning companies that provide technology, goods, and services to the Iranian oil and natural gas sectors. It also targets energy projects outside of Iran, where foreign companies are partnering with Iranian-controlled government entities in projects off the coast of Scotland and Croatia, in Azerbaijan and elsewhere.

We need to encourage Europe to enforce its energy sanctions because, after all, this will be the ceiling for actions by other allies, particularly in Asia and the Gulf.

We should harmonize our sanctions laws with the EU. We did this in a commission that successfully coordinated sanctions against Serbia, and those sanctions were very effective.

We should expand Treasury's list of energy-related entities. The IRGC operates thousands of front organizations that contribute to Iran's energy sector. Targeted sanctions work only if there are sufficient targets.

And, finally, we need to expose every foreign company that does business in Iran's energy sector. I believe Congress should establish a standing bipartisan advisory board on sanctions enforcement, a bipartisan congressional commission to collect open source and classified research, make recommendations, hold hearings to ensure that sanctions are enforced.

For sanctions to work, they must cripple the Iranian energy sector. And if sanctions yield no compromise from Iran's leaders on its nuclear program, no one can argue that America and its allies did not try all peaceful options.

On behalf of the Foundation for Defense of Democracies, I thank you for the opportunity.

[The prepared statement of Mr. Dubowitz follows:]

Congressional Testimony

Testimony by Mark Dubowitz, Esq.
Executive Director
The Foundation for Defense of Democracies
Director, the Iran Energy Project

Hearing before the House Committee on
Oversight and Government Reform
Regarding the Implementation of Iran Sanctions

Washington, DC
July 29, 2010

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Introduction

Thank you, Chairman Towns, Ranking Member Issa, and members of this distinguished committee for the opportunity to testify. I am honored to appear before you today. In my testimony, I will examine the efficacy of energy sanctions and how they can encourage the leaders of Iran to abandon their unlawful nuclear program, their training and financial support for international terrorist organizations, and their repression of their domestic political opponents.

The *Comprehensive Iran Sanctions Accountability and Divestment Act (the "Comprehensive Act")* that President Obama has just signed into law gives him more authority (when combined with existing executive orders and legislation) than any U.S. president has ever had to counter the Iranian threat. Like his predecessors, President Obama has repeatedly said that preventing Iran from acquiring a nuclear weapon is a top priority. If that is the case, the Obama administration can strike a blow at the heart of Iran's energy business, without which Tehran would face significant economic and political challenges.

If sanctions were sufficiently severe, Iran's leaders might decide that nuclear weapons were not worth pursuing. And if these sanctions yielded no compromise, no one could argue that America and its allies had ignored peaceful options to prevent Iran from developing nuclear weapons.

The Impact of Sanctions on Iran, and How Tehran is Skirting Them

Oil provides the Iranian government with the majority of its revenues. Iran also has the second largest natural gas reserves in the world after Russia, which could give Tehran even more influence over global energy markets if it acquires the requisite investment and technology.[1] Yet, in spite of the country's enormous oil and gas reserves, Iran's energy infrastructure is rusting. The *Wall Street Journal* recently noted that "Iran's beleaguered oil industry could be on its way to passing an ignominious milestone: being replaced [by 2015] by its onetime nemesis, Iraq, as the Middle East's second-biggest oil producer."[2]

During President Mahmoud Ahmadinejad's first four years in office, foreign investment in Iran's energy industry plummeted by 64 percent, from $4.2 billion to $1.5 billion.[3] Government mismanagement has also hamstrung Iran's energy sector. Ahmadinejad has replaced a number of competent energy technocrats with regime loyalists, including Revolutionary Guard officials who had no previous experience in the energy business.

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[1] U.S. Energy Information Administration, "Iran," *Country Analysis Briefs*, January 2010, p. 8. (http://www.eia.doe.gov/emeu/cabs/Iran/pdf.pdf)

[2] Spencer Swartz and Benoit Faucon, "Iran's Falling Oil Output Means Less Revenue, Clout," *The Wall Street* Journal, June 26, 2010. (http://online.wsj.com/article/SB10001424052748704569204575328851816763476.html)

[3] Doron Peskin, "Iran: Foreign Investment in Oil Drops During Ahmadinejad's Term," *Ynet News*, April 30, 2010. (http://www.ynetnews.com/articles/0,7340,L-3880348,00.html)

Iranian officials now say that without an annual investment of at least $25 billion, Iran could become a net importer of oil.[4]

As a result of its limited refining capacity and domestic subsidies, which have driven up demand for gasoline, Iran already imports approximately 30 percent of its gasoline from foreign suppliers. For the U.S. and its allies, this presents a significant opportunity to increase pressure on the regime.

According to a 2009 Congressional Research Service report, the mere threat of sanctions has "constrained Iran's energy sector significantly."[5] Not only are Iran's gasoline suppliers exiting the market, but energy investors, banks, technology providers, and insurers now face growing pressure to choose between doing business with the Iranian regime and continuing their business relationships in the far larger U.S. market.

The recently-passed U.S. energy sanctions are now complemented by U.N., E.U. and Canadian actions. In June 2010, the United Nations Security Council took critical first steps to target the Iranian energy sector. The preamble of the recently adopted UNSC Resolution 1929 emphasizes, "the potential connection between Iran's revenues derived from its energy sector and the funding of Iran's proliferation-sensitive nuclear activities."[6] The resolution also expresses concern that "chemical process equipment and materials required for the petrochemical industry have much in common with those required for certain sensitive nuclear fuel cycle activities."[7]

At a summit on June 17, 2010, E.U. officials stated that sanctions had "become inevitable," and announced that the E.U. would ban new investment, technical assistance and technology transfers in connection with Iran's natural gas and oil industry.[8] On July 26, 2010, the E.U. approved these sanctions on Iran's energy sector.[9] On the same day, the Canadian government adopted similar measures banning new investment in Iran's oil and natural gas sectors.[10]

Despite these developments, a sober assessment of energy sanctions shows that they have significant room for improvement. To counter the threat of international sanctions, Iran

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[4] "UPDATE 1-Iran Needs $25 bln/year in Energy Investment-Report," *Reuters*, May 10, 2010. (http://in.reuters.com/article/idINLDE6490X420100510)

[5] Kenneth Katzman, "The Iran Sanctions Act (ISA)," *Congressional Research Service*, June 4, 2009, p. 4. (http://italy.usembassy.gov/pdf/other/rs20871.pdf)

[6] UN Security Council, 6335th Meeting, "Resolution 1929 (2010)," June 9, 2010, p. 3. (http://www.defenddemocracy.org/images/UNSC_Resolution_1929_6_9_10.pdf)

[7] UN Security Council, 6335th Meeting, "Resolution 1929 (2010)," June 9, 2010, p. 3. (http://www.defenddemocracy.org/images/UNSC_Resolution_1929_6_9_10.pdf)

[8] Paul Harrington, "EU Hits Iran with Tougher Sanctions Over Nuclear Row," *AFP*, June 17, 2010. (http://www.google.com/hostednews/afp/article/ALeqM5gKj7RH7aI19u02uMKMH9e3Dk3YVQ)

[9] James G. Neuger and Jonathan Stearns, "EU to Impose Sanctions on Iran in Bid to Halt Nuclear Drive," *Bloomberg*, July 26, 2010. (http://www.bloomberg.com/news/2010-07-26/eu-will-impose-sanctions-on-iran-to-ban-oil-investment-scrutinize-banks.html)

[10] Campbell Clark, "Canada to Impose Tough New Sanctions on Iran," *The Globe & Mail*, July 25, 2010. (http://www.theglobeandmail.com/news/politics/canada-to-impose-tough-new-sanctions-on-iran/article1651467/)

has signed major energy deals with countries not likely to cooperate with sanctions, including China, Russia, Turkey, and Venezuela. Iran plans substantial upgrades to seven of its nine existing oil refinery facilities. Iran also has decades of experience adopting countermeasures to circumvent sanctions. It is highly adept at using cutouts, smuggling, and front companies to procure the goods, technology, equipment, and services that are vital to its energy sector. Much of this activity takes place through Dubai, as well as other points of transshipment, including Malaysia, Hong Kong and Turkey.

Furthermore, companies without significant exposure to U.S. energy markets may calculate that the rewards of doing business with Iran outweigh the risks. Other companies will note Washington's relatively weak historical record of enforcing energy sanctions and determine that their interests are not in real jeopardy. Asian and Persian Gulf countries will watch carefully the level of American and European commitment to enforcement with the understanding that they will never be expected to do more than Washington and Brussels.

Nevertheless, sanctions still cause trouble for the Iranian regime. The mere possibility of meaningful energy sanctions has already achieved tangible results: ten of Iran's top suppliers have reportedly stopped selling gasoline to Iran after calculating that the political risks of continued trade were too high. They include: BP, Vitol, Trafigura, Glencore, Total, Shell, Reliance, Lukoil, Petronas and the Independent Petroleum Group.[11]

Most Western banks have also stopped underwriting gasoline shipments to Iran. Four major insurance companies — Lloyd's of London, Munich Re, Hannover Re and Allianz — announced they would stop or sharply reduce their underwriting for Iran's gasoline trade.[12] Numerous energy companies are terminating or significantly reducing their investments in Iranian oil and natural gas. Foreign companies that were already cutting back their energy ties to Iran before the legislation passed now have even more incentive to do so.[13]

The focus on energy sanctions has also reshaped the debate in Washington. It is no longer a discussion over how to achieve a "grand bargain" with the Iranian regime. Rather, the

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[11] "Petronas Halts Petrol Sale to Iran," *Emirates Financial News*, April 15, 2010. (http://www.emiratesfn.com/news/newsfull.php?newid=356995); and Stanley Carvalho, "Western Oil Firms Stop Business with Iran," *Reuters*, June 28, 2010. (http://uk.reuters.com/article/idUKDAH85080620100628); and "Companies Cutting Ties Their Iran Energy Ties, *IranEnergyProject.org*, accessed July 26, 2010. (http://www.iranenergyproject.org/hotsheet/)

[12] Katherine Blackler, "Allianz Will Not Renew Business in Iran," *Reinsurance*, February 19, 2010. (http://www.postonline.co.uk/reinsurance/news/1592838/allianz-renew-business-iran); and Jamie Dunkley, "Lloyd's of London Backs US Sanctions on Iran," *The Telegraph*, July 9, 2010. (http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/insurance/7882144/Lloyds-of-London-backs-US-sanctions-on-Iran.html)

[13] "Factbox—Foreign companies step away from Iran," *Reuters*, July 23, 2010. (http://af.reuters.com/article/energyOilNews/idAFLDE66M16X20100723); and "Factbox – Sanctions and fuel supplies to Iran," July 23, 2010. (http://af.reuters.com/article/energyOilNews/idAFLDE66L1VR20100723?sp=true)

debate now focuses on how to deter an aggressive regime that is dedicated to pursuing nuclear weapons, supporting terrorism, and repressing its own people.

The Iranian regime claims it can withstand energy sanctions. But the efficacy of its countermeasures, including expanding refinery capacity and introducing flex-fuel cars, is greatly exaggerated. Its most effective option, a sharp reduction in gasoline subsidies, could force Iran's already skyrocketing inflation rates to double or triple.

Iran's energy sector is now under more pressure than it has been in recent memory, and that this happened without a concerted effort by the White House to actually enforce sanctions legislation. While U.S. efforts to ban foreign energy investment in Iran began with the passage of the *Iran and Libya Sanctions Act of 1996* (amended in 2006 to the *Iran Sanctions Act*), authorizing the President to sanction foreign firms investing $20 million or more in Iran's energy sector in any single year, no president has ever sanctioned even one. Historically, sanctions have been deterred by a fear of a backlash from the major players in Iran's energy business, some of which have significant trade relations with the United States.

Imagine what would happen if the President used his new sanctions authority.

Meanwhile, as the U.S., the E.U. and U.N. enact sanctions, a growing number of Iranians no longer believe their leaders' attempts to blame Washington for Iran's diplomatic isolation and its stagnating economy. In November 2008, a group of 60 Iranian economists criticized President Mahmoud Ahmadinejad for his "tension-creating" foreign policy that "scared off foreign investment and inflicted heavy damage on the economy."[14] They noted that sanctions had cost Iran billions of dollars by forcing it to rely on middlemen for imports and exports. Indeed, many Iranians despise the regime not only for its human rights abuses but also because of the disastrous state of the economy, which suffers from double-digit inflation and soaring unemployment.[15]

For energy sanctions to be a game changer, however, they have to be crushing. Supreme Leader Ayatollah Ali Khamenei's commitment to developing nuclear weapons is probably as strong as was Ayatollah Ruhollah Khomeini's determination to destroy Saddam Hussein in the Iran-Iraq War. The shock that stopped Khomeini — U.S. naval operations that threatened Iran's energy exports and imports and thus his regime's survival — is instructive. Sanctions must complement the only thing that has so far rattled the regime: the pro-democracy Green Movement.

These developments present opportunities for Congress and President Obama to place unprecedented pressure on the Iranian regime and persuade Iran's leaders that nuclear

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[14] Borzou Daragahi, "Economists in Iran Criticize Ahmadinejad," *Los Angeles Times*, November 10, 2008. (http://articles.latimes.com/2008/nov/10/world/fg-iran10)

[15] Babak Dehghanpisheh, "In Iran, Inflation Could Threaten Regime," *Newsweek*, February 5, 2010. (http://www.newsweek.com/blogs/wealth-of-nations/2010/02/05/in-iran-inflation-could-threaten-regime.html)

weapons are not a guarantee of regime survival but rather a possible catalyst of its demise.

Sanctions and the Iranian People

Iranians are hungry for political change, but such a transformation will not necessarily be immediate. It took nine years for Lech Walesa's Solidarity strike at Gdansk to culminate in the collapse of communist rule in Poland. And while U.S. policymakers still hold out hope for a free Iran in the long-term, it is prudent to prepare for a more dangerous Iranian regime in the short-term.

Conventional wisdom holds that imposing harsher energy sanctions on the Iranian regime will have little effect on Ayatollah Khamenei, President Ahmadinejad and the Islamic Revolutionary Guard Corps, the entity largely responsible for Iran's nuclear program and for the brutal crackdown on Iran's pro-democracy Green movement.

Prominent Green leaders like Mir Hossein Mousavi criticize international sanctions on Iran but blame the regime for Iran's increasing isolation.[16] Mousavi, for his part, has called for a referendum on Iran's nuclear program, perhaps recognizing that a nuclear weapons program is not as popular as the regime has claimed.[17] However, other Iranian dissidents go farther and welcome robust penalties against Iran's energy business. Mohsen Makhmalbaf, a distinguished film director who serves as a sort of spokesman for the Green movement, neatly captured the need to increase global economic pressure on the Iranian elites. "The Revolutionary Guards are terrorists. They are in Iraq, Afghanistan and Lebanon. They tortured people in Iran. They rape people in prisons. If you explain to the Iranian people that you are sanctioning their enemies, they will support you," he told the *Guardian*.[18]

An internal debate over the need for sanctions is not without precedent. In the 1980s, for example, Archbishop Desmond Tutu and other activists initially opposed sanctions against the apartheid regime for fear that they would harm black South Africans.[19] They later reversed their position when they saw that sanctions would marginalize and undermine the government that was oppressing them.

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[16] Ladane Nasseri, Henry Meyer and Ali Sheikholeslami, "Iran Opposition Struggles as Ahmadinejad Gets Boost," *Bloomberg*, June 9, 2010. (http://www.bloomberg.com/news/2010-06-08/iran-opposition-struggles-as-nuclear-sanctions-wrangle-boosts-ahmadinejad.html); and
"Iranian Opposition Leader Blames Sanctions on Ahmadinejad," *The Media Line*, July 8, 2010. (http://newsblaze.com/story/20100708112334zzzz.nb/topstory.html)

[17] Bahram Rafiee, "Mousavi: The Nation is Not Told How Dangerous the Situation Is," *Rooz Online*, July 13, 2010. (http://www.roozonline.com/english/news/newsitem/article/2010/july/13//mousavi-the-nation-is-not-told-how-dangerous-the-situation-is.html)

[18] Ian Black, "Iran Should Face Smarter Sanctions, Says Mohsen Makhmalbaf," *The Guardian*, November 25, 2009. (http://www.iranenergyproject.org/277/iran-should-face-smarter-sanctions-says-mohsen)

[19] "Desmond Tutu," *Encyclopedia of World Biography*, accessed July 13, 2010. (http://www.notablebiographies.com/Tu-We/Tutu-Desmond.html)

The Iranian regime may be near its tipping point. The harder it cracks down on democratic activists, the less support it enjoys, even among conservative elites. The economic strikes in summer 2010 by the influential Bazaaris, the Iranian merchant class that played an important role in the downfall of the Shah of Iran in 1979, suggest that discontent for the regime could spread beyond the democracy movement.

Sanctions can accelerate Iran's economic crisis. For example, riots followed Tehran's decision in 2007 to ration gasoline supplies. Drivers torched gas stations. A concerned Iranian parliament quickly pressed the government to scrap the rationing plan.[20]

Last year, the Iranian government announced plans to reduce subsidies for energy and basic commodities.[21] The decision was motivated by the regime's desire to reduce soaring demand for cheap gasoline (as a way to counter the effects of gasoline sanctions) and to save the Iranian treasury billions of dollars in subsidy support payments. However, if the government allows the prices of gasoline and other commodities to rise to market levels, it could drive Iran's current inflation rate from unofficial estimates of 20-25 percent[22] to as high as 40 percent[23] — compounding the country's economic problems and fanning the flames of domestic discontent.

The level of discontent is high in Iran. Sanctions could accelerate the political transformation that many Iranians seek. This could increase the likelihood of stopping the Iranian nuclear weapons program.

What Can the U.S. Do?

Recommendations on Enforcement

1. ***Penalize companies that continue to violate U.S. sanctions laws.***

The Obama administration should impose stiff but selective penalties against companies that continue to invest in the Iranian energy sector and violate U.S. sanctions law. Many companies will be watching closely the administration's commitment to sanctions enforcement and searching for signs that the U.S. is not serious. European allies will not take their own steps to enforce their own sanctions until they can be persuaded that their companies will not lose business to Chinese, Russian, Turkish, and other competitors. For these reasons, the Obama Administration must penalize companies from countries that continue to violate U.S. sanctions laws.

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[20] "Iran Fuel Rations Spark Violence," *BBC News*, June 27, 2007. (http://news.bbc.co.uk/2/hi/middle_east/6243644.stm)

[21] Henry Meyer, "Iran Government Subsidy Cuts to Reduce Fuel Imports, Central Banker Says," *Bloomberg*, May 16, 2010. (http://www.bloomberg.com/news/2010-05-16/iran-government-subsidy-cuts-to-curb-sanction-impact-central-banker-says.html)

[22] Hossein Askari, "Iran on the Edge," *Foreign* Policy, November 3, 2009. (http://www.foreignpolicy.com/articles/2009/11/03/iran_on_the_edge?page=0,0)

[23] Hossein Askari, "Iran on the Edge," *Foreign* Policy, November 3, 2009. (http://www.foreignpolicy.com/articles/2009/11/03/iran_on_the_edge?page=0,0)

The following companies are high priority candidates for sanctions:

1. Aker Solutions (Norway) – Aker Solutions and its subsidiaries continue to operate in Iran. The firm's subsidiary, Aker Wirth has been active in a construction project that is overseen by Sahel Consulting Engineers, a company owned by the IRGC.[24]

2. China National Petroleum Company (CNPC) (China) – CNPC is active in several of Iran's oil and gas fields, including the North and South Azadegans oil fields and Iran's massive South Pars gas field.[25]

3. Daelim Industrial Corporation (South Korea) – The South Korean firm is active in a number of projects in Iran including a $600 million project to develop a phase of South Pars gas field.[26]

4. Elektrizitäts-Gesellschaft Laufenburg (EGL) (Switzerland) – The National Iranian Gas Export Company signed a deal to supply EGL with gas for up to 25 years in February 2008.[27]

5. Gazprom (Russia) – Russian energy giant Gazprom has been involved in both upstream and downstream activities in Iran, including the Azar oilfield development project and the Iran-Armenia gas pipeline.[28]

6. Haldor Topsoe (Denmark) – The Danish firm has been active in a number of petrochemical projects in Iran. Currently, the company is licensing technology and providing support services to several Iranian firms for two methanol plants in Iran.[29]

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[24] Emanuele Ottolenghi, "The Iranian Shell Game," *Commentary*, July – August 2008, p. 52. (http://www.commentarymagazine.com/viewpdf.cfm?article_id=11460)

[25] Alison Klayman, "China Works to Raise Mideast Profile," *Voice of America*, January 15, 2009. (http://www1.voanews.com/english/news/a-13-2009-01-15-voa14-68810252.html?CFTOKEN=60235739&jsessionid=003013ee5b02ab62087b7f65367a40c754f2&CFID=285053156); and "CNPC replaces Total at South Pars 11," *Upstream Online*, June 3, 2009. (http://www.upstreamonline.com/live/article179964.ece); and "Iran, China Sign Major Deal to Develop South Azadegan," *Rig Zone*, September 30, 2009. (http://www.egyptoil-gas.com/read_article_international.php?NID=1139)

[26] "Profiting From Iran, and the U.S.," *The New York Times*, March 12, 2010. (http://www.nytimes.com/interactive/2010/03/06/world/iran-sanctions.html)

[27] Carl Mortished, "Swiss Brush Aside Criticism Over Gas Contract with Iran," *The Times*, March 24, 2008. (http://business.timesonline.co.uk/tol/business/industry_sectors/utilities/article3607258.ece

[28] Aresu Eqbali, "Gazprom Signs Deal to Develop 2.2 Billion Barrel Azar Oil Field in Iran," *Platts Oilgram News*, November 3, 2009. (http://www.iranenergyproject.org/508/gazprom-signs-deal-to-develop-22-billion-barrel); and "Gazprom to Invest USD 200 Million in Iran Armenia Gas Pipeline," *Steel Guru*, June 8, 2008. (http://www.steelguru.com/middle_east_news/Gazprom_to_invest_USD_200_million_in_Iran_Armenia_gas_pipeline/49499.html)

[29] "Topsoe Signs Contract for Two Large Methanol Plants with Marjan Petrochemical and Kimiaye Pars," *Haldor Topso, Press Release*, March 13, 2009. (http://www.topsoe.com/News/News/2009/130309.aspx)

7. Inpex (Japan) – Inpex has remained an investor in the development of Iran's Azadegan oilfield.[30]

8. The Linde Group (Germany) – Linde has provided design and technology for a number of petrochemical projects in Iran, including those linked to South Pars and the Iran LNG Project.[31]

9. LyondellBasell (Netherlands) – Dutch firm, LyondellBasell has supplied petrochemical technology to Iran for a number of its polyethylene plants.[32]

10. Oil & Natural Gas Corporation (ONGC) (India) – India's ONGC is active in more than one project in Iran including the Farsi block and South Pars.[33]

11. Petróleos de Venezuela, S.A. (PDVSA) (Venezuela) – Iran and Venezuela have signed numerous deals to jointly develop their energy resources, including forming a joint oil company to manage their operations in other countries.[34]

12. Sinopec (China) – The Chinese-firm has signed numerous deals with Iran in both upstream and downstream activities.[35]

13. SKS Ventures (Malaysia) – SKS Ventures has made several deals with Iran, including gas field development in Iran and the construction of refineries in Malaysia.[36]

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[30] "FACTBOX: Iran's Major Oil Customers, Energy Partners," *Reuters*, August 18, 2009. (http://www.reuters.com/article/idUSTRE57H1UJ20090818)

[31] "Linde erhält Auftrag für Erdgasanlage im Iran," *Handelsblatt* (Germany), September 6, 2000. (http://www.handelsblatt.com/archiv/linde-erhaelt-auftrag-fuer-erdgasanlage-im-iran;325195); and Amanda Battersby, "Iran LNG under Starter's Orders," *Upstream Online*, March 11, 2008. (http://www.upstreamonline.com/live/article150376.ece)

[32] Joseph A. Christoff, "Firms Reported in Open Sources as Having Commercial Activity in Iran's Oil, Gas, and Petrochemical Sectors," U.S. Government Accountability Office, March 23, 2010, p. 15. (http://www.gao.gov/new.items/d10515r.pdf)

[33] "US Names ONGC, IOC for Doing Biz with Iran," *PTI*, May 14, 2010. (http://economictimes.indiatimes.com/news/news-by-industry/energy/oil--gas/US-names-ONGC-IOC-for-doing-biz-with-Iran/articleshow/5930807.cms)

[34] "Energy Cooperation Drives a Murky Venezuela-Iran Relationship," *OilPrice.com*, June 6, 2010. (http://oilprice.com/Geo-Politics/International/Energy-Cooperation-Drives-a-Murky-Venezuela-Iran-Relationship.html)

[35] "Firms Reported in Open Sources as Having Commercial Activity in Iran's Oil, Gas, and Petrochemical Sectors," U.S. Government Accountability Office, March 23, 2010, p. 17. (http://www.gao.gov/new.items/d10515r.pdf)

[36] "Malaysia to Invest $20bn in Iran's Fields," *PressTV* (Iran), December 8, 2009. (http://www.presstv.ir/detail.aspx?id=113169&sectionid=351020103); and "Iran and Malaysia Sign $14 Billion of Oil and Gas Cooperation Agreements," *Industrial Info Resources*, December 15, 2008. (http://www.pump-zone.com/global-news/global-news/iran-and-malaysia-sign-14-billion-of-oil-and-gas-cooperation-agreements.html)

14. ThyssenKrupp (Germany) – ThyssenKrupp has been active in Iran since the 1970s and Iran's Foreign Investment Company is a shareholder in the Germany company.[37]

15. WorleyParsons (Australia) – The Australian engineering firm has provided design and engineering for a number of projects in Iran including gas processing facilities, and drilling platforms.[38]

2. Enforce sanctions that prevent companies – mainly European – from supplying key technologies, equipment, and know-how to Iran's energy sector.

Iran depends on foreign technology, goods, and services to develop its energy resources. While Chinese and Russian companies can provide significant capital for both natural gas and oil projects, Iran too often depends on western subcontractors for the technology, equipment, and know-how it needs to exploit its natural gas resources. Much of that comes from one European nation: Germany.[39]

The Obama administration should encourage European leaders to enforce the sanctions announced by the EU this week by prohibiting companies in its jurisdiction from providing investment, technology, and technical assistance to Iran under current and future contracts. This should have an immediate impact on German-Iranian ties.

More broadly, the rest of the world will be watching how the E.U. implements its own sanctions. The E.U. is Iran's largest trading partner, so whatever it does will become a "ceiling" particularly for Gulf and Asian countries that are unlikely to do more.

3. Enforce sanctions against joint ventures, partnerships, and investments in foreign energy projects involving Iranian entities.

Iran has pursued partnerships with foreign energy companies to frustrate American attempts to build international consensus for sanctions enforcement. These include: natural gas projects off the coast of Scotland, Croatia, and Azerbaijan; investments in European energy and infrastructure companies; and refineries in Indonesia, Malaysia, and Sri Lanka. This grants Tehran access to technology and expertise to develop its own energy resources, influence over foreign partners, and additional revenues.[40]

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[37] "German Business with Iran: The Example ThyssenKrupp," *Stop the Bomb*, accessed July 26, 2010. (http://de.stopthebomb.net/en/start/germany/d-iran/thyssenkrupp.html)

[38] "New Player Set to Review Iran's South Pars 11 FEED," *Upstream*, May 9, 2010. (http://www.bedigest.com/NEWS/39013.aspx); and "Iran Awards South Pars Design Deal to Worley Parsons," *Middle East Economic Digest*, April 22, 2008. (http://www.gasandoil.com/goc/company/cnm82025.htm)

[39] "Iran's Energy Technology Partners," *IranEnergyProject.org*, accessed July 26, 2010. (http://www.iranenergyproject.org/natural-gas/)

[40] Massimo Calabresi, "Sleeping with the Enemy: BP's Deals with Iran," *Time*, June 16, 2010. (http://www.time.com/time/nation/article/0,8599,1996921,00.html); *The Middle East and North Africa 2004* (Routledge, 2004) p.402. (Available on Google Books); "Iran to Invest $1.7b in Azeri Gas Field,"

The *Comprehensive Act* partially addressed a loophole in U.S. sanctions laws that overlooked these business relationships. The Obama administration must now report to Congress every six months with a list of companies involved in overseas projects with the Iranian regime. Unless it waives these sanctions, the administration must apply tough penalties to companies involved in joint ventures, partnerships, or investments with Iranian entities.

The U.S. should encourage the E.U. and other allies to further restrict these activities. While E.U. will bar its own companies from entering into joint ventures, investments, and other partnerships with Iran's energy sector, its should extend its ban to overseas Iranian energy projects, where Iran-controlled entities are currently partnering with European companies in Europe. These projects give the Iranian regime access to key technology, technical expertise and influence over European energy sources and their European energy partners.

4. Designate additional Iranian Revolutionary Guard Corps entities in Iran's energy business.

The role of the IRGC in Iran's energy industry represents both a challenge and an opportunity to policymakers seeking to use energy sanctions to influence regime behavior. On one hand, the Iranian energy industry suffers from an acute shortage of capital and expertise exacerbated by the fact that the IRGC continues to replace competent energy technocrats with its inexperienced loyalists. On the other hand, energy sanctions provide an opportunity to target IRGC persons and companies — which are deeply unpopular with the Iranian people — and convince foreign companies to stop doing business with IRGC entities.

The U.S. Treasury Department should add to its 2007 and 2010 designations of the IRGC by designating other entities that are dominant players in the Iranian energy industry. Treasury has taken significant steps in this direction by designating Khatam al-Anbiya

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Press TV (Iran), January 10, 2009. (http://payvand.com/news/09/jan/1099.html); "Azerbaijan - Socar & The PSAs," *APS Review Gas Market Trends*, July 3 2006. (http://www.allbusiness.com/sector-21-mining/oil-gas-extraction-crude/1183283-1.html); "Iran and Spain to Build LNG Terminal in Croatia," *Croatian Times*, June 9, 2010.
(http://www.iranoilgas.com/news/details2/?type=news&p=current&newsID=5931&restrict=no); Benjamin Weinthal, "Nazi-Era Corporate Behavior Repeated," *The Jerusalem Post*, January 22, 2010.
http://www.jpost.com/Home/Article.aspx?id=166381; "FACTBOX: Iran's Major Oil Customers, Energy Partners," *Reuters*, August 18, 2009.
(http://www.reuters.com/article/idUSTRE57H1UJ20090818); "FACTBOX-Indonesia plans to upgrade ageing oil refineries," *Intellasia/Reuters*, January 2, 2010.
(http://www.intellasia.net/news/articles/resources/111267566.shtml); "New Malaysian Refinery Invites Iran to Take Stake," *Press TV*, March 23, 2007.
(http://www.gasandoil.com/goc/company/cnm71533.htm); "Iran, Malaysia to Push ahead with US$7 Billion Joint Venture," *Business and Economy Digest*, August 16, 2009
(http://www.bedigest.com/NEWS/27237.aspx); and Ranga Sirilal, "Iranian President Launches Sri Lanka Refinery Upgrade," *Reuters*, April 29, 2008. (http://in.reuters.com/article/idINIndia-33302020080429)

(Ghorb) and four of its (reported 812) affiliates.[41] It also added 22 insurance, petroleum, and petrochemicals companies to the Iranian Transactions Regulations (ITR) list, a slate of entities inside and outside Iran with which American firms cannot do business.

It is worth noting here that no one should be fooled by recent reports that Ghorb is pulling out of South Pars, Iran's large natural-gas field.[42] Ghorb will remain a major player in Iran's energy industry through myriad front companies and affiliates.

When it has evidence that Iranian entities support proliferation or terrorism activities, Treasury should go beyond the ITR list and designate these entities on proliferation and terrorism grounds. It should designate Kala Naft, the overseas procurement arm of the National Iranian Oil Company, which is on British and Japanese watch lists for its connection to proliferation activities;[43] the Swiss-based NaftIran, a key player in overseas energy projects, and a "major strategic asset" for Iran;[44] and the Pars Oil & Gas Company, a major player in the Iranian natural gas industry with ties to the IRGC, according to Iranian sources.[45]

The Obama administration should encourage the E.U., Canada, Australia, and other allies to add these IRGC entities to their own sanctions packages. Companies will be less likely to assume the significant legal and reputational risk of doing business in the Iranian energy sector if the U.S. and its allies take these actions.

The banking sector provides a useful model for enforcement: The foreign financial institutions that terminated or reduced their business with Iran were not legally bound to comply with U.S. sanctions. However, after Treasury revealed Iran's extensive use of deceptive financial practices and front companies, foreign bankers complied on their own. These institutions calculated that the costs of doing business in Iran — and being publicly linked to bad actors there — outweighed the benefits, and presented a real risk of losing access to U.S. financial markets.

Fines have also been instrumental to enforcement. Financial institutions took note when, in 2005, the U.S. government fined Dutch bank ABN Amro $80 million for inadequate compliance with U.S. sanctions on Iran and Libya under the *Bank Secrecy Act*.[46] They

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[41] Massimo Calabresi, "Sleeping with the Enemy: BP's Deals with Iran," *Time*, June 16, 2010. (http://www.time.com/time/nation/article/0,8599,1996921,00.html)

[42] Benoit Faucon and Farnaz Fassihi, "Sanctions Force a Retreat in Iran," *Wall Street Journal*, July 17, 2010. (http://online.wsj.com/article/NA_WSJ_PUB:SB10001424052748704913304575371150400414946.html)

[43] Kala Naft, Iran Watch (http://www.iranwatch.org/suspect/records/Kala-Naft.html)

[44] Massimo Calabresi, "Sleeping with the Enemy: BP's Deals with Iran," *Time*, June 16, 2010. (http://www.time.com/time/nation/article/0,8599,1996921,00.html)

[45] Mark Dubowitz, Confidential Report submitted to the U.S. Treasury Department, Foundation for Defense of Democracies, 2010.

[46] Barnaby J. Feder, "ABN to Pay $80 Million for Violations," *The New York Times*, December 20, 2005. (http://www.nytimes.com/2005/12/20/business/worldbusiness/20bank.html)

also took note in 2009, when the U.S. imposed $350 million in fines on Britain's Lloyds Bank[47] and $536 million on Credit Suisse for violations of Iran sanctions laws.[48]

The U.S. can use the same approach to dissuade Iran's energy partners from investing in the Iranian energy sector or exporting refined petroleum products, or energy-related technology, goods and services to the Iranian regime.

5. Cut Iran's energy partners from all U.S. government contracts.

On May 12, 2010, the Senate Committee on Homeland Security and Governmental Affairs held a hearing in an attempt to understand why the U.S. government continues to award contracts to companies that do business with Iran. The hearing followed a March 2010 report published in the *New York Times* noting that the U.S. had awarded "more than $107 billion in contract payments, grants and other benefits" over ten years to 74 foreign and multinational companies doing business in Iran.[49]

Section 102 of the *Comprehensive Act* requires all U.S. government contractors to certify that neither they, nor any person under their control, engage in any activity subject to Iran sanctions. False certifications shall result in the termination of applicable contracts, and suspension or debarment of the prospective contractor for up to three years.

The Obama administration should enforce this provision by banning any firm subject to Iran sanctions from government contracts, particularly those providing fuel supplies to the U.S. Department of Defense, the largest government purchaser of petroleum products.[50]

6. Impose stiff penalties on companies that sell refined petroleum to Iran.

In recent years, six companies have served as Iran's primary gasoline providers: the Swiss-Dutch energy trading giants Vitol and Trafigura, the Indian multinational Reliance Industries, the Swiss trader Glencore, the Dutch-British energy firm Shell, and the French energy firm Total. All of these companies — many with long-standing ties to Iran — have reportedly terminated or announced their intent to terminate gasoline sales to Iran. In addition, most Western banks have ceased underwriting gasoline shipments to Iran. Four insurance companies — Lloyd's of London, Munich Re, Allianz, and Hannover Re — have reportedly exited the market or sharply reduced their Iranian business ties.

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[47] Karen Freifeld, "Lloyds TSB to Pay $350 Million to Settle Probe (Update1)," *Bloomberg*, January 10, 2009. (http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aeBCUImC3lMk&refer=us)

[48] Joshua Gallu, Karen Freifeld and Cary O'Reilly, "Credit Suisse to Pay $536 Million in U.S. Settlement (Update3)," *Bloomberg*, December 16, 2009. (http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aG1wyIpbsqCU)

[49] Jo Becker and Ron Nixon, "U.S. Enriches Companies Defying Its Policy on Iran," *The New York Times*, March 6, 2010. (http://www.nytimes.com/2010/03/07/world/middleeast/07sanctions.html)

[50] Spencer Swartz and Steve Stecklow, "U.S. Bill Takes Aim at Iran's Oil Partners," *Wall Street Journal*, May 25, 2010. (http://online.wsj.com/article/SB10001424052748704792104575264561801614780.html) The Pentagon is the world's single-largest oil consumer, burning around 400,000 barrels a day.

Others firms, however, stepped in to replace them. They included the Kuwait-based Independent Petroleum Group, Russia's LUKOIL and Malaysia's Petronas. And while these companies have reportedly stopped their supplies, they may decide at any time to re-enter the market unless the Obama administration demonstrates that it is serious about enforcing sanctions against those continuing to supply Iran.

Today, Iran's gasoline supplies are provided by:

- *Chinaoil*, the trading arm of China National Petroleum Company (CNPC), has taken advantage other sellers leaving the Iranian market.[51] According to Reuters, the company "sold two gasoline cargoes for April delivery to Iran." These 2010 deliveries were the first Chinaoil direct sales to Iran since January 2009.[52] Reports indicate that Chinaoil remains one of Iran's remaining gasoline suppliers.

- *Unipec*, the trading arm of China's Sinopec, booked a vessel in April 2010, "to load 250,000 barrels in Singapore, with options to discharge in the Gulf. The cargo was likely to go to Iran, trade sources said."[53] Unipec previously sold gasoline to Iran between 2001 and 2004.[54] While Sinopec did not deliver gasoline to Iran in May of this year, it reportedly delivered 600,000 barrels in June.[55] Industry sources also report that Unipec had begun purchasing gasoline from independent traders in the United Arab Emirates and reselling the fuel to Iran.[56]

- China's *Zhuhai Zhenrong* has been shipping a cargo or two each month to Iran for at least a year, according to Reuters.[57] While the Chinese company has not publicly announced that it is ceasing gasoline deliveries to Iran, recent press reports no longer indicate that it is a supplier.

- Turkish oil refiner *Tupras* first supplied Iran with gasoline in June 2010 after an eighteen-month pause in deliveries.[58] July reports indicate that Turkey is expected to deliver four to five gasoline cargoes to Iran.[59]

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[51] Simon Webb, "UPDATE 2-Iran Relies on Friendly Powers for Fuel Supplies," *Reuters*, July 8, 2010. (http://uk.reuters.com/article/idUKLDE6671UA20100708)

[52] Luke Pachymuthu and Seng Li Peng, "Exclusive: China's Top Oil Firms Sell Gasoline to Iran-Trade," *Reuters*, April 14, 2010. (http://www.iranenergyproject.org/373/exclusive-chinas-top-oil-firms-sell-gasoline-to)

[53] Luke Pachymuthu and Seng Li Peng, "Exclusive: China's Top Oil Firms Sell Gasoline to Iran-Trade," *Reuters*, April 14, 2010. (http://www.iranenergyproject.org/373/exclusive-chinas-top-oil-firms-sell-gasoline-to)

[54] "Sinopec Ships 600,000 Barrels of Gasoline to Iran," *Reuters*, May 25, 2010. (http://english.alrroya.com/content/sinopec-ships-600000-barrels-gasoline-iran)

[55] "Sinopec Ships 600,000 Barrels of Gasoline to Iran," *Reuters*, May 25, 2010. (http://english.alrroya.com/content/sinopec-ships-600000-barrels-gasoline-iran)

[56] Luke Pachymuthu and Chen Aizhu, "China's Sinopec Ships Gasoline from UAE to Iran," *Reuters*, June 1, 2010. (http://www1.hymarkets.com/html/news/2010/6/1/1275387396nLDE64T029.html)

[57] "China Firms Selling Fuel to Iran as U.S. Sanctions Loom," *Reuters*, September 23, 2009. (http://www.reuters.com/article/idUSTRE58M1BK20090923)

[58] Simon Webb, "UPDATE 2-Iran Relies on Friendly Powers for Fuel Supplies," *Reuters*, July 8, 2010. (http://uk.reuters.com/article/idUKLDE6671UA20100708)

In the month of July, Tupras and Unipac reportedly provided Iran with three cargoes, with a fourth on its way from Venezuela. This is significantly less than the 11-13 cargoes Iran requires during the summer months, suggesting that the threat of sanctions is having an impact.[60] Gasoline is reportedly also reaching Iran by way of smuggling operations from Iraqi Kurdistan.[61]

In addition to smuggling, it is likely that other suppliers without significant expose to U.S. markets will emerge. Companies that have terminated their business ties to Iran may also decide to re-enter the gasoline supply market and work through third and fourth parties to hide their role. Indeed, a number of companies that previously sold gasoline to Iran have a long history of sanctions-busting and deep experience in working through front companies and cutouts.

To discourage this behavior, the Obama administration will need to track the gasoline trade carefully and impose heavy penalties on select gasoline suppliers. These penalties will send a message to the trade that violators of U.S. sanctions are taking significant financial and reputational risks by trading with Iran.

7. Establish a bipartisan Congressional Iran Sanctions Enforcement Commission.

The Iranian energy industry is complicated, fluid and opaque. It involves thousands of Iranian and foreign entities with operations inside and outside Iran. The Iranian regime also makes extensive use of front companies to hide their activities. To enforce sanctions effectively, Congress must have access to open source and classified material, as well as mechanisms to ensure regular review and dissemination of relevant information. Numerous government agencies collect information on Iran's energy business, including the Energy Information Administration, the Government Accountability Office, the U.S. Treasury Department's Office of Intelligence and Analysis and Office of Foreign Assets Control, and the relevant U.S. intelligence agencies, among others.

To effectively monitor and investigate the Iranian energy sector at a sufficient level of granularity, Congress should establish a Bipartisan Commission on Iran Sanctions Enforcement dedicated to the enforcement of U.S. sanctions against Iran. The Commission would conduct comprehensive research on Iran's energy sector, using open-source and classified information from government and third-party sources. It should conduct regular assessments of the sanctions regime, hold congressional hearings, and make recommendations to Congress to ensure tougher sanctions enforcement.

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[59] Simon Webb, "UPDATE 2-Iran Relies on Friendly Powers for Fuel Supplies," *Reuters*, July 8, 2010. (http://uk.reuters.com/article/idUKLDE6671UA20100708)

[60] Amena Bakr and Luke Pachymuthu, "Iran Fuel Imports Nosedive as Sanctions Bite—Source," *Reuters*, July 26, 2010. (http://af.reuters.com/article/energyOilNews/idAFLDE66P0RF20100726?sp=true)

[61] Sam Dagher, "Smugglers in Iraq Blunt Sanctions Against Iran," *New York Times*, July 8, 2010. (http://www.nytimes.com/2010/07/09/world/middleeast/09kurds.html)

8. Adopt a U.S./E.U. sanctions enforcement model similar to that used successfully in implementing sanctions against Serbia.

The Obama administration should consider adopting U.S./E.U. sanctions enforcement model like the one used against Serbia during the war in Yugoslavia. To ensure accountability of states and companies, the U.S. and E.U. created a cooperative venture in the mid-1990s called the Sanctions Assistance Mission, which interfaced with the UN sanctions committee and various intergovernmental organizations, law enforcement, and customs agencies, holding companies to account.

These sanctions were, "remarkably effective," according to a report of the "Copenhagen Round Table on the United Nations Sanctions in the Case of the Former Yugoslavia." The E.U., NATO and other regional intergovernmental organizations supported these sanctions with strong international cooperation. The report concluded:

> The *economic sanctions* against the Federal Republic of Yugoslavia (Serbia and Montenegro), and — at a later stage — those areas of the Republic of Bosnia and Herzegovina under the control of Bosnian Serb forces, *have been remarkably effective. They modified the behavior of the Serbian party to the conflict and may well have been the single most important reason for the Government in Belgrade changing its policies* and accepting a negotiated peace agreement in Dayton, United States of America, in November 1995 (emphasis added).[62]

9. Crack down on transshipment points.

For enforcement to succeed, the U.S. needs to ensure that enablers at transshipment ports, such as those in the United Arab Emirates, can no longer help Iran without paying a price. To address the role of Dubai and other growing centers of transshipment like Malaysia and Hong Kong, the Obama administration should adopt the following recommendations outlined by former U.S. Treasury official Michael Jacobson:[63]

a. Increase the number of U.S. investigators who perform physical end-use checks overseas.

As Jacobson points out, U.S. Immigration and Customs Enforcement has 63 offices spread across 45 countries. With additional support, ICE could aid the enforcement effort immensely, particularly at high-risk locations. Working with host governments, joint end-use investigation teams could conduct on-site verifications, ensuring that dual-use goods are not exported to Iran. In 1997, the U.S. and the E.U. signed a Customs Mutual

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[62] Report of the Copenhagen Round Table on United Nations Sanctions in the Case of the Former Yugoslavia, held under the auspices of the OSCE in Copenhagen, Denmark on June 24 and 25, 1996. (www.un.org/Docs/sc/committees/sanctions/s96776.pdf)

[63] Michael Jacobson, "Closing Loopholes: Another Vital Aspect of Sanctions on Iran," *The Washington Institute for Near East Policy*, March 4, 2010. (http://www.washingtoninstitute.org/templateC05.php?CID=3183)

Assistance Agreement enabling broad sharing of information on customs-related matters. In certain locations, the E.U. may enjoy greater access than the United States.

b. The U.S and EU could work more closely together on end-use verifications.

The EU relies heavily — some would say almost exclusively — on self-reporting when it comes to verification of cargo destinations. By working more closely together, the U.S. and Europeans could strengthen their export controls and coordinate enforcement through joint U.S.- E.U. sanctions enforcements.

c. Work to strength enforcement laws of allies

Sanctions enforcement, particularly when it requires monitoring transactions abroad, can only be effective if the laws and enforcement mechanisms of our allies are as strong as they can be. The U.S. could also provide assistance to countries that seek to write stronger sanctions enforcement laws, and reward countries with more favorable trade laws or free trade agreements.

d. Transparency: the U.S. and the EU should create a Universal Database of Bad Actors

Jacobson also notes that there is no centralized database of bad actors that could help government officials and the private sector identify repeat export-control violators or identified front companies. The Brussels-based World Customs Organization, if tasked, may be an appropriate place to consider housing the database.

10. Strengthen SEC disclosure requirements for companies doing business with Iran and broaden the definition of 'material' information.

Currently, the Securities and Exchange Commission (SEC) does not require U.S. or foreign companies to specifically disclose all business dealings with designated countries such as Iran. Rather, the definition of what they must disclose — that which "constitutes material information" — is vague and translated as "information substantially likely to be significant to a reasonable investor's decision about whether to invest in that company." There is too much room for interpretation and both the U.S. government and the American people deserve to know more about who is trading with Iran.

The SEC has made efforts to encourage better disclosure of business dealings with Iran, but it currently lacks the statutory authority to enforce such disclosure. Congress can help by broadening the definition of "material" information to include non-quantitative risk factors like reputational risk that may influence an investor's decision to invest in a given company.

Last week, Congressman Ted Deutch (D-FL), supported by a bipartisan group of his colleagues, introduced legislation aimed at doing just that. The legislation, the *Iran Transparency and Accountability Act of 2010*, would force companies to disclose their business dealings with Iran so that investors can decide if they wish to invest in

companies that prop up the Iranian regime. Instead of having the SEC selectively examine companies that may report doing business with Iran, the new legislation would require all business dealings that are sanctionable to be reported and trigger an investigation.

Furthermore, the SEC would aggregate the information so that it is available to key government agencies and viewable by the public on the SEC's website. The bill would also require the President to investigate all business ties with the IRGC, its affiliates, and any Iranian banks. These disclosure requirements would give teeth to existing U.S. policy and require rigorous enforcement of legislation that has existed for decades.

Conclusion

The Iranian energy sector is the lifeblood of the regime. It is the source of its power and control over the Iranian people. The Iranian energy sector is now facing significant challenges as a result of sanctions and mismanagement. The push for energy sanctions, including steps to make it more difficult for Iran to import gasoline, acquire key energy technology, and attract investment for its energy sector, has already had a major impact. Iran's gasoline suppliers are exiting the market while energy investors, banks, technology providers, and insurers are terminating or reducing their business ties.

President Obama now has an opportunity to enforce U.S. law and put Iran's energy partners to a choice between doing business with the Iranian regime and continuing their business relationships in the lucrative U.S. market. Anything less than rigorous enforcement of U.S. sanctions laws — including stiff penalties against violators — will be a signal to these companies and the Iranian regime that Washington is prepared to allow business to continue as usual.

The options to deal with the Iranian nuclear weapons program are not between good and bad but between bad and worse. Sanctions are not a silver bullet. However, they present a peaceful alternative that could put enough pressure on Tehran to change its behavior.

On behalf of the Foundation for Defense of Democracies, I thank you for inviting me to testify before this distinguished committee.

-ENDS-

Chairman TOWNS. Thank you. Let me thank both of you for your testimony.

Let me begin with you, Mr. Jorisch. Some of these banks are the biggest banks. Why have they been able to get away with this? Some that you had on that chart were some of the biggest. How do they get away with it?

Mr. JORISCH. In general, banking is not a transparent business. When you have a bank account, not everyone knows about those bank accounts. Before this came out, before I put out this study, there was nothing on bank accounts or Iranian bank accounts or otherwise on the internet, on the "E road." This is the first expose of their accounts all over the world.

Chairman TOWNS. So that is the reason why they were getting away with it, you are saying?

Mr. JORISCH. The Treasury Department is not in the habit of calling out, naming and shaming, international banks that are doing business with designated entities.

Chairman TOWNS. Mr. Dubowitz, do you believe that our U.S. sanctions are strong enough, or should we do something else?

Mr. DUBOWITZ. Well, I think U.S. sanctions are certainly strong, and I think if we vigorously enforce them and if we impose crippling sanctions against these companies, again, I think it will send a ripple of fear through the energy sector. Our friends in Treasury have done a superb job in persuading many financial institutions to stop doing business in Iran.

But let's remember, as I said in my testimony, the U.S. Government and the district attorney of New York imposed $1 billion worth of fines on three European banks between 2005 and 2009, and that focused minds on the financial sector. We have never sanctioned any energy companies, and I believe that if we impose the equivalent of $1 billion worth of fines on the Turkish and Chinese and Malaysian and other companies that are continuing to do business in the gasoline trade and in the oil and natural gas sectors, that could have a profound effect.

Chairman TOWNS. Do you believe that the United States and EU sanctions on Iran will effectively reduce the number of foreign firms conducting business in Iran? Do you think it will reduce the number?

Mr. DUBOWITZ. I was in Brussels a couple of weeks ago, meeting with the key drafters of the U.S. sanctions order, and I think the Europeans have gone very far in the energy sector. What they didn't provide were sanctions against the supply of gasoline. And a number of European companies have been involved in that supply chain for many years, though reportedly they are out. They have cutoff or prohibited investment in technology transfer and technical assistance, and, again, I think this is sending a message to European energy firms that Iran is not open for business.

But again, I am somewhat skeptical that our European friends are going to enforce those laws. The commercial relationship between the EU and Iran is enormous and growing.

Chairman TOWNS. Mr. Jorisch, you have spent time both as a former Treasury official and as a private consultant tracking how Iran manages its resources within the international economy. Can you discuss why you believe effective sanctions enforcement against

Iran's banking sector in particular is so important to halting Iran's nuclear weapons program?

Mr. JORISCH. If you look historically, one of the things, again, as I mentioned in my testimony, that brought down the South African apartheid regime was banking sanctions, first. In addition, if Iran doesn't have access to the international market, it can't procure currency, it can't send wire transfers. If it doesn't have the hub of the banking sector, it can only rely on the informal ways of moving money.

There are only four ways of moving money: there is the banking sector, the informal financial sector, cash, and commodities. Mr. Dubowitz talked about the commodities side of the house: gas, oil. But if you cutoff the banking sector, what does the regime have left? It is much more difficult for them to move money. This is really one of the lifebloods of the regime.

If you are able to cutoff the banking community from Iran, it becomes much more difficult for them to move money, and that is the power that this last sanctions legislation actually passed. U.S. financial institutions will have to certify that they are not doing business with anyone who is doing business with a designated entity. That is a third-party sanction. If that really does go through, you will find that most banks will pull out of the market.

Chairman TOWNS. On that note, I yield back and I call on the gentlewoman from New York, Congresswoman Carolyn Maloney.

Mrs. MALONEY. I would like to thank both gentlemen for their testimony and first to ask Mr. Jorisch the Central Bank is not covered under the sanctions. Iran's Central Bank is not covered, so what does that mean in terms of trying to put sanctions on them? And what is the role that clearinghouses are playing?

Can you give specific examples of how the clearinghouses might be used to get around the sanctions? And, again, the exemption, am I correct that there is an exemption for the Central Bank of Iran from the sanctions? And what impact does that have on it?

Mr. JORISCH. I will work backward. There is an exemption for the Central Bank. It hasn't been designated by the United States or the United Nations, and it is certainly a hole in the sanctions regime. If you don't designate every Iranian bank, effectively there is a hole in the sanctions regime. So that is firstly.

In terms of clearinghouses, there is one huge scheme, called the Asian Clearing Union. It is based out of Tehran and it is a conglomerate of somewhere between 8 and 10 countries, the central banks of 8 and 10 countries. And they get together and they are essentially moving money through this clearinghouse, and Iran effectively is moving up to 10 percent of its imports and exports yearly. Its biggest trading partner in the Asian Clearing Union is India. It is a way for them to procure dollars and Euros and evade sanctions.

I have written about this at length. This is one of the biggest holes outside of the formal financial sector, the banking community, and until the U.S. Government either designates or puts them on some kind of sanctions regime, they are going to be able to move money through this formalize informal financial sector.

Mrs. MALONEY. Well, Mr. Chairman, maybe we should close that loophole they are pointing out.

Mr. Dubowitz, I would like to ask you about the international community. We heard in the prior session that we had from State Department that we have been successful this time in engaging the international community, with the exception of Turkey and China and Russia, and we are working on those countries; but in the past parts of the European Union did not really work with us on the sanctions. What has happened that they are now willing to be part of this effort? Could you give your interpretation of what is happening in the international community and what impact that will have on making them stronger this time?

Mr. DUBOWITZ. Thank you for the question. First of all, I think the U.S. Government has done a remarkable job in building international support, but I think we should be careful about not exaggerating the level of international support. What essentially we have now is a Security Council Resolution, 1929, that lays the predicate for the possibility of further support. We have the Europeans, the Canadians, and the Australians who, so far, have formally passed their own energy sanctions.

Within Europe there was a lot of debate within the 27 member union over sanctions. You had the French very aggressive. In fact, the French were willing to include refined petroleum sanctions as part of the final sanctions package. But you have countries like Sweden and others who are pushing back for a variety of reasons.

So there is still a lot of dissension and disagreement within the European Union. You don't see that in the final Executive order, in the final sanctions order, but you will see that in enforcement; and I think we should be very cautious about congratulating the Europeans until we see what they are going to do on the enforcement side.

Are the Germans, who have the largest trade relationship with Iran in the EU, going to move forward on some of these remaining banks and on the technology companies and infrastructure players that play a critical role in supporting the Iranian energy sector? So I think the time for celebration will be when we see the Europeans also imposing their own stiff penalties and sanctions against their own firms or firms that are operating on European soil.

Mr. JORISCH. I wonder if I could just followup on that for just a moment.

Mrs. MALONEY. Sure.

Mr. JORISCH. I would like for you to recall the fact that there are designated Iranian banks sitting in London, Parish, Rome, Frankfurt, Hamburg. The new legislation barred any new business from taking place with these banks, but not preexisting business, and a lot of our European allies are congratulating themselves, when in fact they are allowing old contracts to go through and using these designated Iranian banks on their soil. They have not closed down these banks in Europe.

Mrs. MALONEY. And they are among our closest allies, would you not say, in Europe and Asia and the Middle East? And they have the physical branch operations from the Iranian banks. So do you think that we went far enough, or we should have covered also the existing businesses, Mr. Jorisch?

Mr. JORISCH. The existing businesses? In other words, the existing banks?

Mrs. MALONEY. Yes.

Mr. JORISCH. We essentially used the ability we had. We leveraged the U.S. financial system. We told these banks you can choose between us and you can choose between them. It was a clean hands bill. All these U.S. banks now need to certify that they are not doing business with anyone who is doing business with the designated entities. In other words, it forces these European, Asian, and South American banks to basically choose between us and them.

In terms of the Iranian banks, there is very little leverage we have. There is very little leverage we have, other than going through the United Nations and the State Department.

Mrs. MALONEY. What about the correspondent banks? What role do they play in empowering financial services, expanding financial services for Iran?

Mr. JORISCH. So that was the thrust of my testimony. I found 44 banks around the world that are providing designated Iranian entities with correspondent banking services. Again, when a bank doesn't have a physical presence in a country, it pays another bank to act as its agent.

Those 44 banks are essentially acting as Iran's tentacles around the world, and a lot of those banks have a physical presence here in the States. Deutsche Bank, Commerce Bank, they have branches here and they are basically working with designated entities. Those 44 banks also maintain correspondent banking relationships with our own financial institutions; again, JPMorgan, Citibank, Boni. So, this latest round of sanctions, we are using the power we have because we are forcing our own financial institutions to certify that they are not doing business with anyone.

Mrs. MALONEY. Well, my time has expired, Mr. Chairman.

Chairman TOWNS. The gentlewoman's time has expired.

I now yield 5 minutes to the gentleman from California, the ranking member of the committee, Mr. Issa.

Mr. ISSA. Thank you, Mr. Chairman.

I am a big supporter of trying to use sanctions, trying to make it work, but I am going to be the devil's advocate a little bit here today for both of you. I did international banking, if you will, in the import-export business for years. Everybody has a correspondent bank. Hong Kong, Shanghai prides itself on having a correspondent relationship basically with everybody, as does JPMorgan and so on. As a matter of fact, that is why they call a lot of these guys financial center banks.

Ultimately, isn't it true, Mr. Jorisch, no matter what we do, if they are able to put money into banks, which they can through their private entities that are essentially nongovernment, that has millions, if not billions, they can move it to enough banks that eventually they will always have a correspondent?

In your opinion, based on your research, in order to actually make banking sanctions work, don't we actually have to create an audit trail of the money, the transactions, level of transparency on the actual money transactions, what they are for, who they go to, and follow them on a global basis? And anything less than that, aren't we really sticking our fingers in the kind of sieve that we generally put spaghetti in when we are draining it?

Mr. JORISCH. The short answer is yes. There is no perfect system. You are never going to be able to lock out an entire country from the formal financial sector. Having that said, though, Stuart Levey, my former boss at the Treasury Department, always says our job is not to close down the regime; our job is to make it more difficult and financially painful for them to move our money, and that is what this does.

Mr. ISSA. Well, and to that level I would like to ask both of you, and, Mr. Dubowitz, perhaps you could start. I remember how we went after South Africa. They weren't doing a nuclear weapon. Their weapon was the tyranny over their majority. We did it with pure shame. We basically shut down diplomatic relations with South Africa on a global basis. We did have banking sanctions, but, to a great extent, what happened was we did not welcome their deposits, period. We were able to get more and more banks to recognize that if you took their deposits, you were taking the equivalent of blood money in diamonds today.

Even though our sanctions are strong, even though I know Treasury is doing the best they can, I will start with Mr. Dubowitz, the next step that we have to look at, not just Government Oversight, but the Congress, isn't it to find those areas in which truly we can change how they are viewed and how they feel they are viewed?

And I have been all over the world. I started on Foreign Affairs in this Congress. The fact is you find Iranians at the finest hotels. We normally don't stay at those hotels, but if I go to a meeting in those really good hotels you are going to see Iranians. So isn't that the next step, diplomatic sanctions, including not having Ambassadorial postings of Iranians in countries in Europe?

Mr. DUBOWITZ. Well, Congressman Issa, that is exactly right. I think to take the big picture view of sanctions, sanctions are a way of putting the Iranians in the wrong and keeping them there. There has been a sea change in the narrative about Iran even in 12 months even in this August body. Twelve months ago we were talking about a grand bargain with Iran over common interests and common values; today we are talking about——

Mr. ISSA. I think that was down the road about 16 blocks.

Mr. DUBOWITZ. Now we are talking about how crippling can sanctions be. Now, that is a significant change in the narrative in Washington. It is certainly a significant change in the narrative in Europe. When I was in Europe 12, 18 months ago, the talk about the Iranian regime and its legitimacy was certainly in the mouths of most diplomats and most politicians on both sides of the aisle.

So I think these sanctions have played a very important strategic communications role in putting the Iranians in the wrong and keeping them. I think we can go further by, in fact, barring their diplomats, barring their embassies. I was born in South Africa; I have a sense of what was done actually in South Africa, and I think what was very important there was to target the legitimacy of the South African government, to show the evil nature of apartheid.

Now, I want to make just one further comment, because my fear with sanctions, whether it is in the banking sector or in the energy sector, is that we spend the next 12 months playing a game of

"whac-A-Mole." That is the game in the carnival that we used to play as kids, where you hit one mole and another one pops up. I think if we spend the next 12 months chasing corresponding banking accounts and gasoline suppliers and technology providers, we are going to have our folks at the State Department inundated with work, but I don't think we are going to be targeting the real Achilles heel of the Iranian economy.

Unlike South Africa, Iran is a one crop country. All the Iranians really do is produce energy. And we have to identify a very short list of major investors in the energy sector and major technology providers, of which there are only a few really big ones, and I can tell you most of them are German, who are providing critical technology to the Iranian natural gas sector. We should identify them and then penalize them.

Mr. ISSA. OK, my time has expired, and I agree with you; it was in your testimony.

I am going to just do a yes or no question for both of you at the end. During this time, as we attempt to do that, should we urge the State Department to urge our allies around the world to recall Ambassadors and/or to discharge Iranian ambassadors as a way of showing, without hurting one Iranian citizen, a way of showing that this is not a country that is currently in favor for their actions?

Mr. JORISCH. Yes.

Mr. DUBOWITZ. Yes.

Mr. ISSA. Thank you both.

Thank you, Mr. Chairman.

Chairman TOWNS. Thank you very much. Thank you for your questions.

Let me just ask, is there anything that we need to do from a legislative standpoint, on this side of the aisle?

Mr. DUBOWITZ. If I could start. I think that Congress can play a critical role in continuing a relentless and determined drive to ensure sanctions are enforced. As I mentioned in my testimony, I think it would be very valuable to set up a bipartisan commission on Iran sanctions enforcement and to make sure that the staff that is employed there has access to the best information, that they are relentless and determined in monitoring what is a very opaque and very complex energy sector and banking sector, and that they are finding the best information in order to ensure that we can name and shame the energy companies and the banks that are doing business with Iran, we can hold hearings, and we can hold the administration to account for its commitment to sanctions enforcement. I think that can be done legislatively, and I would suggest that be an important first step.

Chairman TOWNS. You can be assured we will hold hearings.

Mr. JORISCH. I wholeheartedly agree with Mr. Dubowitz. I think Congress ought to consider, again, just echoing Mark's words, a bipartisan body that oversees sanctions, that collects this information, brings it out to the public and holds the administration's feet to the fire on this. The implementation if where the rubber meets the road here. Writing legislation is great. Passing legislation is wonderful. If there is no implementation, you have nothing.

Chairman TOWNS. Gentlewoman from New York, do you have any closing remarks?

Mrs. MALONEY. I would like to just followup with what Mr. Dubowitz said, that instead of playing Whac-a-Mole or Whack-A-Ball, whatever it is called, we should be focusing on the energy sector, which is the key component. Could you elaborate a little bit on that? I know that the bill did not address refined petroleum trade. It did not penalize companies involved in this trade.

Also, their energy needs help from foreign countries, really, for them to develop their energy business and, according to some estimates, about 60 percent of the technology Iran uses to exploit its natural gas resources comes from one European nation, Germany, the rest from other U.S. allies, Japan, South Korea, Europe.

Last week, companies were free to provide these products and services to Iran and natural gas businesses. Now that has changed and Congress really gave the President the means now to sanction any company that provides technology, goods, or services valued at $20 million or more in any single year to the Iranian energy industry.

What is your opinion of how committed the European Union is to stopping the transfer of this key European technology to Iran?

Mr. DUBOWITZ. I was surprised by how tough the EU sanctions were. I would not have expected that 3 to 6 months ago. They have gone after very specifically the providers of technology and technical expertise, and they are essentially going after their own companies in writing that order, because they know very well that 60 percent of the key natural gas L&G technology is provided by Germany and France and Holland and other European countries. So they have that in mind.

I find it fascinating that they focused on that. Mr. Jorisch is exactly right, they have only focused on new contracts, not existing contracts, which, for me, provides a massive loophole in which new deals can be characterized as existing deals. There is a whole array of things that a company can do to circumvent that restriction. So certainly the paper looks good; the words look good.

It will be very interesting to see whether Europe sanctions the Linde Group, which is a German natural gas technology player. It is a massive German company that are providing key L&G technology for the Iranian natural gas sector. If they are not sanctioning the Linde Group or any other organization like that, then I don't think the Europeans are serious, and then Congress has the authority under this new sanctions law to go after the Linde Group and other technology providers, because you did something brilliant, you eliminated, in the Iran Sanctions Act, an exclusion under investment which, prior to this, companies providing technology, goods, and services were free to do so for the past 15 years. You closed that loophole and you should be commended for that.

Mrs. MALONEY. Thank you very much. I have additional questions, but I would like permission to place them in writing.

Chairman TOWNS. Without objection.

Mrs. MALONEY. I really want to thank you, Chairman Towns, for putting this hearing together, and I thank your staff, who worked hard, and I thank my own staff for their hard work. This was not an easy hearing to put together and I know you persevered, and

I want to publicly thank you and the professionalism of your staff. Thank you.

Chairman TOWNS. Thank you very much. I appreciate your giving my staff praise, because there is no raise. [Laughter.]

Mr. JORISCH. Or show me the money.

Chairman TOWNS. I want to thank all the witnesses for their testimony, and I appreciate the participation of the Members who attended the hearing as well.

If there is one thing I think we can all agree on, it is that we must do everything we can to prevent Iran from developing nuclear weapons. And we must cutoff Iranian support of terrorism.

I believe the key to doing that is through the financial services system. If banks currently doing business with Iran can be persuaded to withdraw from the Iranian banking market, it will put very significant pressure on the current regime. Congress has now given the State Department and Treasury the power to do just that, and we fully expect they will carry out congressional intent. We will be watching, and so will the rest of the free world. They also will be watching.

There is another important issue I would like to address. Some have argued that economic sanctions may have more of an adverse effect on the ordinary people of Iran, than on the current regime.

I think we are all concerned about that. However, I think we need to remember that continued trade with Tehran primarily benefits the Islamic Revolutionary Guards Corps, which, despite its name, is a business enterprise that controls almost 70 percent of the Iranian economy and the entire Iranian oil industry. It is important for the international community to deny resources to the regime which are used to suppress the pro-democracy movement, some of whom have been working to help lift the veil on Iranian nuclear programs.

In closing, let me say to my colleagues and to others that there is very strong interest in this issue in Congress and I believe that my colleagues on both sides of the aisle will be interested in ensuring that these economic sanctions are implemented effectively and quickly.

Ladies and gentlemen, this concludes this hearing. I thank the Members for attending.

[Whereupon, at 2:51 p.m., the committee was adjourned.]

[The prepared statements of Hon. Gerald E. Connolly and Hon. Mike Quigley, and additional information submitted for the hearing record follows:]

The Honorable Gerald E. Connolly (VA-11)

OGR Full Committee Hearing—Implementation of Iran Sanctions
Thursday, July 28, 2010
10am

On July 1st, the President signed the bipartisan Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (CISADA) into law. The legislation penalizes Iran for its nuclear enrichment activities by imposing sanctions on foreign entities that facilitate Iran's access to refined petroleum or assist Iran in developing its energy sector. Moreover, the legislation targets Iran's Islamic Revolutionary Guard Corps (IRGC)—the powerful armed force that is perhaps most infamous for targeting protestors after the 2009 elections. The new U.S. sanctions policy also penalizes Iran's worst human rights abusers.

The new U.S.-imposed sanctions came on the heels of a June 9th vote in the United Nations Security Council in favor of sanctions on Iran. The timing was deliberate, as the Administration requested that Congress delay consideration of the conference report to await multilateral action; in fact, the House Committee on Foreign Affairs reported the legislation out of committee last fall. The June 9th, multilateral sanctions increase pressure on the financial sector to sever ties with Iranian entities linked to Iran's nuclear program. Similar to the new U.S. policy, the U.N. sanctions target entities linked to the Iranian military apparatus, including 15 companies linked to the Islamic Revolutionary Guard Corps.

A major challenge with the passage of the refined petroleum sanctions is enforcement. CISADA requires the Executive Branch to leave no stone unturned and pursue all credible evidence of sanctionable activity. In the past, the Government Accountability Office has reported illegal transshipment of a variety of illegal dual-use goods to Iran. Future, rigorous oversight of sanctions implementation is necessary to ensure CISADA is efficacious. Cooperation among the Departments of State and Treasury and the U.S. Congress is paramount to ensure that sanctions violators do not escape penalties. After all, the effectiveness of any policy is directly linked to how well that policy is enforced

The Honorable Gerald E. Connolly (VA-11)

It is noteworthy that the newest round of sanctions against Iran's government is targeted toward the Ahmedinejad regime and its nuclear pursuits. Let me repeat that—the target is the regime, not the Iranian people. The nascent democratic movement in Iran has shown that the people of Iran do not often agree with their government. The consequence of such disagreement, as recent events have shown us, is brute violence at the hands of the Revolutionary Guard Corps (whose financial assets will not escape the new sanctions).

The international community has been dealing with the Iran issue for years, but there has never been a final resolution. In 2004, the EU-3 (France, Britain and Germany) drafted the Paris Agreement, but talks with Iran fell apart. In 2006, the P5+1 attempted to convince Iran to temporary suspend enrichment, but there was no final agreement. Iran's insistence on enrichment, along with its ties to terrorist groups like Hezbollah, are causes for concern. The Iran enrichment issue can be resolved only when the U.S. and its allies have multiple tools in dealing with the Ahmedinejad regime.

Thank you, I look forward to today's hearing.

Oversight and Government Reform Committee: Implementation of Iran Sanctions
Statement of Representative Mike Quigley
July 28, 2010

I want to thank Chairman Towns for holding this important and timely hearing today on the implementation of Iran Sanctions. Iran is racing toward a nuclear weapon, and we must work with our allies to do everything in our power to stop Iran from obtaining the bomb. UN investigators recently reported that Iran has enriched enough uranium to build two bombs, and they continue enrich uranium to 20 percent, the threshold needed to make weapons. A nuclear Iran would have devastating effects, severing to destabilize the entire region, set off a nuclear arms race in the Middle East, and harm our closest ally in the region - Israel.

The Obama administration has reached out to Iran diplomatically for many months, and has received nothing but rejection from the Iranian regime. In response, the Congress has passed the most comprehensive set of sanctions in U.S. history, and our European allies have followed suit just days ago passing a strong set of sanctions. The Comprehensive Iran Sanctions, Accountability and Divestment Act gives us unprecedented tools to cuts off trade and investment with Iran, in hopes of raising the cost of developing a nuclear weapon and ultimately deterring Iran from its nuclear pursuit. Now we need to utilize the tools included in the legislation, but this may prove easier said than done.

Iran relies heavily on revenue generated by its oil and natural gas reserves. Oil exports account for 76 percent of the Iranian government's revenue, so it stands to reason that cutting off this stream of revenue will seriously cripple the regime's ability to operate. The U.S., along with its allies, has an opportunity with our new sanctions regime to send a clear sign to Tehran, but I have several concerns about the implementation of these sanctions.

To begin, although the Iran Sanctions Act has been in effect since 1995, the U.S. administration has never sanctioned a foreign entity for investing $20 million or more in Iran's energy sector, even though there have been numerous instances of such investments. Even when some companies were

found to have violated the ISA in 1998, the State Department chose to waive the implementation of sanctions. I hope our witnesses today will reinforce their commitment to implementing sanctions and using waivers sparingly.

I am also extremely concerned about agencies' ability to track Iranian firms as they continue to create shell companies and circumvent sanctions. As we have seen with the Iranian firm Irisl, Iranian companies are quite capable of changing their flags, names and even ownership to avoid being placed on a blacklist and banned from trade. I am looking forward to hearing from the Treasury Department today about their efforts to track Iranian firms, their subsidiaries, and the numerous shell companies they continue to create.

Transshipping dual-use goods, technology and even weapons through other countries, such as the United Arab Emirates, Malaysia, and Singapore, also allows Iran to continue receiving goods which help it pursue its nuclear and military objectives. The administration must make clamping down on transshipping through third party countries a priority, or goods and technology will continue to make their way into Iranian hands regardless of our sanctions.

Lastly, and perhaps most importantly, we must address nations such as China that are not secretly trading with Iran, but openly trading with Iran. As other firms pull out of Iran, it is my fear that nations such as China will simply step in to fill the void, keeping Iran afloat and blunting the impact of our sanctions. The State Department and other agencies must be willing to get tough with nations like China, even if it means potentially harming our diplomatic ties.

These sanctions are not optional and we cannot afford to waste any time in implementing them. As we sit here today, Iran is enriching more uranium and developing delivery systems, which could devastate our ally Israel and the whole region. Swift implementation and steadfast enforcement of these sanctions are our best hope of peacefully persuading Iran to suspend its pursuit of nuclear weapons.

Questions for the Record Submitted to
Special Advisor for Nonproliferation and Arms Control,
Robert J. Einhorn by
Representative Henry Cuellar
House Committee on Oversight and Government Reform
July 29, 2010

Question:

It is widely known that there are soft ports around the world. In the past the UAE (United Arab Emirates) have served as a major base to smuggle banned components and dual use technology into Iran. There have been numerous media reports of this illicit trade. They are under less scrutiny and less control by the UAE federal government. How much are we monitoring the activity in places like this? And what assurances do we have that the UAE federal government and the ports of entry in those emirates are being closely monitored and controlled?

Answer:

The UAE has made a commitment at the highest levels of government to prevent its territories – including all seven emirates – from being used as a source or transit point for sensitive items that could support WMD or terrorism-related activities. We work closely with the UAE at senior levels on these issues and consider it a strong partner. Because of this ongoing partnership and its commitment to prevent proliferation, the UAE has taken several important actions.

These actions include passing an export control law, enforcing United Nations Security Council Resolutions including the interdiction of shipments of proliferation-related concern, freezing Iranian bank accounts, and shutting down

WMD-related procurement companies operating in the UAE. While these are all important actions to prevent proliferation, the UAE still has work to do including improving the implementation and enforcement of its export controls; we will remain engaged with the UAE on all of these issues.

Question for the Record Submitted to
Special Advisor for Nonproliferation and Arms Control,
Robert J. Einhorn by
Representative Edolphus Towns
House Committee on Oversight and Government Reform
July 29, 2010

Question:

The press has reported that Caterpillar Inc. recently prohibited its non-U.S. subsidiaries from accepting orders that would be sent to Iran. Are you aware of Caterpillar's foreign subsidiary unilateral decision to cease business in Iran? Do you know whether other foreign heavy equipment manufacturers are also stopping business with Iran?

Answer:

We are aware of, and welcome, Caterpillar's decision to prohibit its non-U.S. subsidiaries from accepting orders destined to Iran. Caterpillar is one of a growing number of companies that are recognizing the increased risks of doing business with Iran, including foreign equipment manufacturers such as ABB Ltd., Daimler, Finmeccanica, Linde, Siemens and Toyota.

The Comprehensive Iran Sanctions Accountability and Divestment Act (CISADA) has been a valuable tool in our efforts to put pressure on Iran to comply with its international obligations. As part of our implementation of the Iran Sanctions Act (ISA), as amended by CISADA, the State Department engages regularly with foreign companies and their governments to discourage new

business with Iran. These efforts have yielded results. A number of other companies in the oil sector, including Royal Dutch Shell, Statoil, Lukoil, Total, ENI, and Repsol, have also committed not to engage in any new activities in Iran, as long as Iran continues to defy its international obligations.

Question for the Record

United States

House Committee on Oversight and Government Reform

"Implementation of Iranian Sanctions"

Deputy Assistant Secretary Daniel L. Glaser

July 29, 2010

Q: The March GAO report (GAO-10-375) on enforcing restrictions recommended that the Department of Treasury should be ensuring that they are developing the capability to provide all other Federal agencies that are relevant, and Congress, with complete and timely information concerning all licenses issued for the export of goods to Iran. What progress have we achieved on that recommendation in the Treasury Department?

A: OFAC regularly searches and provides information with regard to its licenses, both to Executive agencies and others as appropriate. These license searches facilitate criminal and civil sanctions enforcement, as well as export enforcement activities, licensing activities, and policy-making.

OFAC has, for some time, recognized the importance of automating its licensing processes and has been actively working towards that goal. As one example, OFAC is currently implementing a new application for licensing exports pursuant to pursuant to the Trade Sanctions Reform and Export Enhancement Act of 2000 ("TSRA"). The phased implementation of this application will significantly enhance OFAC's access to information and its ability to capture and analyze data. Among the many improvements to the overall licensing process, a new application is being developed and the initial phase of the deployment will allow OFAC personnel to search for all licenses that contain a particular product. A later phase of the new application is designed to enable applicants to submit license applications online, streamlining our ability to capture necessary data.

We are also continually investigating and assessing other applications to improve upon our data search and capture abilities.

Implementation of Iran Sanctions
Question for the Record
Submitted by Chairman Edolphus Towns
for Joseph A. Christoff, Director, Government Accountability Office

Question: With regard to nonproliferation sanctions, there have been Chinese companies that have been sanctioned three or more times. Were the Chinese companies that were sanctioned state-owned or privately owned companies, and, if they were state owned could the Chinese government as a whole be treated as a holding company subject to sanctions?

Response: Under the Iran, North Korea, and Syria Nonproliferation Act, the Department of State imposed 111 sanctions for transactions with Iran from January 2, 2001 to April 17, 2007. State imposed 52 of the sanctions against 26 Chinese firms, with 7 Chinese firms sanctioned at least 3 times. Of the 26 Chinese firms, open sources report that 13 are state-owned or subsidiaries of state-owned entities. We could not determine from open sources the ownership of the remaining 13 Chinese firms.

State Department is responsible for implementing the Iran, North Korea, and Syria Nonproliferation Act. State has not sanctioned a government under this Act.

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August 18, 2010

Mr. Joseph A. Christoff
Director
International Affairs and Trade
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Christoff:

Thank you for appearing before the Committee on Oversight and Government Reform on Thursday, July 29, 2010, at the hearing entitled, "Implementation of Iran Sanctions." We appreciate the time and effort you gave as a witness before the Committee.

Pursuant to the Rules of the Committee on Oversight and Government Reform, the hearing record remains open to permit Members to submit additional questions to the witnesses. Attached is a question directed to you. In preparing your answer to this question, please include the text of the question along with your response.

Accordingly, please provide a response to this question by September 1, 2010. Your response should be addressed to the Committee office at 2157 Rayburn House Office Building, Washington, DC 20515. Please also send an electronic version of your response by e-mail to Carla Hultberg, Chief Clerk, at carla.hultberg@mail.house.gov in Word or text format.

Thank you for your prompt attention to this request. If you need additional information or have other questions, please contact Carla Hultberg at (202) 225-5051.

Sincerely,

Edolphus Towns
Chairman

cc: The Honorable Darrell Issa, Ranking Minority Member
Committee on Oversight and Government Reform

Question for Mr. Joseph A. Christoff, Director
International Affairs and Trade
U.S. Government Accountability Office
From Rep. Edolphus Towns
Committee on Oversight and Government Reform
Hearing entitled, "Implementation of Iran Sanctions"

1. With regard to nonproliferation sanctions, there have been Chinese companies that have been sanctioned three or more times. Were the Chinese companies that were sanctioned state-owned or privately owned companies, and, if they were state owned could the Chinese government as a whole be treated as a holding company subject to sanctions?

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August 18, 2010

Mr. Robert J. Einhorn
Special Advisor for Nonproliferation and Arms Control
U.S. Department of State
2201 C Street, NW
Washington, DC 20520

Dear Mr. Einhorn:

Thank you for appearing before the Committee on Oversight and Government Reform on Thursday, July 29, 2010, at the hearing entitled, "Implementation of Iran Sanctions." We appreciate the time and effort you gave as a witness before the Committee.

Pursuant to the Rules of the Committee on Oversight and Government Reform, the hearing record remains open to permit Members to submit additional questions to the witnesses. Attached are questions directed to you from me and Representative Cuellar. In preparing your answers to these questions, please include the text of the questions along with your response.

Please provide your response to these questions by September 1, 2010. Your response should be addressed to the Committee office at 2157 Rayburn House Office Building, Washington, DC 20515. Please also send an electronic version of your response by e-mail to Carla Hultberg, Chief Clerk, at carla.hultberg@mail.house.gov in Word or text format.

Thank you for your prompt attention to this request. If you need additional information or have other questions, please contact Carla Hultberg at (202) 225-5051.

Sincerely,

Edolphus Towns
Chairman

cc: The Honorable Darrell Issa, Ranking Minority Member
Committee on Oversight and Government Reform

Question for Mr. Robert J. Einhorn
Special Advisor for Nonproliferation and Arms Control
U.S. Department of State
From Rep. Edolphus Towns
Committee on Oversight and Government Reform
Hearing entitled, "Implementation of Iran Sanctions"

1. The press has reported that Caterpillar Inc. recently prohibited its non-U.S. subsidiaries from accepting orders that would be sent to Iran. Are you aware of Caterpillar's foreign subsidiary unilateral decision to cease business in Iran? Do you know whether other foreign heavy equipment manufacturers are also stopping business with Iran?

Question for Mr. Robert J. Einhorn
Special Advisor for Nonproliferation and Arms Control
U.S. Department of State
From Rep. Henry Cuellar
Committee on Oversight and Government Reform
Hearing entitled, "Implementation of Iran Sanctions"

1. It is widely known that there are soft ports around the world. In the past the UAE (United Arab Emirates) have served as a major base to smuggle banned components and dual use technology into Iran. There have been numerous media reports of this illicit trade. They are under less scrutiny and less control by the UAE federal government. How much are we monitoring the activity in places like this? And what assurances do we have that the UAE federal government and the ports of entry in those emirates are being closely monitored and controlled?

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August 18, 2010

Mr. Daniel Glaser
Deputy Assistant Secretary for
Terrorist Financing and Financial Crimes
U.S. Department of the Treasury
Treasury Annex
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Mr. Glaser:

Thank you for appearing before the Committee on Oversight and Government Reform on Thursday, July 29, 2010, at the hearing entitled, "Implementation of Iran Sanctions." We appreciate the time and effort you gave as a witness before the Committee.

Pursuant to the Rules of the Committee on Oversight and Government Reform, the hearing record remains open to permit Members to submit additional questions to the witnesses. Attached is a question directed to you. In preparing your answer to this question, please include the text of the question along with your response.

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Sincerely,

Edolphus Towns
Chairman

cc: The Honorable Darrell Issa, Ranking Minority Member
Committee on Oversight and Government Reform

Question for Mr. Daniel Glaser, Deputy Assistant Secretary for Terrorist Financing and Financial Crimes
U.S. Department of the Treasury
From Rep. Edolphus Towns
Committee on Oversight and Government Reform
Hearing entitled, "Implementation of Iran Sanctions"

1. The March GAO report (GAO-10-375) on enforcing restrictions recommended that the Department of Treasury should be ensuring that they are developing the capability to provide all other Federal agencies that are relevant, and Congress, with complete and timely information concerning all licenses issued for the export of goods to Iran. What progress have we achieved on that recommendation in the Treasury Department?

   In response you stated "that recommendation, I believe, was made to a portion of the Treasury Department called the Office of Foreign Assets Control, so I will have to take that question back to them, and we can provide you an answer."

Testimony of Stuart E. Eizenstat*

U.S. House of Representatives
Committee on Oversight and Government Reform

July 29, 2010

Chairman Towns, Ranking Member Issa, Members of the Committee. Thank you for inviting me to testify today on the critically-important issue of Iran sanctions. I regret that the postponement of the original date for the hearing has made it impossible for me to testify in person, since I am abroad.

Before turning to the substance of my testimony, I want to praise the Obama Administration's Iran policy, which has effectively combined both carrots and sticks. The President has shown his willingness to negotiate with, and to extend the hand of cooperation to, Iran, as well as his willingness to turn to tougher sanctions when Iran refused to negotiate in good faith. By affording Iran an opportunity to negotiate its differences with the United States and the international community over its nuclear policy, the Obama Administration has gained the needed credibility with the international community to rally reluctant countries to support tough sanctions in response to Iranian recalcitrance.

The Administration's "resetting" of the U.S. relationship with Russia, first enunciated by Vice President Biden early in the life of the Administration, and its careful management of relations with China on a variety of sensitive subjects, have paid off in their support for the most recent round of UN sanctions against Iran.

I have dealt with Iran sanctions since my days as President Jimmy Carter's chief domestic policy adviser, when we froze Iranian assets in the United States following the taking of the U.S. Embassy hostages in 1979. During the Clinton Administration, I was one of the leaders in implementing the sanctions contained in the Iran-Libya Sanctions Act and in negotiating with the European Union (EU) on waivers, in return for tougher EU export controls on dual-use products to Iran. I also dealt with the Helms-Burton Act Cuba sanctions, with respect to which I also negotiated with the EU; the Religious Freedom Act sanctions; the Mack-Lautenberg amendments dealing with Iranian and

* Stuart E. Eizenstat was Chief Domestic Policy Adviser to President Carter (1977-1981). During the Clinton Administration, he was the U.S. Ambassador to the European Union, Under Secretary of Commerce for International Trade, Under Secretary of State for Economic, Business & Agricultural Affairs, and Deputy Secretary of the Treasury. He was a leader of the Clinton Administration's international sanctions policies. He was also Special Representative of the President and Secretary of State on Holocaust-Era Issues.

Cuban actions; and the Massachusetts-Burma Supreme Court case. I know firsthand the benefits and the limitations of sanctions as a foreign policy tool.

While the new UN Iran sanctions themselves alone are unlikely to bring Iran back to the bargaining table, they have served two important purposes. First, they increase Iran's isolation on its nuclear program, depriving its radical leadership of the ability to convince its public that the confrontation with Iran is all by U.S. design and is not based on a concern shared by others. Second, and this is critically important, it provides an international legal umbrella under which other countries and institutions, like the EU, Japan, and other allied countries, can take their own supplementary actions. Functionally, the key is to raise the costs to Iran so they exceed the benefits of being a nuclear weapons state.

It is my belief that the UN sanctions, supplemented by additional, meaningful sanctions by the U.S., working in concert with the EU, Japan, and our other allies, can make a decisive difference in persuading Iran to give up its illicit nuclear weapons program and to return to the negotiating table. While sanctions are not a silver bullet in these circumstances, they can be a useful tool, which the United States and other countries should employ in a coordinated manner. Recent UN, U.S., EU, and Canadian sanctions are an important step in the right direction.

Indeed, the Iranian economy is feeling the effects of the sanctions already. A number of European and American corporations have announced that they are pulling out of some of their projects in Iran, have declined to make additional investments, or have resold their investments to others. Major U.S. corporations like Ingersoll Rand, Caterpillar, and Halliburton have announced that their subsidiaries in Iran will no longer operate in the country.[1] Shell, BP, and Total announced that they would cease selling petroleum products to Iran after the U.S. sanctions were adopted. (Iran imports 40 percent of its refined products.) A recent report in the Washington Post highlighted the effect on Iranian shipping of the latest round of U.S. and UN sanctions, concluding that "Tehran's ability to ship vital goods has been significantly curtailed as some of the world's most powerful Western insurance companies cut off Iranian shippers out of fear that they could run afoul of U.S. laws, the insurers say..."[2]

Three recent sanctions measures against Iran -- UN Security Council Resolution 1929, which was issued on June 9, 2010; the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, signed into law by President Obama on July 1, 2010; and

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[1] Kenneth Katzman, "Iran Sanctions", Congressional Research Service, June 23, 2010.
[2] Thomas Erdbrink & Colum Lynch, "New Sanctions Crimp Iran's Shipping Business as Insurers Withhold Coverage", Washington Post, July 21, 2010.

the June 17, 2010, Declaration of the European Council as implemented European Council Decisions of July 26, 2010 -- each includes many important elements. But for this hearing, I will focus on one particular element that is common to all three of these measures: sanctions targeting Iran's use of the international financial system to fund its nuclear program as well as to fund the operations of international terrorist organizations.

In my view, cutting off Iran's access to international financial markets in a coordinated and comprehensive manner is the best way to deprive it of the resources it needs to engage in this unlawful and dangerous conduct and is also the most effective way to change its behavior. Iran is not North Korea: it is a significant economy that depends heavily on funding from access to international financial markets, as well as its substantial energy sector, to sustain its nuclear program.

There was already some hope of multilateral cooperation. Efforts going back to the George W. Bush Administration by Treasury and State Department officials have "persuaded at least 40 banks not to provide financing for exports to Iran or to process dollar transactions for Iranian banks." Some banks in South Korea and Japan, as well as Middle East banks, have taken similar action.[3] Based on the newest round of UN sanctions, to which I will turn now, there is the opportunity for further cooperation and coordination.

UN Security Council Resolution 1929

UN Security Council Resolution 1929 is the Security Council's fourth round of increasingly strong sanctions imposed in response to Iran's nuclear ambitions. The overwhelming international support for the Resolution represents one of the most tangible successes of the Obama Administration's foreign policy. While non-binding in a number of parts, these new sanctions call upon States to prevent any financial service -- including insurance and reinsurance, freezing any assets, and prohibiting new banking relationships -- that could contribute to Iran's nuclear proliferation program.

In particular, the Resolution recalls "the need to exercise vigilance over transactions involving Iranian banks, including the Central Bank of Iran, so as to prevent such transactions contributing to proliferation-sensitive nuclear activities, or to the development of nuclear weapon delivery systems." (Page 3)

It "calls upon all States" "to prevent the provision of financial services ... if they have information that provides reasonable grounds to believe that such services ... could contribute to Iran's proliferation-sensitive nuclear activities, or the development of

[3] Kenneth Katzman, supra, p. 26.

nuclear weapon delivery systems, including by freezing any financial or other assets or resources ... that are related to such programs or activities and applying enhanced monitoring to prevent all such transactions in accordance with their national authorities and legislation." (Para. 21)

The Resolution further "calls upon all States" "to take appropriate measures that prohibit in their territories the opening of new branches, subsidiaries, or representative offices of Iranian banks, and also that prohibit Iranian banks from establishing new joint ventures, taking an ownership interest in or establishing or maintaining correspondent relationships with banks in their jurisdiction to prevent the provision of financial services if they have information that provides reasonable grounds to believe that these activities could contribute to Iran's proliferation-sensitive nuclear activities or the development of nuclear weapon delivery systems." (Para. 23) It similarly calls for a ban on foreign bank activity in Iran. (Para. 24)

Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010

Following the issuance of Resolution 1929 on June 9, 2010, the Obama Administration broadened its sanctions regime to target a state-owned bank and a score of state-owned petroleum, petrochemical, and insurance companies by Executive Order 13382 of June 16, 2010. And on July 1, 2010, the President signed into law the Comprehensive Iran Sanctions, Accountability, and Divestment Act, which amended the Iran Sanctions Act of 1996 and contains a number of additional stand-lone provisions.

In particular, with respect to international financial markets, the law requires the Secretary of the Treasury to restrict or prohibit U.S. correspondent accounts or payable-through accounts with a foreign financial institution that "facilitates the efforts of the Government of Iran (including efforts of Iran's Revolutionary Guard Corps ...)" to acquire or develop a nuclear weapon or delivery system, support a foreign terrorist organization, engage in money laundering, evade UN sanctions, or otherwise contribute to Iran's pursuit of nuclear weapons.

European Council Declaration on Iran

Following this decisive action by the UN and the United States, the question became whether the EU would impose strong sanctions applicable to all of its member States, that would help to prevent Iran from skillfully exploiting the differences in the various countries' sanctions regimes to finance its nuclear activities.

A recent Wall Street Journal article highlighted the challenge posed by Iran's successful strategy of deception and the lack of transatlantic coordination. It reported that a German bank owned by Iran -- the European-Iranian Trade Bank AG -- "has done over a billion dollars of business for Iranian companies associated with Iran's conventional military and ballistic missile procurement programs, including companies blacklisted by the U.S., the United Nations and the European Union ...."[4] In particular, the bank concluded transactions for the Revolutionary Guard Corps and for Bank Sepah, a bank subject to UN, EU, and U.S. sanctions. Despite this record of malfeasance, Germany's bank regulator, the BaFin, stated that the UN, not the United States, imposes sanctions, and since the bank "is not mentioned in the U.N. Security Council resolutions" it may operate freely in Germany.

The Declaration on Iran issued following the meeting of the Heads of State (European Council) on June 17, 2010, gave hope that Europe was taking the Iranian nuclear threat seriously and was planning to move forward with strong sanctions focusing in particular on Iran's access to European financial markets and upon which further international efforts could be based. The European Council noted that, given Iran's continued failure to meet its responsibilities under the Non-Proliferation Treaty and UN Security Council and International Atomic Energy Agency Resolutions, "new restrictive measures have become inevitable." It therefore asked the EU's foreign ministers "to adopt at its next session [on July 26, 2010] measures implementing those contained in the UN Security Council Resolution 1929, as well as accompanying measures, with a view to supporting the resolution of all outstanding concerns regarding Iran's development of sensitive technologies in support of its nuclear and missile programs, through negotiation. These should focus on the areas of ... the financial sector, including the freeze of additional Iranian banks and restrictions on banking and insurance ...." (Para. 4)

Following the July 26, 2010, meeting of the EU Foreign Ministers, it is now apparent, and welcome, that the EU has determined to utilize the legal umbrella of Resolution 1929 to create a much stronger sanctions strategy that, in concert with U.S. sanctions and others (Canada has announced similar actions), will help to put the squeeze on Iran and, in particular, to help to deprive it of needed access to international financial markets. Europe is beginning to put aside its traditional commercial relations with Iran and to take firm action to prevent Tehran from going nuclear. This is particularly meaningful because the 27 member States of the EU are Iran's largest trading partners, taking over 30 percent of Iran's exports and selling billions of Euros in goods and services, much of it for Iran's energy industry.

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[4] Peter Fritsch, "Small Bank in Germany Tied to Iran Nuclear Effort", Wall Street Journal, July 19, 2010.

These new EU sanctions, embodied in the Council Decisions of July 26, 2010, include a wide range of measures, including those targeting technology and equipment used directly in the Iranian nuclear program, other military equipment and dual-use technologies, certain technology and equipment for the oil and natural gas industry particularly in the area of refining, exploration, and production (these restrictions apply only to contracts entered into after the Decisions), financing and transportation services for such technology and equipment, and insurance or reinsurance for Iranian business, which likewise affects Iran's ability to import needed refined petroleum products. The measures targeting Iran's oil and gas sector will have a special bite, since it generates some 80 percent of Iran's export revenue and over half its budget income. But, the EU's new financial sanctions are also a major step forward.

Before the July 26 sanctions were announced, I believed that there were a number of key financial sector-focused sanctions the EU could and should adopt to most successfully pressure Iran to change its nuclear ambitions. In some respects the sanctions adopted by the EU on July 26 have met those expectations, but in other ways they have fallen short.

As a first step, I believed that the EU should ensure that all state-owned banks were on its sanctions list and were barred from the Euro market by prohibiting transactions between those banks and all European financial institutions, not just banks. As part of this effort, all Iranian state-owned banks, and their subsidiaries and affiliates, would be excluded from the European TARGET (TransEuropean Automated Real Time Gross Settlement Express Transfer) system, which links the payment systems of all EU member States, as well as the individual payment systems in each of those States. The reason for taking such a blanket approach is that it is practically impossible for bank and securities market regulators to parse all individual transaction involving these banks. Furthermore, Iran has shown its willingness and its skill at engaging in a variety of transactions to hide the true origins and destinations of funds. As a practical matter, therefore, the only way to implement the UN Security Council's call to ban financial transactions that could contribute to Iran's illicit nuclear program is to ban all transaction involving Iran's state-owned banks.

The new EU sanctions go a long way in this regard by greatly increasing the number of financial institutions subject to sanctions. Article 9 provides that "Member States shall not enter into new commitments for grants, financial assistance, and concessions of loans to the Government of Iran, including through their participation in international financial institutions, except for humanitarian and development purposes." Article 11 prohibits the opening of new branches of Iranian banks in Europe and branches of European banks in Iran. Under Article 20 of the European Council Decisions, EU member States are obliged to freeze all funds and economic resources of individuals and institutions,

including a long list of government-owned banks (and many of their subsidiaries and affiliates), including Bank Saderat, Post Bank, Future Bank, Bank Refah, and the Export Development Bank of Iran. However, it is not clear that this list covers all state-owned banks or is coextensive with the U.S. list.

Second, and for the same reasons, I believed that. the EU should make its sanctions systemic, that is the EU should bar all transactions with Iranian state-owned banks. America's sanctions regime covers all transactions by Iranian state-owned banks -- not only those directly related to nuclear activities. The U.S. bars dollar transactions involving Iran if they are cleared through the United States. I believed that the EU should ensure that its new sanctions prohibit any Euro-denominated transactions involving Iran from being cleared through European banks, including U-turn payments. Once the U.S. U-turn ban was put into place, Iranian banks and front companies changed many of their nuclear-related transactions from dollars to Euros, thereby avoiding the US sanctions regime. Only by enacting similar prohibitions could we ensure that such loopholes are closed.

The July 26 EU sanctions took a somewhat different path. Rather than banning all transactions, Article 10 provides that "Member States shall exercise enhanced monitoring over all the activities of financial institutions within their jurisdiction with" Iranian banks, including the Central Bank of Iran. Financial institutions are to monitor transactions and report to the relevant Financial Intelligence Unit suspicious transactions, and transfers of more than EUR 40,000 "shall require the prior authorisation from the competent authority of the Member State concerned." It is not clear, however, whether U-turn payments would be barred. But by requiring transaction-by-transaction review, Iranian state owned banks may still be able to obscure nuclear-related transactions through front companies.

As a third step, I thought it key for the EU to work together with the U.S. in multilateral forums outside of the UN to broaden the number of countries undertaking serious financial sanctions against Iran's nuclear program.

For example, the Financial Action Task Force -- the 34-member group focusing on money laundering and terrorist financing , with which I worked closely as Deputy Treasury Secretary in the Clinton Administration on anti-money laundering matters -- is studying and preparing recommendations for countries to use in response to proliferation-related financial transactions. At its October 2009 plenary session, the Chairman of FATF expressed the organization's concerns with Iran: "The FATF is concerned by Iran's lack of engagement with FATF and its failure to meaningfully address the ongoing and substantial deficiencies in its anti-money laundering and combating the financing of

terrorism (AML/CFT) regime ... The FATF reaffirms its call on members and urges all jurisdictions to advise their financial institutions to give special attention to business relationships and transactions with Iran, including Iranian companies and financial institutions. In addition to enhanced scrutiny, the FATF ... [calls] on its members and urges all jurisdictions to apply effective counter-measures to protect their financial sectors from money laundering and financing of terrorism risks emanating from Iran." In October 2009, FATF also called upon its member states to "protect against correspondent relationships being used to bypass or evade counter-measure and risk mitigation practices, and to take into account ML/FT (money laundering and financing of terrorism) risks when considering requests by Iranian financial institutions to open branches and subsidiaries in their jurisdictions." FATF is one of the many arenas where the European Union and United States can work together to encourage greater international focus on the risks posed by Iran.

Moreover, the U.S. and EU should use the Seoul G20 Summit in the fall to press G20 countries to act in accordance with Resolution 1929.

While the issue of further multilateral cooperation is not expressly dealt with in the July 26 Decisions, I believe the substantial steps taken by the EU, that closely coordinate with U.S. sanctions, indicate a desire on the part of the EU to cooperate going forward.

In particular, the U.S. and EU should now work together to push other countries, including in particular Japan, to adopt similar policies. Putting the U.S., European, and Japanese financial markets effectively off limits to Iran would go a long way to accomplishing U.S. objectives, which are shared by the international community. If it did, Iran would be deprived of financing its nuclear activities in all of the three major, convertible, international currencies.

The U.S. and EU also must work with China to attempt to persuade it not to step into the gap left by departing European suppliers of key technology and financing; China has enormous reserves to provide financing to Iran, although it lacks a convertible currency and indigenous sources of some relevant technologies to help Iran develop its energy sources. This delicate task must be managed carefully. It was difficult for the Obama Administration to convince China to support UN Resolution 1929. China imports 15 percent of its oil from Iran. Sanctioning Chinese companies under the new 2010 Act could cause a major confrontation. Still, China should quietly and diplomatically be warned of the prospect of sanctions. One way out of the dilemma is to consider the creative use of the Act and presidential waiver authority, taking a page out of my 1998 negotiations with the EU over the Total investment in the South Pars field of Iran. By negotiating a waiver by President Clinton, we got the EU to substantially tighten its dual

use contracts with Iran. The prospect of sanctions, together with a waiver, may help induce China to limit its investments in Iran's oil fields.

Central Bank of Iran

My final recommendation applies equally to the United States and the European Union, as well as the rest of the international community: it is time to shine a harsh light on the conduct of the Central Bank of Iran (CBI).

Except in times of war, central banks have been sacrosanct because of the potential for substantial disruption to the global financial system. But, the CBI's conduct justifies forfeiture of this special status. It functions like no other central bank. It is not only Iran's monetary arm. It also conceals financial transfers, assists Iranian banks and companies to avoid existing sanctions, and helps to finance front companies to acquire nuclear technology. UN Resolution 1929 recognizes the bad acts of the CBI when it calls for "vigilance" with respect to CBI transactions, and the need for vigilance with respect to the CBI is mentioned in Article 10 of the European Council Decisions. In my view, however, no one yet has taken strong enough steps with regard to the CBI.

The EU and U.S. should implement the Security Council's direction, first, by jointly warning the CBI that if it does not cease its illicit activities, it will be subject to the same sanctions as all other government-owned banks in Iran and thereby be excluded entirely from both Dollar and Euro financial markets. At the same time, the new UN panel tasked with monitoring sanctions against Iran should be asked to report on the CBI's role in subverting past sanctions, and on any actions it takes now to undermine the most recent UN sanctions.

To further the UN Security Council's call for "vigilance," the U.S. and the EU should scrutinize closely all transactions in which the CBI wishes to engage -- including payments and securities transactions. The CBI should be required to demonstrate to the satisfaction of the relevant EU or U.S. regulators (U.S. Federal Reserve, European Central Bank, or relevant national bank supervisor for currency transactions, the Committee of European Securities Regulators or national securities regulators for other transactions) that the transaction in question is legitimate and cannot advance Iran's nuclear agenda. The burden should be on the CBI to demonstrate on a transaction-by-transaction basis that it is not subverting the sanctions regime. Only by having such an authorization process, in which the CBI bears the burden of proof for 100 percent of CBI transactions, can the international community be certain that the transaction does not fuel Iran's nuclear efforts.

In addition to being consistent with Resolution 1929, such a mechanism likewise would be consistent with FATF recommendations to utilize a risk-based approach for potential proliferation-related financial transactions.

Conclusions

Finally, the U.S. and EU must remain coordinated, given Iran's success in dividing its adversaries, if Iran decides to return to the negotiating table. The U.S. and EU must alter their current sanctions only in a coordinated manner and only at an appropriate time when Iran has made meaningful and verifiable concessions to comply with their UN obligation. It is almost certain Iran will attempt to entice the EU with limited proposals in the hope the EU will lift its July 26 sanctions. Transatlantic solidarity will be critical to maintain at every step in the future.

Harmonized trans-Atlantic sanctions led by the United States and European Union with the support of their allies offers the last, best chance of avoiding two unpalatable alternatives: bombing or otherwise disrupting Iran's nuclear infrastructure or conceding that Iran will become a nuclear weapons state.

Mr. Chairman, I thank you again for the opportunity to present my views. I will be pleased to respond to any written questions you and the Members of the Committee may have.

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