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ADDRESSING POTENTIAL THREATS FROM IRAN: ADMINISTRATION PERSPECTIVES ON IMPLEMENTING NEW ECONOMIC SANCTIONS ONE YEAR LATER

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

ON

EXAMINING THE GLOBAL IMPACT OF THE IRAN REGIME SANCTIONS AND EVALUATE THE EFFECTIVENESS OF THE COMPREHENSIVE IRAN SANCTIONS, ACCOUNTABILITY, AND DIVESTMENT ACT

OCTOBER 13, 2011

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C O N T E N T S

THURSDAY, OCTOBER 13, 2011

	Page
Opening statement of Chairman Johnson	1
Opening statements, comments, or prepared statements of:	
Senator Shelby	2
Senator Menendez	4
Senator Kirk	5
Prepared statement	33
Senator Brown	6
Senator Moran	7
Senator Tester	9
Senator Bennet	
Prepared statement	33

WITNESSES

Wendy Sherman, Under Secretary for Political Affairs, Department of State	9
Prepared statement	34
Response to written questions of:	
Chairman Johnson	47
Senator Schumer	48
Senator Menendez	50
Senator Toomey	53
Senator Moran	54
David S. Cohen, Under Secretary for Terrorism and Financial Intelligence, Department of the Treasury	12
Prepared statement	38
Response to written questions of:	
Chairman Johnson	57
Senator Schumer	58
Senator Menendez	61
Senator Vitter	63
Senator Toomey	66
Senator Moran	67
David W. Mills, Assistant Secretary for Export Enforcement, Department of Commerce	13
Prepared statement	43
Response to written questions of:	
Chairman Johnson	70

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

2011 IMF Article IV Consultation Report Comparisons: U.S. and Iran, submitted by Senator Kirk	73
Cumulative LEU Production at Natanz Chart, submitted by Senator Kirk	74
International Monetary Fund Iran Economy Chart, submitted by Senator Kirk	74

ADDRESSING POTENTIAL THREATS FROM IRAN: ADMINISTRATION PERSPECTIVES ON IMPLEMENTING NEW ECONOMIC SANCTIONS ONE YEAR LATER

THURSDAY, OCTOBER 13, 2011

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

The Committee met at 10:03 a.m. in room 538, Dirksen Senate Office Building, Hon. Tim Johnson, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN TIM JOHNSON

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

In the wake of the alarming announcement this week of an Iranian Government-linked plot to assassinate the Ambassador of Saudi Arabia to the United States and U.S. announcements of criminal prosecutions coupled with the Treasury sanctions against key plotters, we are reminded once again of Iran's continuing support for terrorism, which has now reached our own shores.

Today, we will hear from key Administration officials implementing U.S. policy to minimize potential threats from Iran, including through vigorous enforcement of the Comprehensive Iran Sanctions, Accountability, and Divestment Act, or CISADA, developed by this Committee and enacted last year. That bill broadened and strengthened current U.S. sanctions law with respect to Iran, provided for voluntary divestment from firms active in Iran's energy sector, and strengthened limitations and penalties on illegal diversion of sensitive technologies to Iran.

When he took office, President Obama took an aggressive dual-track approach to Iran, offering high-level engagement coupled with sustained pressure through economic sanctions. Since then, Iran has continued to defy the demands of the international community to halt its illegitimate nuclear activities or even to answer questions about them. And, it has continued to support terrorist activity throughout the world. In response, the President has refocused U.S. policy to intensify pressure on Iran's Government through new U.S. sanctions, and multilateral sanctions adopted by the U.N. Security Council.

Iran's leaders confront the same choice today that they have faced for some time. They can agree to end Iran's illegitimate nuclear program and stop supporting terrorists around the world, or

they can continue on their present course, ignoring the legitimate demands of the international community on their nuclear program, repressing their people, and supporting terrorists, deepening Iran's isolation and further threatening their economy.

Today, we are fortunate to have before the Committee Under Secretary of State for Political Affairs Wendy Sherman, Under Secretary of Treasury for Terrorism and Financial Intelligence David Cohen, and Assistant Secretary of Commerce for Export Enforcement David Mills. Under Secretary Sherman will elaborate on ongoing diplomatic efforts, assess our chances for success, and survey policy options. Under Secretary Cohen will discuss the targeted financial measures employed against Iran and explore with us other pressure points in the global financial system that could be employed against Iran. Assistant Secretary Mills will update us on progress in efforts to combat black market networks throughout Asia and the Middle East which help to illegally supply Iran with sensitive technologies.

With enactment of new Iran sanctions last year, Congress equipped the Administration with new tools to confront the threats posed by Iran. It is clear that U.S. sanctions, as well as those imposed by the United Nations, European Union, and others have further isolated Iran and had some impact on its economy, though that has been mitigated by continuing high oil prices. But it is also clear that the sanctions imposed so far have not deterred Iran from pursuing its nuclear ambitions.

I am eager to hear a description of the full range of U.S. efforts to pressure Iran. I hope our witnesses will also discuss any challenges in implementing the new law, the status of ongoing consultations with allies on these issues, and any additional legislative tools they believe will help to increase the pressure on the Government of Iran.

Our approach must continue to be targeted and strategic, maximizing the economic leverage of the United States and our allies, and U.S. and international investors. But make no mistake. If Iran were to acquire nuclear weapons capability, it would pose a significant threat to peace and security in the Middle East and especially to our close ally, Israel. We must continue to do all we can to avoid that result. If new tools are needed, and I think they are, then we will provide them.

We must not let up until the Government of Iran comes clean on its nuclear program and stops its support for terrorism.

Finally, I want to thank all of our Committee Members for their interest and commitment on this issue, and especially Senators Menendez, Brown, Moran, Schumer, and my Appropriations Subcommittee partner, Senator Kirk. I look forward to working with all Members of the Committee on a way forward.

Chairman JOHNSON. I recognize Senator Shelby for an opening statement.

STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Thank you, Mr. Chairman.

Two days ago, the Department of Justice disclosed that Iran has been plotting to carry out an assassination, an embassy bombing against Saudi Arabian and Israeli targets on American soil. This

plot, which is the latest in a long series of violent actions attempted by Iran around the globe, underscores Iran's role as the leading state sponsor of terrorism.

It is against this backdrop that the Committee will examine this morning the global impact of the Iran sanctions regime and evaluate the effectiveness of the Comprehensive Iran Sanctions, Accountability, and Divestment Act enacted by Congress last year.

Despite 30 years of progressively more stringent economic sanctions, Iran remains one of the more serious threats to the national security of the United States and our allies. Iran continues to support authoritarian regimes, terrorist organizations, and radical militias in Iran and in Afghanistan. For allies such as Israel, this week's revelation shows why Iran's threat to its very existence is real, continues unabated, and, I believe, cannot be ignored.

More than 1 year has passed since Congress, the United Nations, and many of our allies levied the most recent round of sanctions against Iran in an attempt to derail Iran's efforts to obtain nuclear weapons. Unfortunately, the heightened sanctions have not yet produced any significant change in Iran's behavior regarding its nuclear program, international terror, or its record on human rights.

One problem is that the White House and the State Department have carefully, I believe, managed to avoid labeling any major Russian, Chinese, or other U.S. trading partner's companies as violators of U.S. mandated sanctions. China, Russia, and others are expanding trade with Iran, continue to provide it with banking assistance, and invest in its energy sector. Additionally, China and Russia have further undermined U.S. sanctions by supporting Iran's military programs. For sanctions against Iran to be as effective as possible, I believe the Administration needs to do a better job at securing the cooperation of the global community.

Another growing problem is the Islamic Revolutionary Guard Corps, which has developed a global financial and terror network. The Islamic Revolutionary Guard is not just an elite military unit within Iran. As we have seen this week, it can operate even here in the United States. It has hundreds of companies, front companies and affiliates spread throughout Iran and the world to facilitate general trade and its oil export. It can finance operations anywhere in the world while adding to the coffers of the Iranian treasury. Accordingly, the Islamic Revolutionary Guard has become the primary means by which Iran can avoid the global sanctions regime. The question now, I believe, is what else can be done to further enhance the effectiveness of the Iran sanctions regime, especially with regard to the Islamic Revolutionary Guard and its nuclear aspirations.

Although sanctions have helped to limit Iran's military capabilities, the events of this week demonstrate, I believe, that Iran remains determined to find new avenues to carry out actions of terrorism. Moreover, because Iran continues its efforts to develop nuclear weapons, failure to effectively enforce sanctions against Iran could have catastrophic results in just a few years. I believe we cannot afford to be one step behind Iran.

Thank you, Mr. Chairman.

Chairman JOHNSON. Thank you, Senator Shelby.

Are there any other Members who wish to make an opening statement? Senator Menendez.

STATEMENT OF SENATOR ROBERT MENENDEZ

Senator MENENDEZ. Thank you, Mr. Chairman. Mr. Chairman, first of all, I want to thank you personally. I had asked you to consider a hearing on the effect of our sanctions policy and you told me you would and I appreciate you calling this hearing today, so thank you very much. And you called this hearing well before the incidents of the last few days, so this was obviously in response to a broader issue of our sanctions policy, but certainly ends up being far more timely.

We meet on the heels of a foiled plot to assassinate the Saudi Ambassador to the United States and to attack the Embassy of Israel in Washington, DC, a plot believed to be traced back to the highest levels of the Iranian regime. The revelation of the foiled attacks, one which reportedly was to take place at a popular restaurant less than 5 miles from this very building, points to the impact and importance of this hearing to ensure that the United States is doing all it can to enforce existing legislation, to fill the loopholes that exist in current legislation, to work with our European allies and others to ensure that they step up and aggressively enforce their own sanctions, and to use all possible mechanisms to put pressure on those countries and companies which are providing revenue, directly or indirectly, to the Iranian regime and its Islamic Revolutionary Guard Corps, or for that fact, refined petroleum products.

I applaud the White House for its quick action this week in imposing new sanctions against Iranian elements responsible for the planned assassination, including Iran's Mahan Air, which reportedly carried members of the military force accused of plotting to kill the Saudi Ambassador. And while I believe there is more that we can and must do, we should also recognize that this Administration has done more to isolate Iran than any prior Administration, Republican or Democratic alike.

Iran has a history of exporting terrorism against coalition forces in Iraq, in Afghanistan, in Lebanon, and this week in Washington. This week's events underscore that Iran will not hesitate to advance its interests regardless of the political costs. Iran's drive to advance its nuclear weapons program has been slowed by U.S. and international sanctions, but remains undeterred. The IAEA recently confirmed that Iranian program is moving ahead and that they are loading P–2 centrifuges at Qom. These centrifuges will allow Iran to significantly enhance its uranium enrichment capacity.

It is time to take the next step, to further isolate Iran politically and financially. I look forward to working with the Administration to achieve this goal and to advance the legislation that I, along with others in a bipartisan effort, introduced earlier this year, the Iran, North Korea, and Syria Sanctions Consolidation Act, which has 76 bipartisan cosponsors.

Our efforts to date have been transformative, but as Iran has adapted to the sanctions, unanticipated loopholes have allowed the regime to adjust and circumvent the sanctions and drive forward

its effort to achieve a robust nuclear program. We have to be just as prepared to adjust and adapt by closing each loophole that arises. That is why I believe the Iran, North Korea, and Syria Sanctions Consolidation Act is a perfecting legislation of CISADA, not simply an additional set of sanctions, and that is why I am looking forward to asking the witness about both China and an oil-free Iranian zone that I think is crucial to our national interests and national security goals.

Thank you again, Mr. Chairman, for holding this hearing.

Chairman JOHNSON. Are there any other Members who wish to be recognized? Senator Kirk.

STATEMENT OF SENATOR MARK KIRK

Senator KIRK. Thank you, Mr. Chairman. I really want to applaud the leadership of Senator Menendez on his legislation because it is well timed, I think, as is this hearing. When we look at Iran, we see an accelerating nuclear program, an expanding ballistic missile program, Iran being the first space-faring nation of the 21st century, and wholesale disregard for human rights.

I read with interest Attorney General Holder's announcement on this plot and would note page 12 of the complaint from the Justice Department, which reads, "If not, restaurant, hit it, it's OK," by which I understand Arbabsiar meant that if Confidential Source 1 could not assess the Ambassador outside the restaurant, he should hit or bomb the restaurant. In response, Confidential Source 1 then noted that there were from 100 to 150 people in the restaurant and buildings on the side and Senators, U.S. Senators, dined there, all of which Arbabsiar dismissed as no problem and no big deal, meaning the potential for such casualties should not dissuade Confidential Source 1 from killing the Ambassador.

I note David Cohen, who I respect very much, has worked designated Suliman, the head of the Iranian Revolutionary Guard Corps. It does not almost get any higher than that, for the Government of Iran seeking to kill American citizens on top of foreign targets that we see.

Earlier this summer, Senator Schumer and I bonded together 92 Senators. It does not even get more unified than that on bipartisan cooperation in this chamber, to call for the United States to collapse the Central Bank of Iran, the paymaster and financial source of funding for the Iranian Revolutionary Guard Corps and for the MOIS, the Intelligence Service of Iran. And since you have now publicly identified the leaders of those organizations as sanctionable activity, I think it is necessary now to cutoff their funding source. It should be the policy, as this letter outlines in overwhelming bipartisan terms, to collapse the currency of Iran.

I am worried that there is some talk inside the Administration—not David, but others—who said that we should have a multilateral limit on our policy. But this was not a multilateral attack on the United States. It was an attack by the Government of Iran on the people of the United States, and so the United States should act unilaterally when necessary and multilaterally when possible. But this was in no means a multilateral attack on the United States.

We should accelerate the current designations under the law, and specifically we should reference the August 3 Government Ac-

countability Office report which designated 14 companies as continuing to conduct activities in Iran in potential violation of U.S. law, including the China National Offshore Oil Corporation, the China National Petroleum Corporation, Sinopec of China, Daelim of South Korea, Edison of Italy, Hyundai Heavy Industries of South Korea, INA of Croatia, the Indian Oil Corporation Limited, the Natural Gas Corporation of India, Oil India Limited, OMV Austria, ONGC Videsh Limited from India, Sasol of South Africa, and Sonangol of Angola. I would hope that you would make the commitment to investigate these entities as clearly identified by the Government Accountability Office.

Also, I think we need to accelerate sanctions with regard to individuals who are systemic abusers of human rights, including, first and foremost, the President of Iran, Ahmadinejad, and especially his Chief of Staff, Esfandier Rahim Mashaei. Under Executive Order 13553, the Obama administration has so far designated only 11 Iranian officials for human rights violations since September 2010. In comparison, the European Union has designated 61 such individuals as systemic violators of human rights, including 29 additional ones on October 5. There are over 100 members of the Baha'i community now imprisoned in Iran, including seven Baha'i members called the Yaran, imprisoned since 2008. And just this week, Iranian actress Marzieh Vafamehr was sentenced to not just a year in jail, but 90 lashes because of her appearance in an Australian film without the covering of headgear.

I think as we see the struggle of the Iranian people for their human rights, we need to remember that there were many people, especially in the State Department, that wanted to pull back on fundamental U.S. values with regard to the "refuseniks" of the Soviet Union. Luckily, President Reagan did not. In fact, he reached out to them. And it was one of our proudest moments where the refuseniks survived the Soviet Union and it collapsed. It should be our objective here.

So I commend you, Mr. Chairman, for holding the hearing and look forward to the questions.

Senator BROWN. Mr. Chairman?

Chairman JOHNSON. Senator Brown.

STATEMENT OF SENATOR SHERROD BROWN

Senator BROWN. Thank you, Mr. Chairman, and I echo Senator Menendez's words in thanking you for responding to his request and others to hold this hearing.

The Government of Iran, as we know and as has been said, must not be permitted to obtain weapons of mass destruction, period. Recent allegations about Iran's efforts to assassinate the Saudi Ambassador only underscore the threat that Iran poses to not only our security, not only the security of Israel, but also the security of Iran's neighbors. We have heard from many of the Members of this Committee about the dangers a nuclear-armed Iran would pose to the United States, to Israel, and to the global community.

Preventing this threat requires an all hands on deck approach. We have worked on pressuring. We have worked on persuading Iran. We have approached the issue politically, diplomatically, and through sanctions and other ways economically. I have agreed with

this pressure and persuade approach first because it is a responsible way to carry out diplomacy. In short, there are no good options if our efforts to pressure and persuade fail. That is why it is so important we speak with one voice in the U.S. Senate when it comes to Iran.

For years, this Committee has been at the forefront of sanctions. Last year, we passed the Comprehensive Iran Sanctions, Accountability, and Divestment Act. This Act requires that sanctions be imposed on companies that are determined to have made certain investments in Iran's energy sector. Its repressive government relies on the energy sector for more than half of its revenue, as we know. That was last year. Today, we know Iran's march toward nuclear weapon production capability continues.

That is why this hearing is so important, Mr. Chairman. We need to hear from the Administration, and thank you for joining us, what you are doing to implement the sanctions, how effective they have been, what additional tools, resources, and support you need from us. We only have the opportunity to get this right once. Thanks.

Chairman JOHNSON. Senator Moran.

STATEMENT OF SENATOR JERRY MORAN

Senator MORAN. Chairman Johnson, thank you for leading this important hearing to review the Administration's implementation of sanctions on Iran.

In July, I and others requested this opportunity to exercise this Committee's oversight responsibilities and I thank you for giving us the chance to review U.S. policy toward Iran. I know that you and the Ranking Member recognize the gravity of this issue and understand what is at stake.

More than a year ago, Congress passed and President Obama signed into law the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010. I certainly welcomed this legislation as I believe Iran's pursuit of nuclear weapons is one of the greatest dangers to global stability and the security of our country that we face today. However, when President Obama signed the bill, I stated clearly and have continued to say that its success will depend upon enforcement.

Since the enactment of CISADA almost 15 months ago, 10 firms have been sanctioned under the Iran Sanctions Act. These sanctions and the threat of others have yet to achieve the fundamental goal, which is to compel Iran to change its behavior and abandon its pursuit of nuclear weapons.

On September 2, the International Atomic Energy Agency released its latest report on Iran's nuclear program. Like similar reports before it, the September report shows that Iran is continuing to buildup a stockpile of low enriched uranium. Since the May IAEA report, Iran has produced additional low enriched uranium, bringing its total stockpile to more than 4,500 kilograms. On top of that, Iran continues to increase the amount of uranium enriched to a level of 20 percent. Enriching uranium to a level of 20 percent represents 85 to 90 percent of the work needed to reach weapons-grade fuel. All told, Iran possesses enough enriched uranium that upon further processing could fuel three nuclear bombs.

Last month, IAEA's report also indicates that Iran is moving production of uranium enriched to a level of 20 percent to a military facility buried underneath a mountain. And in June, Iran said it would triple its production of higher enriched uranium. If all of this was not alarming enough, concerns about the possibility of military dimensions of a nuclear program, including activities related to the development of a nuclear payload for a missile remain unresolved according to IAEA. Clearly, more must be done to pressure Iran to change course and we cannot afford further delay.

On September 30 of 2010, the United States made its first sanction determination under the Iran Sanctions Act. While one firm was sanctioned that day, four energy companies were deemed eligible by the Administration to avoid sanctions by pledging to end their business in Iran. In total, the Administration has used the special rule to waive sanctions against five companies. I would expect the witnesses to present evidence that those firms have, indeed, done what they said they were going to do, ended all business in Iran.

I also remain concerned about the activity of Indian and Chinese firms in Iran. I have expressed my concern about specific Indian and Chinese firms to Secretary Clinton in letters in November 2010 and March 2011. If Indian and Chinese firms are violating U.S. law, the Administration must penalize them.

As important as it is for the Administration to fully enforce U.S. law to keep foreign companies from doing illegal business with Iran, we could greatly impair Iran's ability to do business with these and other companies by tightening financial sanctions on Tehran. In August, I joined many of my colleagues in this room, 91 of us, in asking the President to impose sanctions on the Central Bank of Iran, and I would like to hear what steps the Administration is taking in regard to that bank.

I would also like for Under Secretary Cohen to address the final rule, the Financial Crimes Enforcement Network, delivered to the Federal Register last week to implement Section 104(e). I am hopeful that Under Secretary Cohen will explain how this provision will work in practice and inform the Committee about the number of foreign banks he believes may be engaged in sanctionable activity.

This Administration has said the United States will not allow Iran to acquire nuclear capability. Saying we will prevent Iran from acquiring a nuclear weapon is good, but it is not enough. Only our actions can stop Iran. Sanctions have been the primary tool that the United States has used to try to convince Iran to change its behavior. Any assessment of our success or failure must be judged against that goal. When held to this metric, it is most certain that we have not yet succeeded.

I look forward to hearing from the witnesses. I thank them for their work and endeavors in regard to making our country safe and working with them and my colleagues to see that this Administration has every tool it needs to stop Iran from all the tools that Congress has given it from being implemented fully, and I thank the Chairman.

Chairman JOHNSON. Senator Tester.

STATEMENT OF SENATOR JON TESTER

Senator TESTER. Yes, thank you, Chairman Johnson. I will be as brief as I possibly can. I want to thank you and Senator Shelby for convening the hearing. I want to thank the witnesses for being here.

Simply put, the regime in Iran represents an incredible threat to American interests and not in a good way, and to the stability in an already volatile part of the world. There are state-sponsored terrorists who, by thumbing their nose at the international community, inch closer and closer to nuclear weapons capabilities. They supply weapons to our enemies in Iraq and Afghanistan and they are directly responsible for attacks on our troops. They incite violence in Israel and Lebanon through their support of Hamas and Hezbollah and they help prop up murderous dictators like Assad in Syria. They are a flagrant violator of international law and human rights and religious freedom and now they are trying to kill foreign diplomats on our soil.

Now, we have taken a number of steps to crack down on this regime, but it is clear we need to tighten the screws. It boggles the mind that we continue to see businesses, American businesses, supporting Iran's economy by actively circumventing imposed sanctions. It is outrageous and we need to put a stop to it immediately. Business as usual is not going to cut it. There has to be a greater sense of urgency here and I hope you all agree, and I think you do.

I look forward to the hearing, your recommendations, and how we move forward most effectively. Thank you, Mr. Chairman.

Chairman JOHNSON. Thank you all.

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

Now, I would like to welcome the witnesses for our panel today. Our first witness is Wendy Sherman, the Under Secretary for Political Affairs at the State Department. Our next witness is David Cohen, the Under Secretary for Terrorism and Financial Intelligence at the Department of Treasury. Our final witness is David Mills, Assistant Secretary for Export Enforcement at the U.S. Department of Commerce's Bureau of Industry and Security.

I thank all of you again for being here today and I look forward to your testimony. I will ask the witnesses to limit your remarks to five to 7 minutes. Your written statements will be submitted for the record.

Under Secretary Sherman, please proceed.

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

Ms. SHERMAN. Thank you very much, Mr. Chairman. Chairman Johnson, Ranking Member Senator Shelby, distinguished Members of the Committee, thank you very much for inviting me to appear before you today to discuss the Obama administration's strategy to address the continued threat posed by the Iranian regime, its support for international terrorism, its nuclear weapons and ambitions, its destabilizing activities in the region, and its human rights abuses at home.

This hearing could not be more timely. But before I address this week's news and the broader sanctions discussion, I would like to say a word about a dear colleague. I want to dedicate this testimony to Philo Dibble, Deputy Assistant Secretary for Near East Affairs, who passed away unexpectedly 2 weeks ago. Philo was an exceptionally well respected career member of the Foreign Service who devoted most of his career to the Middle East. For the past year, he has dedicated his deep regional expertise and knowledge to advancing our policy on Iran. The loss of his wisdom and leadership is a profound one for the Department and for our country.

Before I get to the substance of this hearing, prior to the events of the last couple of days, I would like to address the conspiracy to assassinate the Saudi Ambassador in Washington that was directed by elements of the Iranian Government. As the Secretary of State and the President of the United States have said, this plot was a flagrant violation of international law and a dangerous escalation of the Iranian Government's longstanding use of political violence and sponsorship of terrorism. This conspiracy also violates the Convention on Internationally Protected Persons, including diplomatic agents, which Iran has agreed to, as well as U.N. Security Council resolutions. Iran must be held accountable for its actions.

Under Secretary Cohen will discuss Treasury's swift actions with you. We are taking robust diplomatic action to hold Iran accountable for this plot, isolate them internationally, and increase pressure on the regime. The law enforcement and intelligence professionals who worked on this case deserve our highest praise. Their dedication and professionalism likely saved not only the life of a foreign diplomat, but as Senator Kirk has said, but scores of bystanders who would have been killed or injured if the plot was successful.

With the case now public, there is much work to be done. Within the last less than 48 hours, we have instructed every one of our Ambassadors to demarche the highest levels of their host governments to inform them about the facts behind this plot. In contrast with the Iranian regime's rapid and unsurprising denials, we are meticulously and rationally laying out the facts of this plot. The 21-page-long charging document is remarkably comprehensive and I have encouraged my foreign counterparts, many of whom I have talked to on the phone, to read it for themselves. Where appropriate, we are following up with additional face-to-face briefings to lay out the facts of this case. Ambassador Rice in New York is hard at work engaging her colleagues.

This plot, though focused on one diplomat, was, in fact, a plot against all diplomats and we will be asking all countries to consider appropriate actions, including denying Qods Force officers any platform to operate within their countries. Working closely with both domestic and international partners is fundamental to addressing all of the challenges we face with the Iranian regime.

I am grateful that I am seated today beside my colleague from the Department of Treasury, David Cohen, and from the Department of Commerce, David Mills. State, Treasury, and Commerce, along with other executive branch agencies, work hand in hand to formulate and implement a whole of Government approach to address continued threats from the Iranian regime.

The world today is unified to an unprecedented degree in its concern that a nuclear armed Iran would undermine the stability of the Gulf Region, the broader Middle East, and the global economy. In defiance of U.N. Security Council and IAEA Board of Governors resolutions, Iran has continued to expand its sensitive nuclear activities and refuses to cooperate with the IAEA, raising strong legitimate concerns about the purpose of the nuclear program. And as I already discussed, Iran continues its longstanding support of terrorism through the IRGC Qods Force and terrorist organizations such as Hezbollah, Hamas, and Palestinian Islamic Jihad, as well as by its support to newer proxy militia groups in Iraq.

American policy regarding Iran remains unambiguous. First and foremost, we must prevent Iran from acquiring nuclear weapons. Its illicit nuclear activity is one of the greatest global concerns we face, and we will continue to increase the pressure until the Iran regime engages the international community with seriousness and sincerity and resolves its concerns.

Let me talk very briefly about the toughest sanctions package in three decades and what it looks like. Since the passage of CISADA, we have imposed sanctions on a growing list of individuals and entities responsible for Iran's expanding scope of unauthorized activities. These sanctions have raised the cost, time, and energy required for Iran to pursue its current course and provided a platform upon which the European Union, Norway, Australia, Canada, South Korea, Switzerland, and Japan implemented strict bilateral measures of their own.

CISADA's special rule has worked exactly as intended. It gave us the flexibility and leverage to persuade multinational energy firms Shell, State Oil, ENI, Total, and INPEX to withdraw from all significant activity in Iran. Under CISADA and other measures, Iran is increasingly isolated from the international financial system, as Under Secretary of Treasury Cohen will detail.

Sanctions are doing more than raising the cost of continuing illicit nuclear activity. They are finally shining a spotlight on some of the individuals and entities perpetrating egregious human rights abuses against Iranian citizens. Using CISADA, we have designated 11 individuals and 3 entities for human rights violations, and we continue to compile more information and evidence that will allow us to identify more murderers, torturers, and religious persecutors. We have taken a firm stand on the Iranian regime's violation of human rights, including the repression of religious minorities, as exemplified by the horrific death sentence handed down by the Iranian courts against Pastor Youcef Nadarkhani, simply for following his own religious beliefs. And had it not been for the immediate condemnation from world leaders, from the U.S. Senate, religious groups, and NGO's, there would not be any hesitation on the part of Iran.

In my very new role as Under Secretary for Political Affairs, I look forward to working closely and as transparently as possible with Members of Congress to prevent Iran from acquiring nuclear weapons, curtail its support for terrorism, make it more difficult for Iran to interfere in the region, and deter the regime from committing human rights abuses against its own people. I have included

a long written detailed testimony. I look forward to your questions and thank you for this opportunity.

Chairman JOHNSON. Thank you.

Mr. Cohen, please proceed.

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

Mr. COHEN. Thank you, Chairman Johnson, Ranking Member Shelby, and distinguished Members of the Committee. Thank you for the opportunity to appear before you today to discuss the Treasury Department's contribution to the Obama administration's strategy to address the threat posed by Iran's nuclear program and its support for terrorism.

The focus of my testimony today will be the progress we are making in our financial strategy to pressure and isolate Iran, and in particular the steps we are taking to implement the financial provisions of CISADA. But first, I would like to say a few words about this week's revelation that we disrupted an Iran Qods Force plot to assassinate the Saudi Ambassador here in Washington.

This is a dramatic reminder that the urgent and serious threat we face from Iran is not limited to Iran's nuclear ambitions. We have been working for several years to address the full spectrum of Iranian illicit conduct, including nuclear and missile proliferation, human rights abuses, misuse of the international financial system, and support for terrorist groups worldwide. This week is no different.

On Tuesday, Treasury imposed financial sanctions against five individuals, including the commander of the Qods Force and three other senior Qods Force officers connected to the assassination plot. In taking this action, Treasury exposed the Iranian Government's involvement in the plot through the Qods Force, Iran's primary arm for exporting terror.

And just yesterday, we took another action targeting Qods Force involvement in terrorist activities, this time by imposing sanctions on Mahan Air, Iran's second largest airline, which was secretly ferrying operatives, weapons, and funds on its flights for the Qods Force.

This week's actions follow on a series of recent steps taken by the Treasury Department to expose Iranian illicit behavior and ratchet up the pressure on Tehran. In the last few months, we have imposed sanctions on Tidewater, a major Iranian port operator owned by the IRGC; Iran Air, Iran's national airline, for supporting the IRGC; and al Qaeda network operating in Iran under an agreement with the Iranian Government; and individuals and entities involved in human rights abuses both within Iran and supporting the Syrian Government's repression of the Syrian people.

Actions like these, along with international sanctions, have put increasing financial pressure on Iran, and CISADA has markedly amplified this effect. CISADA has helped us deepen and broaden Iran's isolation from the international financial system. Since President Obama signed CISADA into law last July, my colleagues in the Treasury Department and I have worked aggressively to implement it. We have met with foreign banks, regulators, and gov-

ernment officials in nearly 50 countries. We explained to these banks and government officials that CISADA offers a clear choice. A foreign bank can have access to the largest and most important financial sector in the world, the United States, or it can do business with sanctioned Iranian banks, but it cannot do both. For the overwhelming majority of foreign banks, the choice has been a simple one. Those with potentially sanctionable relationships quickly elected to stop that business, and where we learned of potentially sanctionable activity under CISADA, we have actively investigated it, engaging in particular with foreign banks' regulators and their home government.

Our efforts are paying off. Iran is now facing unprecedented levels of financial and commercial isolation. The number and quality of foreign banks willing to transact with designated Iranian financial institutions has dropped precipitously over the last year. Iran's shrinking access to financial services and trade finance has made it extremely difficult for Iran to pay for imports and receive payment for exports. Iran's Central Bank has been unable to halt the steady erosion in the value of its currency. And Iran has been increasingly unable to attract foreign investments, especially in its oil fields, leading to a projected loss of $14 billion a year in oil revenues through 2016.

We are making progress, but there is still much to be done to prevent Iran from evading sanctions already in place and to apply sufficient additional pressure on Iran. In this regard, we continue to focus on the Central Bank of Iran, the CBI. Although U.S. financial institutions are already generally prohibited from doing business with any bank in Iran, including the CBI, further U.S. action against the CBI, if it attained multilateral support, could further isolate the CBI with a potentially powerful impact on Iran.

I can assure the Committee, as Secretary Geithner said in his letter to Congress of August 29, that all options to increase the financial pressure on Iran are on the table, including the possibility of imposing additional sanctions against the CBI. If Iran continues to choose its path of defiance, we will continue to develop new and innovative ways to impose additional costs on Iran.

I look forward to continuing to work with Congress and this Committee to advance our national interests. Thank you.

Chairman JOHNSON. Thank you.

Mr. Mills, please proceed.

STATEMENT OF DAVID W. MILLS, ASSISTANT SECRETARY FOR EXPORT ENFORCEMENT, DEPARTMENT OF COMMERCE

Mr. MILLS. Thank you, Mr. Chairman, Senator Shelby, distinguished Members of the Committee. I welcome the opportunity to appear before the Committee today and to discuss the Department of Commerce's role in implementing the Comprehensive Iran Sanctions, Accountability, and Divestment Act, CISADA, as well as the wider issue of enforcing sanctions on Iran.

My Department has a key role in administering and enforcing U.S. dual-use export control policies toward Iran, and under the leadership of Under Secretary Eric L. Hirschhorn, the Bureau of Industry and Security has aggressively pursued this objective. We also work closely with our colleagues at the Departments of State,

Homeland Security, and the Treasury, as well as other agencies, to implement and enforce our sanctions effectively.

I wish to extend my heartfelt thanks to Congress for conferring permanent law enforcement authority on our agents last year as part of CISADA. The Office of Export Enforcement in our Bureau of Industry and Security, or BIS, is the only Federal law enforcement agency solely constituted to conduct dual-use export investigations.

Over the course of the last year, our agents have been utilizing this authority to investigate a variety of export violations, but Iranian violations continue to be a primary area of focus, accounting for about 37 percent of our investigations, and the number of cases we have open now against Iran is approximately about 300. Iran continues to engage in widespread efforts to illegally acquire U.S.-origin commodities and technology. In fact, the majority of our criminal investigations now involve Iran, as I said, as the ultimate recipient of diverted items. Much of our enforcement activity and analysis is focused on stopping the diversion of such items to Iran through transportation hubs in the Middle East, South, and East Asia.

BIS also employs a variety of criminal and administrative tools against these illicit Iranian procurement activities. I want to share with you some illustrative examples of these enforcement efforts.

Just last month, we imposed a civil penalty totaling $2.5 million against Flowserve Corporation of Irving, Texas, and 10 of its foreign affiliates to settle 288 charges related to unlicensed exports and re-exports of pumps, valves, and related components to Iran, Syria, and other countries. BIS pursued these administrative charges in concert with the Department of Treasury's Office of Foreign Assets Control, OFAC. Cooperation between BIS and OFAC on Iranian cases has been critical to maximizing the impact of U.S. laws against violators.

In recent years, export enforcement at BIS has also made extensive use of the BIS Entity List to disrupt a range of overseas procurement networks, most importantly involving investigations of the procurement of components for improvised explosive devices, or IEDs, by Mayrow General Trading and related entities, resulting in the addition of over 190 new foreign entities to the Entity List. Four of our agents received the Attorney General's Award for Excellence in Furthering the Interests of U.S. National Security for this investigation.

The use of the Entity List highlights our focus not only on sanctions directed at listed enterprises, but also the prevention of violations and the public naming of individuals and entities that are involved in or that pose a significant risk of engaging in illicit export activity. Given my 18-year tenure at OFAC and the Department of Treasury working with the SDN list, I feel very at home with this approach to enforcement. It discourages resellers and other parties here and abroad from doing business with targeted entities and the procurement networks they represent and prevents resellers and other parties in the United States and overseas from doing business with them.

BIS has also made effective use of its authority to issue Temporary Denial Orders, TDOs, to prevent imminent violations of the

Export Administration regulations. On August 21, 2011, BIS renewed a TDO against Mahan Air of Iran and related parties. The TDO issued against Iran Air originally included the Balli Group in the United Kingdom. That TDO was critical in preventing additional violations of the regulations and furthering our investigation into Balli Group's involvement in obtaining Boeing 747 aircraft for Mahan Air. On May 11, 2010, Balli was sentenced to a $2 million criminal fine and corporate probation of 5 years. On February 4, 2010, Balli Group PLC and Balli Aviation entered into a civil settlement with BIS and OFAC pursuant to which Balli ultimately paid a $15 million civil penalty, the largest civil penalty imposed under the regulations to date.

Iran is a top enforcement priority and we fully intend to press forward with our efforts to combat illegal diversion of sensitive products and technology to that country. We stand ready to work with the Committee and the Congress to maintain an aggressive and effective export enforcement program. Thank you very much.

Chairman JOHNSON. Thank you for your testimony.

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

Under Secretary Sherman, while new U.S. and U.N. sanctions and other efforts to isolate Iran have had real impact and slowed Iran's progress on their nuclear program, they have not yet forced Iran to suspend it. Similarly, Iran seems to be trying to outlast the West's appetite for sanctions and weaken the international community's resolve to maintain sanctions pressure. What is your current assessment of Iran's nuclear program, including their time line, and does it jibe with those of our major allies? How is the United States working with our international partners to ensure that the commitment to sanctioning Iran is strengthened rather than weakened over time?

Ms. SHERMAN. Thank you very much, Mr. Chairman. You have raised the fundamental question which has been laid out by some of your colleagues, as well, which is how do we move forward both to pressure and persuade Iran to give up its nuclear ambition and its nuclear weapons program? How do we get them to stop their terrorism, their state-sponsored terrorism? How do we get them to recognize human rights, and how do we get them to stop destabilizing regions throughout the world? That is a very tall order.

One prong of that two-prong approach are the sanctions that we are discussing today, and those sanctions must be thought about in three dimensions: The severity of the sanctions, the enforcement of the sanctions, and the internationalization of the sanctions, because sanctions are most effective and they are strongest when they are internationalized and people throughout the world and governments throughout the world are enforcing those sanctions. We saw that in the change in apartheid in South Africa. When they finally became internationalized, we got effective action and we got change within the Government of South Africa.

It is the same with Iran, and I must say, since coming back into Government, I have been incredibly impressed by the whole of Government approach, by the very close cooperation that we have within the Government to not only work with the terrific legislation that you have placed before us and the President signed, but to en-

force that and to work throughout the world with all of our interlocutors to increase that enforcement.

Over the last 48 hours, both at the United Nations, in every single capital in the world, and by many, many phone calls made by the President, the Secretary of State, the National Security Advisor, the Deputy Secretary of State, myself, every assistant secretary in every one of our departments here, we have talked to every capital and we have encouraged them to enforce the sanctions that are on the books, to look at their own bilateral sanctions, to look at the designations that Treasury has made and make them themselves. We have encouraged them to make sure that the Qods Force stops doing business in their countries, to look at high-level visits that might be coming from Iranians to their country, and to consider, let us say, postponing if not canceling outright those visits.

So we have worked very hard and will continue to work very hard to internationalize this so that it is most effective, and as David can detail, it has had a real impact on the financial well-being of Iran and created some of the splintering that we are seeing within the Iranian regime.

The second prong is our ability to work with our partners in the P5+1 to increase the pressure on Iran and to say to Iran, if you are, in fact, sincere in discussing your nuclear weapons program, which we have not seen to date, we would be open to having a discussion with you so that you, in fact, fulfill the U.N. Security Council resolutions that you stop your nuclear weapons program, that you, in fact, submit to all the IAEA has put on the table. Iran to date has not agreed to do that.

Recently in New York, on the margins of the U.N. General Assembly, I participated in a meeting of the P5+1. EU High Representative, Katherine Ashton, put out a statement after that meeting, and what was notable about that meeting was the very, very strong consensus among the P5+1, including China and Russia, to stay, as I quote from the statement:

> We discussed the recent developments of the Iranian nuclear program as reflected in the latest IAEA report. In particular, we noted with grave concern Iran's installation of centrifuges in its facility near Qom as part of plans to increase the capacity to enrich uranium to near 20 percent and the IAEA's increasing concern about the possible military dimensions to Iran's nuclear program.

We have very strong P5 consensus—plus one—that is very crucial for maintaining the most robust sanctions regime we have ever had. It has not yet deterred Iran's nuclear program, but we believe that it is making progress to do exactly that.

Chairman JOHNSON. Thank you.

Mr. Cohen, you and I have discussed that the threat of U.S. sanctions has led many financial institutions to cease doing business with Iran. Can you give the Committee a better sense of how this process works, the scale of Treasury's efforts, and the role of new 104(e) regulations required by CISADA—and roughly how many major banks have held off activity in Iran or have withdrawn in the past couple years? Can you also explain how Treasury will pursue investigations using 104(e) tools and how you verify that

banks that have voluntarily withdrawn from Iran do not reverse course?

Mr. COHEN. Thank you, Mr. Chairman. Let me begin by describing the effort that we have been undertaking and how that has resulted in what we have seen as a dramatic reduction in Iran's access to the international financial system. Dating back before CISADA, the Treasury Department was very active in going out to the international financial community, the private sector, as well as government officials around the world and explaining the case for why they should voluntarily withdraw from the Iranian financial sector broadly, but in particular the designated Iranian banks, those banks that had been sanctioned for involvement in Iran's proliferation activities or its support for terrorism.

We were making good progress in isolating Iran and limiting the number of banks around the world that were willing to do business, particularly with designated Iranian banks. The numbers of banks, particularly in Europe, that were willing to continue to do business with Iran were reducing Iran's overall ability to access the international financial system was being impaired.

With the enactment of CISADA last July, that provided us a powerful new tool to go back to those countries, back to those financial institutions, in particular to the ones that had not been yet persuade and to say to them, as I said in my testimony, you have a choice to make. You can continue to do business with the United States or you can continue to do business with designated Iranian banks, but you cannot do both. It has been tremendously effective. Where we had seen the steady decline in the access of these designated Iranian banks to the international financial sector before CISADA, after CISADA, the line dropped straight down.

We have continued to go around the world—I was in China just 2 weeks ago meeting in Hong Kong with major banks, including major Chinese banks, in Beijing meeting with government officials to continue the conversation about CISADA, continue to make the points that we have been making, and it has been, as I said, remarkably effective. We are going to continue to pursue this issue, and the newly issued 104(e) issue will help us. That rule became effective early this week and immediately upon the effectiveness date of that rule—the effect of that rule—we issued a series of information requests to U.S. financial institutions asking about behavior of some of their correspondents.

This rule, and this follows up on a question that Senator Moran asked, or an issue that he raised in his opening statement, this rule allows us to go out to U.S. financial institutions where we have reason to believe that there may be a potential CISADA violation. It is a very low threshold. It is not a conclusion that there is a violation, but a very low threshold where we have some reason to believe that there might be a CISADA issue and to seek this information.

So we have begun that process immediately upon the effect of that rule. That will complement other sources of information that we have and we will continue to pursue those investigations.

Chairman JOHNSON. Senator Shelby.

Senator SHELBY. Thank you, Mr. Chairman.

Secretary Cohen, just tell us, who is doing business with Iran? Who are they selling their oil to and who are they buying from in the world, basically, just for the record.

Mr. COHEN. Well, Iran sells its oil to a number of different jurisdictions around the world. They sell into the European Union. Spain is a major purchaser——

Senator SHELBY. Spain is a major purchaser. OK.

Mr. COHEN. Turkey buys oil from Iran.

Senator SHELBY. OK.

Mr. COHEN. Some of our closest allies——

Senator SHELBY. Is Japan a major purchaser?

Mr. COHEN. Japan, South Korea are major purchasers.

Senator SHELBY. Who are the largest purchasers, Japan?

Mr. COHEN. Uh, if you will allow me to look at my——

Senator SHELBY. Yes, you go ahead.

Mr. COHEN. I actually have a—well, I do not know where my cheat sheet is on this, but China is a major purchaser, South Korea, Japan major purchasers, as I said, the European Union, Turkey, India are all major purchasers of Iran. They are not—none of them are wholly dependent on Iran. They all purchase oil from a variety of producers. But each of those jurisdictions that I just listed buy between sort of 7 and 15 percent of their oil, give or take, from Iran in a given year.

Senator SHELBY. Are the Chinese investing in exploration of more oil and gas in Iran, directly or indirectly?

Mr. COHEN. I will give you an answer to that question, but I think Under Secretary Sherman also has information on that. I think the basic dynamic that we see in China is that, clearly, before the most recent round of sanctions, including the Security Council Resolution 1929 from last June, China was involved in exploration in Iran's oil fields, was certainly helping them to develop their oil fields. We across the Administration have made very clear to the Chinese that we expect restraint, not just the United States but the international community as a whole, and the response has been, by and large, that China has exercised restraint. I would invite Secretary Sherman——

Senator SHELBY. Go ahead.

Mr. COHEN.——to elaborate on that, but that has been the basic dynamic.

Senator SHELBY. Go ahead.

Ms. SHERMAN. Senator, we share your concern. President Obama has raised this personally with President Hu. Vice President Biden raised these issues on his trip. Secretary Clinton has raised the issue that you have raised. We have stressed with the Chinese the need for restraint in Iran's energy sector by not only slowing down but stopping their activities, not concluding any new deals, and, to your point, not backfilling the business of other firms that have responsibly departed Iran. We all know that sometimes China goes looking for those opportunities when others leave the field.

We recently have seen reports that that has had an effect. It is our belief from what we know that, in fact, Chinese companies have not finalized any new upstream investments or refinery construction projects since the enactment of CISADA. We will continue to monitor this as closely as we can in as many ways as we can

because we quite agree with you that there is concern in this regard.

I will add one thing about the Chinese, which is that they have been, certainly in the P5+1, much more closely lashed up with us, the European Union, and even Russia in this regard over the last several months, understanding the increased threat that Iran places. And, in fact, as you know, there was a January 19 U.S.-China joint statement that called for full implementation of all U.N. sanctions.

So we share your concern. We are staying in top of and in front of this at the very highest levels. We do think there has been a slow-down. We do not think there have been new refinery projects, but we will not stop our vigilance nor our pressure on China in this regard.

Senator SHELBY. Mr. Cohen, it is obvious to most people, especially to a lot of us that have followed this for a long time, that China and Russia are obstructing through their various ways of really pushing the sanctions regime like we wanted to do it. Explain to the Committee Russia's relationship with Iran as best you can here in open forum and our uphill fight to bring them along on real sanctions against Iran, and China, too.

Mr. COHEN. Well, Senator Shelby, let me focus in particular on the Russian-Iranian financial relationship——

Senator SHELBY. OK.

Mr. COHEN.——and again, I will invite Secretary Sherman to talk more broadly about Russia's role, particularly in the Security Council and in bilateral relations.

The reality is that Russia does not have a particularly deep or extensive relationship with Iranian financial institutions. We do not see Russia providing a significant access point for Iranian financial institutions.

That being said, Iran is under increasing pressure. The isolation that it is facing is unprecedented. They have never been under the pressure they feel today and with their financial channels narrowed to the extent that they are today. And so we are being very watchful to see where Iran may try to go to develop additional financial connections. Russia is a potential point for Iran to look and we are going to stay on top of that very aggressively. But as we sit here today, I cannot say that Russia is a significant problem with respect to Iran's financial access.

Senator SHELBY. But you are not saying that they are not a significant problem overall politically, though, in this area, are you? You are not weighing in on that, are you?

Mr. COHEN. I am focusing on the financial relationship between Iran——

Senator SHELBY. You are tiptoeing around the political ramifications, which is probably——

Mr. COHEN. I am mindful that to my immediate right is Secretary Sherman, who I think has the responsibility for that issue.

Senator SHELBY. Secretary Sherman, why has the State Department declined so far to designate the Islamic Revolutionary Guard as a terrorist organization?

Ms. SHERMAN. Senator, we have considerable sanctions on the Islamic Revolution Guard Corps, as you know, through Treasury's

designation of IRGC and also designation for their part in human rights abuses, which are quite egregious. Generally, foreign terrorist organization designations are used for non-state actors, and I cannot think of any state actor for which an FTO designation has been used.

Senator SHELBY. That does not mean it should not be though——

Ms. SHERMAN. I appreciate that, and we will——

Senator SHELBY. I mean, you have got to follow the facts——

Ms. SHERMAN. Absolutely, and we will certainly, as we go forward and as we ratchet up the pressure, consider any option that we have to deal with Iran's ambitions and its terrorist activity. So, I think, however, if you look at the full array of the sanctions that we have in place, the IRGC is quite prominent in many of them, and as David outlined in his testimony, we have already cut off some of their economic wherewithal, both financially and in terms of some of the companies that they operate since they are becoming a greater and greater economic force in Iran.

Senator SHELBY. Do you believe that you will reach the point—are you moving down the road to designate them as a terrorist organization, which they are?

Ms. SHERMAN. Well, I never really speak to specific designations until they occur. And as I said, we have never used the FTO option for state organizations.

Senator SHELBY. You are not going to look the other way on this, though, are you?

Ms. SHERMAN. There is no way we are looking the other way.

Senator SHELBY. I hope not.

Ms. SHERMAN. With your help, Senator, we have the toughest sanctions of any Administration on Iran.

Senator SHELBY. Thank you. Thank you, Mr. Chairman.

Chairman JOHNSON. Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman, and I am going to ask both Secretary Cohen and Sherman to work with me, and hopefully the Chairman will be a little lenient since I am one of the prime sponsors of the legislation here, but in terms of the conciseness of your answers, because there is a lot of ground I want to cover.

Secretary Cohen, let me ask you this. Is it fair to say, and maybe you can give me just a yes or a no, that, in fact, CISADA, *i.e.,* sanctions, have worked to diminish dramatically commercial banking transactions for Iran?

Mr. COHEN. Yes.

Senator MENENDEZ. And, therefore, has also hurt them significantly financially, as well?

Mr. COHEN. Yes, it has.

Senator MENENDEZ. All right. So, then, sanctions work?

Mr. COHEN. No question.

Senator MENENDEZ. And that is the point that I want to first drive here, that sanctions work. And the reality is that we have never seen an Administration, Republican or Democrat, that has said, please give me a sanctions law. They have always said, "No, no, no, we would rather have the flexibility." So I hope my colleagues, as they consider the legislation that we have been advocating that has 76 cosponsors, understand that no Administration,

Republican or Democrat, has ever appealed to the Congress to give them a sanctions law. But the fact is that sanctions work.

In that regard, Madam Secretary, I listened to your statement and read it very carefully, and I must say, when you say American policy regarding Iran remains unambiguous, first and foremost, we must prevent Iran from acquiring nuclear weapons, its illicit nuclear activity is one of the greatest global concerns we face, that is a pretty significant statement, which means to me that we must do everything that we can to ensure that its illicit nuclear activity, one of the greatest global concerns we face, does not take place.

If that is the case, can you explain to me why the Administration has been reluctant to sanction China's state-run energy firm Zhuhai Zhenrong, which has been reportedly shipping refined petroleum products to Iran monthly for the last year. Despite abundant information about this trade, the United States has not sanctioned Zhuhai Zhenrong, and why has the Administration been reluctant to sanction this type of a Chinese company for energy violations when there is ample evidence that they are violating our laws and there is precedent for us sanctioning them, particularly Chinese companies for nuclear and weapons proliferation concerns? That is my first question.

My second question is, in response to Senator Shelby, you talked a lot about the energy sector in Iran. Investing in Iran's energy sector is a CISADA violation. Selling refined petroleum products to Iran is also a violation. But buying crude oil is not a prohibited activity, which goes to my second question.

The United States passed all of these sanctions laws to put pressure on investments in Iran's energy sector, which have reduced Iran's oil and natural gas production. The Iranian regime, however, continues to sell 2.3 million barrels per day of crude oil, which generates over $80 billion annually for the Iranian treasury. The sale of Iranian crude represents between 50 to 75 percent of the Iranian regime's budget, literally fueling the regime's ability to export terrorism, build a nuclear weapons program, and repress its own population.

It is clear to me that if this is one of the greatest global concerns we face, it is clear that we must find a way to target this lifeblood of the Iranian regime. One major loophole in our law permits Iran to sell oil to Europe, where it is refined and sold to the United States. Today, when Americans fill up their cars with gasoline, it is possible and legal for this gasoline to be derived from Iranian crude oil. I think most Americans would be appalled to learn that they are putting Iranian gasoline in their vehicles.

Now, I have been working with industry experts on closing this loophole to ensure that the United States is an Iranian oil-free zone. We can do this without imposing an oil embargo on the sale of Iranian crude, which would drive up the price of oil and inadvertently enrich the Iranian regime. The solution is simple. European refiners that are interested in selling to the United States would have to replace their purchases of Iranian crude with supplies from elsewhere. This would redirect sales of Iranian crude to a small group of buyers who, with less competition for the price of Iranian oil, would be able to negotiate significant price discounts

from Iran on the sale of every barrel of oil. These discounts would deny the Iranian regime billions of dollars in hard currency.

Can you tell me whether you are open to closing this loophole, establishing the United States as an Iranian oil-free zone and ending the practice of Americans buying gasoline from Iran and in doing so effectively paying an Iranian regime which commits violence against Americans and our allies, against our troops in Iraq, and—and—for which you yourself have said is our greatest global concern?

Ms. SHERMAN. Thank you very much, Senator. First, regarding your question about Chinese entities, the Administration is not reluctant to sanction and to designate companies when we have gone through the data, the investigation, meet the evidentiary standards, and, indeed, designate and sanction. In fact, under INKSA, the Iran-North Korea-Syria Act, we have designated guidelines on the industries of China. So this is not about us never designating or never sanctioning a Chinese entity or any other entity from any country. It is really a matter of doing the thorough investigation, making sure we have met the evidentiary standard.

And I can assure you, Senator, whether it is the company of which you spoke or the list from the GAO, we look at all of the data that is incoming and really look through everything that is in front of us to decide along the lines of the standards that have been set out by the law to meet the standards of those laws. So you have my assurance that we look at each one of these situations with tremendous care because we quite agree with you. Nothing should be off limits. We should look at every single situation, and those that meet the standards should be designated and sanctioned.

Senator MENENDEZ. On that point, but a year later—a year later of public reports—this is not even intelligence reports, you can imagine what intelligence would tell us—a year later of public reports of this company selling refined petroleum products clearly within the definition of an illicit activity under CISADA, we have not sanctioned them.

Ms. SHERMAN. I hear——

Senator MENENDEZ. How long do we have to wait before that happens?

Ms. SHERMAN. I hear your concern and I will take it back with me, Senator.

Regarding your legislation and buying crude oil, I certainly understand your concern. This is one where I am sure Secretary Cohen will have much to add on it. You have raised the issue that has been the concern of some, but does not mean we should not take a close look at what you are suggesting, and that is that Iran is the fourth largest producer of crude oil. There has been much debate and discussion, and obviously you have done incredibly careful study about the impact of such an even targeted embargo on the world's economy, the price of oil, what that would mean for American consumers and so forth.

I am going to let Secretary Cohen take up the financial implications and the world global implications of this, but I completely appreciate your desire to close this loophole and we look forward to seeing if we can find a way forward.

Senator MENENDEZ. Well, let me just, very quickly—I thank the Chairman for his leniency here—I am not suggesting an oil embargo on Iran. That would drive up prices and give them greater assistance. I am saying that we should not permit refined petroleum products made from Iranian crude to come to the United States. That would make the Europeans have to figure out in the world market to buy from some other places. A fundamental, big difference, and I do not want to get them confused for the record.

Mr. COHEN. Senator Menendez, that proposal, to create the Iranian oil-free zone and in particular to implement that by having European refiners, if they want to sell into the United States, to certify that they are not using any Iranian crude in the refined gasoline that they are selling, is something that we have—we have seen that proposal. We are looking at that proposal. The economics that you described are complicated, and one of the things that I think we certainly share is the desire to reduce the revenue that Iran is able to earn on its sale of crude without causing collateral ill effects to the U.S. or global economy.

One of the attractive features of this proposal is that it promises to do that, which is to reduce Iran's ability to earn revenue without having sort of the knock-on effects on the U.S. and global economy by increasing the price of refined petroleum. We are looking at that. We have, as I am sure you know, we have economists at the Treasury Department who are a heck of a lot smarter than I am on this sort of thing, and so we are studying that and I look forward to working with you on this proposal because it does hold promise to achieve that objective.

Senator MENENDEZ. Thank you, Mr. Chairman.

Chairman JOHNSON. I allowed Senator Menendez some leniency in time because he has legislation pending, but to others on the Committee, I urge you to restrain yourself within the roughly 5 minutes' time.

Senator Kirk.

Senator KIRK. Thank you, Mr. Chairman, and Secretary Sherman, welcome. I know you are very new to this. You came out of the private sector just 3 weeks ago, so I will mainly direct my comments to David Cohen, who has been in this much longer.

I think it is very important that here at this hearing we not hear your concerns, we hear your consequences for what has happened. I think it is very important for us not to look at this from Washington's view looking at Tehran, in which one of your staffers gives long reports about how we have cutoff cupcake sales from Luxembourg to Iran and bicycle deliveries from the UAE to Iran. It is important to look at what is happening in Tehran and whether this is having an effect.

And maybe one of you would put up the other chart that you have got there. This is Iranian enrichment activities, and you can see here that the program is accelerating fairly impressively. And so while we have long briefings of a lot of banking activity, we see the principal objective of the policy is not yielding a result. As, I think, Senator Corker has been very eloquent on, once we get over the 20 percent enrichment, the scientific community says, we are on our way to a bomb.

I would say that you probably have no assurance—I would be worried if you felt that there was any doubt that the Iranians would transfer nuclear weapons to terrorist organizations once they had them, and I think that should be a fundamental assumption of our policy, that they will.

I am also worried, when we look at Tehran, if we compare IMF statistics of U.S. economic growth to Iranian economic growth, the IMF says that the United States economy grew by 2.5 percent last year and the Iranian economy grew by 3.2 percent, 22 percent faster. We have got another chart that shows—maybe you could put it up—this is Iranian economic growth, and the point of this policy is also to cripple their economy. But their economic growth rate has also expanded by four times.

When you look at debt held by the public, according to the IMF, and I know some people would say we should not believe the IMF, but it is absolutely the best data set, and almost every other Administration decision with regard to international economics is based on IMF data, the United States has 70 percent of its GDP in debt to the public, whereas Iran has 5.4 percent.

Now, the IMF said with regard to the U.S. economy, it continues to recover at a modest pace but remains vulnerable. However, there was a significant growth slowdown in the first half of 2011. With regard to Iran, they said growth recovered on the strength of international oil prices, a strong rebound in agricultural sector, and rapid credit expansion, and inflation was contained while fiscal and external positions improved. This is the IMF.

I am worried that the Iranians seem to be accelerating in their aggression toward you. In the very week that Marzieh is convicted of 90 lashes for appearing uncovered, that we have now learned that the 330,000 Baha'is have been excluded from all public contracting, all of their kids have been kicked out of university, and their houses have been registered, I would simply suggest that this is a movie we have seen in a different decade wearing different uniforms but has all the markings of Kristallnacht in Farsi.

And now we hear from Under Secretary Cohen—he said in May, we remain concerned that the CBI, the Central Bank of Iran, may be facilitating transactions for sanctioned Iranian banks. And 92 Senators wrote to you saying, let us take this action. On top of that, you have not even designated the Iranian Revolutionary Guard Corps under the law, as you should have.

Here is my question to David, because you have been—and I very much respect the work and all you have done, but press reports indicate you have known about this plot since June. You have known about this hearing for a month. And yet we have no significant action on designating the IRGC or on the Central Bank of Iran. And you have known about this plot well now on 5 months.

Mr. COHEN. Well, let me take up with the last point about the designation of the IRGC. We have designated the IRGC. It is a designated global terrorist under Executive Order 13224 and has been for several years now. And we have also designated a number of IRGC affiliates and individuals. So the——

Senator KIRK. But, for example, the President of Iran, you have not designated as a systemic abuser of human rights, which is fairly obvious. His chief of staff, you have not designated. There are

dozens of people that the European Union, no paragon of strong backbone on almost anything, and yet they are way ahead of you. And you knew about the plot in June.

Mr. COHEN. Well, with respect to the plot and when the United States became aware of it, I am going to—I am not going to comment on that. I am not going to comment on what we were doing between when we learned about the plot and when it was revealed in unsealing the indictment—the complaint, rather—two days ago.

But as you know, we did respond the same day that the Justice Department unsealed the complaint with a series of designations of individuals who were associated with the plot, including——

Senator KIRK. Right. The head of the IRGC Qods Force—you cannot get closer to Ahmadinejad than that.

Mr. COHEN. Qasem Soleimani, the head of the Qods Force, is a very senior official in Iran, no question about it, and he was designated on Tuesday for his involvement in terrorist activity, and he had previously been designated twice before by the Treasury Department, once about 2 months ago for providing material support to the Syrian GID, which was involved in repression in Syria. So under an authority that allows us to designate individuals who are involved in human rights violations in Syria or provide support, individuals who are abusing human rights——

Senator KIRK. With 92 Senators——

Chairman JOHNSON. Could the Senator begin to wrap it up?

Senator KIRK. Yes. With 92 Senators writing you on the Iranian Central Bank, is it impossible for you in response to a plot to kill 100 Americans to not say anyone who does business with the Central Bank of Iran cannot do any business with the United States and cripple their—you look at their economic growth. You look at the acceleration of their nuclear program. You look at a prominent actress with 90 lashes. Can you get moving?

Mr. COHEN. Well, Senator, we are moving and we are looking very actively at the possibility of designating the Central Bank of Iran as well as taking other actions in response to this plot, and more generally in response to Iran's continued defiance of the international community with respect to its nuclear program. There is a lot of work underway and we are looking quite intensively at how to ratchet up the pressure.

If I—with the Chairman's indulgence, I would like to take a second to address the point about GDP growth, if I could.

Chairman JOHNSON. Yes, go ahead.

Mr. COHEN. It is, I think, actually quite difficult to compare Iranian GDP growth with U.S. GDP growth. The Iranian economy is about $800 billion in GDP. The United States is $14.6 trillion. So Iran is about 5 percent the size of the United States. It is heavily dependent, as you noted, Senator, on the oil sector. So when oil prices increase, as they have in the last year or so, that has a disproportionate effect on the GDP growth in Iran.

The IMF, and so——

Senator KIRK. I will just correct you. The Iranian GDP was $338 billion in 2008 and $357 billion in 2010, so it is about a 5.5 percent growth over that time.

Mr. COHEN. The IMF, and without quibbling about whether the IMF's numbers are accurate or not, but the IMF projects GDP

growth not just for Iran and the United States, but for other countries in the Middle East who are oil producers. Looking at just the countries in the Middle East that are oil producers, Iran is the lowest of all of those countries in projected GDP growth. Its projected GDP growth by the IMF is less than half of the average projected GDP growth of other Middle Eastern oil exporting countries.

So I think that is the apt comparison. It is Iran versus other Middle Eastern countries that are dependent on the exportation of oil for their GDP, and if you look at that, Iran is doing quite badly compared to its peers, which I think is a reflection, in part, of the effectiveness of sanctions.

Chairman JOHNSON. Senator Bennet.

Senator BENNET. Thank you, Mr. Chairman, and thank you to the panelists for your testimony today.

I want to pick up on what Senator Kirk's line of questioning. You know, this week, as you have testified and as we have read in the paper, we learned that there was a plot to assassinate the Saudi Ambassador in Washington, DC, on American soil, and if 100 or 150 Americans were killed as a result of it, that that was OK. And I guess the question that I have is, sitting here, I am wondering what the testimony would be had that plot succeeded, you know, had law enforcement failed—and I am very glad, obviously, that our law enforcement did not—had that plot succeeded, and the Iranians had every intention that it would succeed, what your testimony would be today about what our response would be.

And the reason I ask it that way is that for months—years, really—this Committee has been saying, we need to do absolutely everything that we can do to make sure that Iran does not support terrorist organizations and that Iran never develops a nuclear weapon. So what if this plot had succeeded and what would the implication be for the internationalization of the sanctions, Madam Secretary, as you describe? What more can we ask of the rest of the world to protect the United States and our allies from Iran?

Ms. SHERMAN. Senator, I actually, without knowing it, stole your talking point in my telephone conversations with my counterparts around the world, one very long one with one of the countries that we were discussing this morning, just this morning, and I basically said to him, think about what your country needs to do and think about it in terms of what you would have done and what the international community would have done if, indeed, this had been successful. It would have been catastrophic in so many ways that I think we cannot even begin to imagine.

So I quite agree with you about the seriousness of what occurred here, and I, too, agree with you that our law enforcement officials just did a truly superb job. And if I may say, Senator, as did the Government of Mexico, which cooperated very closely with the U.S. Government in a really excellent law enforcement effort between our two countries, which I think is quite important going forward.

So I agree with you, and it is why we are saying to those who have hesitated in enforcing the sanctions that are on the table, there are many tools on the table—many tools on the table—and all countries have to do is pick them up and make them real. And that is our effort. We showed by example with Treasury's actions that one can move speedily to designate. We are encouraging every

country to do likewise, to look at those designations and see if they are appropriate under the laws of their own country and clearly under the multilateral sanctions that exist from the U.N. And I think we have to do everything we can to follow through on those enforcement actions to look at additional sanctions and additional opportunities, which David and I have discussed this morning, including legislation that has been suggested by Members of this Committee and further designations, all of which are on the table.

Senator BENNET. Mr. Cohen, do you——

Mr. COHEN. I think Secretary Sherman put it exactly right. The right way to look at this plot is that it was a plot that was intended to assassinate the Saudi Ambassador here in Washington with, if there was—if others were killed in the execution of the plot, the IRGC Qods Force was obviously fine with that, as well. And so the right response to this is to look at this plot as further confirmation, really, of what we already know about the Qods Force, the Qods Force obviously being a very significant component of the Iranian Government, and that is that the Qods Force is involved in the exportation of terrorist activity around the world. They are active in the region. The fact that they are active here has crossed a red line, as the Secretary of State has said. But we have known that the Qods Force is a terrorist organization and we have acted against it with that knowledge in the past.

Senator BENNET. It would seem to me, Mr. Chairman, and my time has expired, but it would seem to me that there is no need for any other evidence than what we saw this week to inspire those who have hesitated from joining us in the work that you have been trying to do in getting off the fence and making sure that an action like this actually cannot be carried out and even more horrific things cannot be carried out. So I hope you are doing absolutely everything you can do and we will do everything we can do to push the international community in the direction it needs to move.

Chairman JOHNSON. Senator Corker.

Senator CORKER. Thank you, Mr. Chairman, and thank you for the secure hearing we had yesterday. I know we had a lot more time, actually, to ask a lot of questions at a whole different level and I appreciate the responses and the work that you are doing.

I think it is interesting, following Senator Bennet and Senator Kirk, I mean, if you look at American previous responses to things like this, I mean, if you really boil it down, they were willing to do something here in our country that likely would have created a war, and that has been our response to these kind of things in the past. So if you really just take A to B to C, it is very evident that the Iranian Government was willing to conduct an act of terrorism on our soil, knowing the history of the way Americans have responded to that, they were willing, it appears to me, to provoke war, which is, I think, what this most recent incident points out to us.

So let me—you gave us some great statistics yesterday, and I know all of this is hard work and I really do appreciate what you have been able to accomplish as far as the effects on the banking system. I know that, again, most of that was classified, but let me ask this question. So Iran is on a trajectory as far as enrichment. We know that where they are today, and I do not know how much

of this is classified and how much is not, so I will not—but we know that where they are today, very quickly, they could get to a point where they have bomb-grade material.

So as I listen to you, I mean, all these things that you are doing have had the effect of freezing various activities, but I guess what I would like to ask you is the trajectory that we are on, a trajectory that will alter their behavior prior to the time they are able to produce a bomb, I mean, that is the only reason we are doing this. All these other things are nice, and economic growth compared to other countries, that is nice, but that is really not our point. Our point is to keep them from producing a bomb, and I would like for you to tell me whether we, in fact, are on a trajectory that is going to keep that from happening.

Mr. COHEN. Senator, I do not know the answer to that question. What I know is that we are doing everything we can to increase the pressure as extensively as we possibly can so that we are able to persuade the Iranians as part of the dual-track strategy that Secretary Sherman described in her testimony, persuade the Iranians to engage meaningfully and seriously with the international community before we get to that point that you describe.

What we are doing on our part, and it is part of a broader Government effort, is to develop the pressure on Iran to try and induce them as soon as possible to engage meaningfully. That means continuing to take the steps we have taken to isolate Iranian financial institutions from the international financial sector, particularly the institutions that are involved in Iran's proliferation activity. It serves a dual purpose. It builds the overall pressure on Iran in service of the desire to have them engage meaningfully. It also impedes Iranians' ability to—Iran's ability to develop its nuclear program. The more difficult we make it——

Senator CORKER. So, and just for what it is worth, we went into great depth with this yesterday and all of this was shared. What I think we never got to was whether we think we are on a trajectory that is going to be the appropriate trajectory, and again, you have shared all this with me and I think you all are doing some great work. I just want your judgment as to whether our trajectory is steep enough.

Mr. COHEN. What I can say is that we remain persuaded ourselves that this is the right course, that we, by applying pressure across the board on Iran, that this can be an effective approach. So——

Senator CORKER. So——

Mr. COHEN. I do not have a crystal ball. I cannot tell you for sure, but——

Senator CORKER. And again, thank you, and we welcome you and Wendy and thank you for your call.

Let me just close with this question. I know the Chairman is wanting to stay on time. Let me reiterate, I guess, the question. Senators Menendez and Kirk have developed some legislation that gives you additional tools, and you all basically are saying to us, please do not give us these additional tools. So we are on a trajectory, and I think all of us want to make sure that we have done everything we can to enhance your ability, and I know we have met directly with the State Department to understand the reason the

State Department does not want these tools, but just one more time, I think you are saying to us today, all of us who want to help you get on a steeper trajectory, you are saying you do not really want the help we are trying to provide.

Mr. COHEN. I would not say that, and I do not think the Administration, broadly, feels that way. I think our view is the tools that have been provided are enormously effective and we are making good use of them. As Senator Menendez described it earlier, legislation to perfect CISADA, I think we would welcome. I think the question is, as always, will this enhance our ability to pursue the objectives we are pursuing, and I think we are very much willing to work with Congress to perfect CISADA and perfect the overall sanctions regime.

Senator CORKER. Thank you, and I thank all of you for your efforts. I appreciate it.

Chairman JOHNSON. Senator Tester.

Senator TESTER. Thank you, Mr. Chairman, and I want to echo the statements by many of the folks here thanking you all for your work. We very much appreciate it. You have got a very difficult job, but thank you for what you do.

We have heard folks talk about investments in oil fields from foreign companies. We have heard Wendy talk about the fact that you have had conversations, with all of you, with foreign governments, about making sure that whatever sanctions are out there are real.

I want to talk about a little bit closer to home, and just tell me if I have got good or bad information here, but recently, I heard one of America's largest companies, Koch Industries, was in the business of supporting Iran through energy development. If they are doing it, there are probably others that are doing it. I have got some concerns with this.

Number one, I think that any time you can manipulate loopholes and be able to do this, that is a concern. So what they did might be, in fact, legal.

The second one is the concern that American companies would exploit loopholes and give Iran the tools they need to be a more powerful player in the world. I think that is all we do not want to see happen, more of a security threat, more of a threat to everybody in the world.

So the real question is, since obviously with some companies you cannot enforce common sense or the sense of patriotism, should we be allowing subsidiaries of American companies to be able to do business in Iran, or should we be, as I said in my opening, putting the screws to these companies, because, quite frankly, it is one thing for a Chinese company to do it. That is unacceptable. It is really unacceptable for an American subsidiary to be able to do it. Could I get your comments on that.

Mr. COHEN. Senator Tester, I think I saw the same article about Koch Industries that you saw, and I will not speak specifically about Koch Industries, but I will address the issue broadly of subsidiaries of U.S. companies——

Senator TESTER. Yes.

Mr. COHEN.——doing business in Iran. It is a violation of U.S. law for a U.S. company to do business in Iran via a subsidiary.

Senator TESTER. OK.

Mr. COHEN. What that means is if the U.S. parent is acting through its subsidiary, directing its activity, that violates U.S. law. If the subsidiary is acting wholly independently of the parent, U.S. law does not reach that subsidiary, with the exception of, and I think Secretary Mills can elaborate on this, the reexportation of controlled items from the United States.

Senator TESTER. Yes.

Mr. COHEN. The balance that has been struck in the law thus far is that we direct our law to U.S. companies and what U.S. companies do. Subsidiaries are not, by definition, U.S. persons. They are foreign persons. And so the basic theory is, we will look at what U.S. persons do and U.S. companies do. If they are acting through a foreign person, then the law prohibits that. But if the foreign person is acting independently——

Senator TESTER. Should it be changed?

Mr. COHEN. Well, I think there is—for subsidiaries of U.S. companies, I think it is fair to look at that very carefully.

Senator TESTER. Should we be doing things like requiring American companies to disclose to their investors their subsidiaries and what kind of business they are into?

Mr. COHEN. I think that is an interesting idea. I think we are—we are working on some other ideas in the Treasury Department on how to more effectively limit what subsidiaries can do and the benefit of the subsidiaries to their parent. I think there are ways to go about this without crossing that line of saying, look, we are going to try to directly regulate a foreign person. There are ways, I think, to focus on the U.S. parent that will have an effect on whether a foreign subsidiary would be willing to do business with Iran.

Senator TESTER. I agree. David Mills, would you like to comment on the whole point about American companies' subsidiaries and if there is anything we could or should do, if you need any more flexibility from a Commerce perspective.

Mr. MILLS. I would defer on the overall policy issue to my colleagues here, but I will say that there was one additional nuance, that if there is a U.S. national working at a foreign company, whether it is a U.S. subsidiary or not, that national remains subject to U.S. jurisdiction and may not participate in any transactions with a proscribed party.

But we did just put the screws to a company, Flowserve Corporation, for illegally—the subsidiaries of which illegally sourced goods from the United States, where the U.S. exporter had no knowledge or reason to know that these goods were going to be transshipped to Iran, and so we did hold them accountable in that regard to the fullest extent that we can under the current law.

Senator TESTER. Just real quickly, in closing, I would just say this. I think Senator Corker was right in some of his potential crystal ball stuff he was doing, as if that attack would have been successful. I have got to tell you, I think any company that has a subsidiary that is doing business with Iran, we need to shine some sunlight on that because, quite frankly, I do not think the American people would accept that very well, and quite frankly, I think that would take care of the problem. So thank you.

Chairman JOHNSON. Senator Merkley.

Senator MERKLEY. Thank you very much, Mr. Chair.

Secretary Sherman, Libya gave up its nuclear ambitions, nuclear weapon ambitions when it reached out to the world some time ago. Did our choice of supporting the invasion of Libya undermine our core foreign policy interests in Iran?

Ms. SHERMAN. I missed the first part of your question. I am sorry, Senator. I missed the first part of your question.

Senator MERKLEY. Libya was one of the few nations in the world that gave up its nuclear weapons program to rejoin the international community. Did our support of basically the dislocation or removal of the government there undermine our foreign policy objectives in Iran?

Ms. SHERMAN. Actually, I think quite the opposite, Senator. I think that our support for the people of Libya to wage the battle that they have won with the support of NATO, with America having provided some support to that effort but having it be a NATO-led effort in support of the opposition in Libya, says that people in a given country can, at obviously great cost to many of the Libyan people, get a government and a future that will better support their rights to existence, to dignity, to prosperity and hope that we all take for granted.

And I think to that extent, if you are suggesting that Iran might look at that and say, we had better not give up our nuclear weapons because we will end up like Libya, the regime will be gone, that may be some thinking on behalf of leaders of Libya, just as it may be of other states like North Korea, that they had better hold on to their nuclear weapons as a deterrence to the rest of the world. But at the end of the day, as we saw in the beginnings of the Green Movement in Iran, it is not sustainable over time. We live in a 24/7 Internet and media-connected world and the Iranian people understand that there are better and different ways to live their lives.

So I think the real question here, which goes to what Senator Corker raised, is the time line, and that is our strategy of both intense pressure internationalized and persuasion, will it achieve the deterrence that we all seek, the ultimate elimination of Iran's nuclear weapons ambitions, in time——

Senator MERKLEY. I am going to cut you off here because you are taking my whole 5 minutes.

Ms. SHERMAN. Oh, I apologize, sir.

Senator MERKLEY. I must say, your answer is exactly the answer I have heard every time, but I think you would find, if you really pondered it, that many leaders around the world have looked at North Korea and Pakistan and said, we would rather be in their shoes than in Libya's shoes. And so I think it is a nice, tight argument, but I would say the world is more complicated than that when you are looking to the psychology of foreign leaders.

One of the concerns in terms of the ability of resistance to organized—to the Iranian Government that has been raised by various groups is whether we are in a position to, if you will, assist with the cell phone and Internet technology access in ways that might help resistance organize in Iran and that occasionally—well, just in that term, and again, succinct, because I only have a short time, is there more we can do to assist in the communications that have

proved so effective for groups around the world, for grassroots groups?

Ms. SHERMAN. We, in fact, have a fairly robust program to train people how to use technologies and how to reach through to the media in the way that you suggest, and given the repression that exists in Iran, this is probably not the best forum in which to discuss some of what we are able to do.

Senator MERKLEY. Very good. Thank you.

And finally, it is quite likely that very high Iranian leaders approved or were involved in approving the plan to put a bomb off on U.S. territory. Is it time to try something far more aggressive, and I realize there are huge downsides, but I just pose it as a question, such as saying, you want to export oil tankers out of the Persian Gulf? You can do that when you end your nuclear program.

Ms. SHERMAN. Senator, I certainly understand, we all have the same impulse, which is what can we do to really make Iran understand how grievous such an action was, and had it occurred, how horrific it would have been for them and for the entire international community. I think that one of the things we have tried to do, as the Secretary would say, is use smart power and be very careful about the responses we make to any individual circumstance so we do not escalate it beyond the point at which it is. But I understand the concern, and we are certainly looking at all of the options that might be available to us.

Senator MERKLEY. Thank you.

Chairman JOHNSON. I want to thank the witnesses for the testimony on this important issue. I think that today's hearing provided us useful information as we consider this issue going forward.

Thanks again to my colleagues and our panelists for being here today.

This hearing is adjourned.

[Whereupon, at 11:57 a.m., the hearing was adjourned.]

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

PREPARED STATEMENT OF SENATOR MICHAEL F. BENNET

Thank you, Chairman Johnson and Ranking Member Shelby, for holding this important hearing. I'd also like to acknowledge Senator Menendez and Senator Kirk for the tremendous work they've done in this area.

We meet here today—roughly 2 years after the Banking Committee first passed the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA) and over a year after it became law—to discuss progress made toward successfully sanctioning illicit activities in Iran and stopping Iran's march toward obtaining a nuclear weapon.

Our goal in passing CISADA was clear: to change Iran's cost-benefit analysis and compel the country to alter behavior regarding its nuclear weapons program.

Since its passage, CISADA has empowered the Administration to sanction more firms doing business with Iran than any previous one and to crack down on the Ahmadinejad regime; the Islamic Revolutionary Guard Corps (IRGC); its external arm, the Qods Force; and the Iran Shipping Lines.

CISADA's targeted sanctions on Iran's energy sector have compelled several energy firms to exit the Iranian market, even before sanctions had been levied. As a partial result, Iran oil production has fallen from 4.1 million barrels per day several years ago to about 3.9 million barrels per day. These sanctions have put the squeeze on the Iranian regime and made it nearly impossible for Iran work through any internationally recognized banking entity. We've pushed the Iranians to the margins of the financial sector, and we must push them out of business.

At the same time, our current sanctions framework has not fully achieved the core goal of preventing Iran from continuing to pursue a nuclear weapon. A recent International Atomic Energy Agency (IAEA) report indicates that Iran continues to increase its holdings of 20 percent enriched uranium and expresses concern about the military applications of its nuclear program.

Even more troubling, however, were revelations this week that Iranian officials and members of the Qods Force were involved in an audacious scheme to assassinate Saudi Arabia's Ambassador to the United States, right here in Washington, DC. In the face of these unprecedented events, I can't help but think, what would have happened if they had succeeded? Where would the United States be today, if the Iranian regime had perpetrated such a brazen attack on U.S. soil?

This week that possibility crystallized, and it is in that context that we should be discussing future sanctions on Iran. It is in that context that we should be engaging the international community to prevent Iran-supported terrorism and the country's progress toward a nuclear weapon.

I look forward to the testimony here today and to answering these important questions.

Thank you.

PREPARED STATEMENT OF SENATOR MARK KIRK

I would like to thank Chairman Johnson and Ranking Member Shelby for holding this important hearing today.

When we look at Iran today, we see an accelerating nuclear program, an expanding ballistic missile program, and a wholesale disregard for human rights.

The Iranian regime continues to sponsor terror around the world, including now on U.S. soil. On Tuesday, October 11, Attorney General Holder announced that the Department of Justice charged two members of Iran's elite Qods Force, a special operations unit of the Iranian Islamic Revolutionary Guard Corps (IRGC), in connection with a plot to conduct bombings in Washington, DC, which included targeting U.S. Senators at a popular DC restaurant.

In response, I call on the Administration to move quickly to implement the most effective nonmilitary response currently pending on our docket—cutting off the Central Bank of Iran and collapsing the Iranian currency. On August 9, 92 Senators signed a letter to President Obama, asking to impose crippling sanctions on the CBI.

President Obama signed the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA) into law on July 1, 2010, or over 15 months ago.

Yet, as evidenced by the latest report from the International Atomic Energy Agency (IAEA), Iran has accelerated nuclear enrichment.

According to the International Monetary Fund (IMF), Iran's economic growth more than quadrupled between 2009 and 2011. Last year, the Iranian economy actually grew faster than the U.S. economy. Iran's GDP grew from $338.1 billion in 2008 to $357.2 billion in 2010, or a 5.6 percent increase.

We must accelerate the pace of designations under current U.S. law. I remain perplexed as to why the Administration has failed to sanction a single bank or a financial institution under Section 104 of CISADA.

On August 3, 2011, the Government Accountability Office (GAO) also identified 14 non-designated companies as continuing to conduct activities in Iran potentially in violation of U.S. law, including:

- China National Offshore Oil Corporation,
- China National Petroleum Corporation,
- Sinopec (China),
- Daelim (South Korea),
- Edison (Italy),
- Hyundai Heavy Industries (South Korea),
- INA (Croatia),
- Indian Oil Corporation Ltd., Oil
- Natural Gas Corporation (India),
- Oil India Ltd.,
- OMV (Austria),
- ONGC Videsh Ltd. (India),
- Sasol (South Africa), and
- Sonangol (Angola).

I ask the Administration to immediately investigate these entities and report back to Congress on whether they should be sanctioned under CISADA.

We also know the Government of Iran continues a systematic campaign of violence, intimidation, and repression against its own people.

In response, we must accelerate the pace of sanctions against individuals that commit human rights gross violations against Iranians, including first and foremost, President Ahmadinejad and his Chief of Staff, Esfandiar Rahim Mashaei.

Under Executive Order 13553, the Obama administration has so far designed 11 Iranian officials for human rights violations since September 2010. That is far too few. During the same timeframe, the European Union has designated 61 individuals under EU laws, including 29 on October 5, 2011.

Today, there are over 100 members of the Baha'i community imprisoned in Iran, including the seven Baha'i leaders ("the Yaran"), imprisoned since 2008.

This week, Iranian actress Marzieh Vafamehr was sentenced to 1 year in jail and 90 lashes after starring in an Australian film with a shaved head and no hijab.

As the Iranian people struggle under Ahmadinejad's repressive regime, America cannot stay silent.

During the cold war, President Reagan made Soviet human rights abuses a key tenet of our foreign policy. In this spirit, I launched the Iranian Dissident Awareness Program (IDAP) to champion Iranians who have been arrested by the regime because of their work to bring a free and democratic Iran. Every Member of Congress now has the ability to show support for the men and women on the front lines of the struggle for human rights and democracy in Iran—just as we did for the "refuseniks" facing persecution in the Soviet Union.

By standing in solidarity, we can give hope to the dissidents and put pressure on the Iranian regime.

In closing, I look forward to working with the Administration to bring the full weight of economic sanctions to bear on the Iranian regime to stem the growing threat we face from Tehran.

PREPARED STATEMENT OF WENDY SHERMAN

UNDER SECRETARY OF STATE FOR POLITICAL AFFAIRS, DEPARTMENT OF STATE

OCTOBER 13, 2011

Chairman Johnson, Ranking Member Senator Shelby, Distinguished Members of the Committee: thank you for inviting me to appear before you today to discuss the Obama administration's strategy to address the continued threat posed by the Iranian regime's nuclear ambitions, its support for international terrorism, its destabilizing activities in the region, and its human rights abuses at home.

I would like to begin by dedicating this testimony to Philo Dibble, Deputy Assistant Secretary for Near East Affairs, who passed away unexpectedly 2 weeks ago. Philo was an exceptionally well-respected career member of the Foreign Service who

devoted most of his career to the Middle East. For the past year, he dedicated his deep regional expertise and knowledge to advancing our policy on Iran. The loss of his wisdom and leadership is a profound one for the Department and for our country.

The world today is unified to an unprecedented degree in its concern that a nuclear-armed Iran would undermine the stability of the Gulf region, the broader Middle East, and the global economy. In defiance of U.N. Security Council and IAEA Board of Governors resolutions, Iran has continued to expand its sensitive nuclear activities, and refuses to cooperate with the IAEA, raising strong, legitimate concerns about the purpose of the nuclear program. Beyond the nuclear issue, Iran continues its longstanding support to terrorist organizations such as Hizballah, Hamas, and Palestine Islamic Jihad (PIJ), as well as by its support to newer proxy militia groups in Iraq.

But, these efforts belie a regime that is actually far more vulnerable and weakened than it would like to project. 2011 has been a harsh wake-up for the Islamic Republic of Iran. Iran's Government has failed in its efforts to co-opt uprisings in the Arab world and claim its 1979 revolution as inspiration. No popular movement in the region has looked to Iran as a model for change; the only entity that turned to Iran was another autocratic regime in Syria trying desperately to hang on to power. Iran has further undermined its standing among Muslims and further strained its bilateral relations in the region by helping the failing regime of Bashar al-Asad to brutally crack down against Syrian citizens. Misreading the stark warning message from the Arab Awakening, Iran's Government continues to arrest, imprison, and persecute Iranians who dare to ask for accountability and transparency from their government, as well as just and fair treatment for ethnic and religious minorities.

To address the multifaceted challenges posed by Iran's regime—its flouting of its nuclear obligations, its nuclear weapons ambitions, its support for terrorism, its destabilizing activities in the region, and its human rights abuses at home—the United States has led a sustained and broad international campaign to exact steep costs for the regime and to complicate its ability to pursue these policies. Iran today faces tough economic sanctions and broad diplomatic pressure, and though it aspires to regional and even global leadership, its current policies have made it an outcast among nations.

American policy regarding Iran remains unambiguous. First and foremost, we must prevent Iran from acquiring nuclear weapons. Its illicit nuclear activity is one of the greatest global concerns we face, and we will continue to increase the pressure until the Iranian regime engages the international community with seriousness and sincerity and resolves its concerns. But pressure is not an end unto itself. It may provide the impetus to Iranian action, but does not prescribe the measures that are necessary to build international confidence in Iranian nuclear intent. To that end, we have offered to meet with Iran and have proposed confidence-building and transparency arrangements that offered practical incentives. Unfortunately, Iran has failed time and again to reciprocate and to take advantage of these opportunities. As a consequence, more than ever, world pressure is mounting on Iran. Last year, the United States led a successful effort in the U.N. Security Council to adopt Resolution 1929, which led to the toughest multilateral sanctions regime Iran has ever faced. The resolution strengthened previous U.N. resolutions and provided a platform upon which the European Union, Norway, Australia, Canada, South Korea, Switzerland, and Japan implemented strict domestic measures to bolster the measures of UNSCR 1929.

The efforts made by the Congress, by all of you, have also effectively sharpened American sanctions, particularly against Iran's energy sector and the regime's human rights abuses. When President Obama signed into law the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA, which amended the Iran Sanctions Act of 1996) in early July, 2010, the Administration and the Congress sent an unmistakable signal of American resolve and purpose, expanding significantly the scope of our domestic sanctions and maximizing the impact of new multilateral measures. Since then, the Administration has imposed sanctions on a growing list of individuals and entities responsible for Iran's expanding scope of unauthorized activities, and these sanctions are raising the cost, time, and energy required for Iran to pursue its current policies.

In September 2010, Secretary Clinton imposed the first sanctions any Administration had ever imposed under the Iran Sanctions Act. To date, the State Department has sanctioned 10 foreign companies for doing business with Iran's energy sector. Further, CISADA's "special rule" has worked exactly as intended: it gave us the flexibility and leverage to persuade multinational energy firms Shell, Statoil, ENI, Total and INPEX to withdraw from all significant activity in Iran. The companies

also provided clear assurances that they would not undertake any sanctionable activities in Iran's energy sector in the future, and in doing so, forfeited billions of dollars of investments. In addition, Repsol abandoned negotiations over several phases of the South Pars gas field.

Other successes under CISADA include the fact that major energy traders like Russia's Lukoil, India's Reliance, Switzerland's Vitol, Glencore, and Trafigura, Kuwait's Independent Petroleum Group (IPG), Turkey's Tupras, France's Total, and Royal Dutch Shell have stopped sales of refined petroleum products to Iran. Iran has had to redirect production facilities from valuable petrochemical export production in order to manufacture refined petroleum for domestic sale. Furthermore, Reliance, India's largest private refiner, announced in 2010 it would not import Iranian crude.

Investment in Iran's upstream oil and gas sector has dropped dramatically, forcing Iran to abandon liquefied natural gas projects for lack of foreign investment and technical expertise, after Germany's Linde, the only supplier of gas liquefaction technology to Iran, stopped all business with it. South Korea's GS Engineering and Construction canceled a $1.2 billion gas processing project in Iran. Outside of Iran, British Petroleum chose to shut down production from a North Sea platform co-owned with the Iranian Oil Company, to ensure compliance with EU sanctions. Trans-Adriatic Pipeline (TAP) partners announced that the pipeline, once constructed, would not be used to transport gas from Iran.

Iran's national airline, Iran Air, is also paying the price for having its aircraft misused for proliferation purposes, and providing services to the IRGC. Most major fuel providers have terminated some or all of their Iran Air contracts, including British Petroleum, Royal Dutch Shell, Total, OMV, and Q8. Iran Air is finding it difficult to find sources to replace these suppliers, not to mention places to land.

Iran is increasingly isolated from the international financial system, as Under Secretary of Treasury Cohen's testimony describes in detail. Virtually all of the world's first-tier banks have concluded that the Iranian market is not worth the reputational risk posed by deceptive Iranian practices. They understand the consequences of both willfully and inadvertently facilitating an illicit transaction, and have severely curtailed their interactions with Iranian banks. The Administration is looking very closely at further measures that will drive home the message that any bank doing business with banks that do business with terrorists puts its own reputation at risk of international sanction and condemnation.

Iran's shipping is also under international pressure. Large shipping companies such as Hong Kong-based NYK are withdrawing from the Iranian market, and reputable insurers and reinsurers such as Lloyd's of London, no longer insure Iranian shipping. Iran's shipping line IRISL, has been exposed for its complicity in the shipment of goods in violation of Security Council resolutions, as noted by the U.N.'s Iran Sanctions Committee. IRISL has been sanctioned by the United States, the EU, Japan, South Korea, and others. Difficulty in repaying loans and maintaining insurance coverage has led to the detention of at least seven IRISL ships. Major shipbuilding companies are refusing to build ships for IRISL. As a direct result of the international pressure we helped build, IRISL ships have a harder time finding ports of call, particularly in Europe.

Other major companies have voluntarily opted out of the Iranian market, including automotive firms Daimler (German), Toyota (Japanese), and Kia (South Korea), as well as Germany's ThyssenKrupp. Caterpillar prohibited its non-U.S. subsidiaries from exporting to Iran. Switzerland's ABB Ltd., Ingersoll-Rand Plc, and Huntsman Corp. have ended business with Iran.

The result of our strategy is an Iran that is isolated economically and finding dwindling options for doing business internationally. But, importantly, Iran is facing these problems because of *targeted* sanctions and the voluntary decision by international firms to exit the Iranian market. Our sanctions approach continues to seek to undermine Iran's ability to engage in illicit conduct, with measures against Iran's energy sector removing an invaluable source of funding that Iran could apply to that conduct. In spite of the high price of Iranian crude on world markets, Iran's aggregate economy also seems to be weakening. These effects will increase as sanctions implementation continues to improve, especially if the recent decline in the price of crude oil continues.

These efforts are directed toward achieving our goals of persuading Iran to comply with its international obligations to prove the exclusively peaceful nature of its nuclear program and to engage constructively with the P5+1. On September 21, I participated in a meeting of the P5+1 countries in New York, where we and our partners, including Russia and China, reiterated longstanding and grave concerns about Iran's installation of centrifuges at the formerly covert enrichment plant at Qom, about its stepped up production of 20 percent enriched uranium, and about the pos-

sible military dimension of Iran's program (a concern notably shared by the IAEA). We also reconfirmed the dual-track strategy of engagement and pressure. It was a strong and unified statement. It concluded that the P5+1 would be willing to hold another meeting with Iran, but only "if Iran is prepared to engage more seriously in concrete discussions aimed at resolving international concerns about its nuclear program." If, however, Iran simply seeks to buy time to make further progress in its nuclear program, it will face ever-stronger pressures and ever-increasing international isolation.

We will continue to work with Congress as we implement both tracks of the dual-track policy. We believe that, in the short term, further improvements in international implementation, based on our current authorities, offer the best way to increase pressure on Iran. As Congress considers additional authorities, we would like to work with you to ensure that any additional steps we take will strengthen the international consensus and global pressure against Iran's nuclear program. The most effective sanctions are those taken by a large portion of the international community, which requires close coordination with friends and allies, as well as a targeted approach. Convincing them to take action will require us to carefully calibrate our outreach to the individual circumstances of specific countries and sectors. It will also require flexibility to find creative and proactive tools to convince Iran that it cannot continue to pursue its nuclear ambitions.

Sanctions are doing more than raising the cost of continuing illicit nuclear activity; they are finally shining a spotlight on some of the individuals and entities perpetrating egregious human rights abuses against Iranian citizens. Using CISADA, we have designated 11 individuals and 3 entities for human rights violations, and we continue to compile more information and evidence that will allow us to identify more murderers, torturers, and religious persecutors. We have taken a firm stand on the Iranian regime's violations of human rights, including the repression of religious minorities as exemplified by the death sentence that might have been imposed on Pastor Youcef Nadarkhani simply for following his own chosen religion had it not been for the immediate condemnation from world leaders, religious groups, and NGO's. At the same time, we are offering capacity-building training programs, media access, and exchanges to help Iranian civil society strengthen their calls for accountability, transparency, and rule of law. The Iranian opposition's desire to operate without financial or other support from the United States is clear. We are committed to using available and effective diplomatic tools to assist those who want our assistance in speaking out and defending fundamental rights and freedoms. The United States will always support the Iranian people's efforts to stop government-sanctioned harassment, detention, torture, imprisonment, and execution of anyone who dares express ideological, religious, or political differences from the regime's repressive, totalitarian vision.

We engage regularly with like-minded countries to develop shared approaches to increase the pressure for a change in the Iranian Government's behavior. In July, the United States and United Kingdom, with the support of Canada, imposed visa restrictions on Iranian Government officials and other individuals who were responsible for or participated in human rights abuses, including government ministers, military and law enforcement officers, and judiciary and prison officials. We welcome the European Union's announcement this week of more than two dozen additional travel bans. There is absolutely no cause for allowing petty tyrants to trot around the globe while suffering and repression continues unabated inside Iran. International pressure and condemnation on this point is growing: We worked with Canada to pass a U.N. General Assembly resolution last year condemning Iran's human rights abuses. This condemnation attracted a larger margin than any similar resolution in the past 8 years. It may seem small, but every pro-regime vote we strip away on resolutions like this is one fewer fig leaf for the Iranian regime to hide behind as they murder and torture their own people, and we will continue to press measures large and small at every opportunity.

We were leaders in an effort in the U.N. Human Rights Council in March to create a Special Rapporteur on Iran, the first country-specific human rights rapporteur since the Council's creation. Special Rapporteur Ahmed Shaheed, a former foreign minister of the Maldives and respected human rights advocate, will serve as an independent and credible voice to highlight human rights violations by the Government of Iran. All of these multilateral efforts reinforce our strong domestic actions that prove that Iran's attempts to undermine universal rights and deceive the world only further isolate it from the global community.

In my new role as Under Secretary for Political Affairs, I look forward to working closely and transparently with Members of Congress to prevent Iran from acquiring nuclear weapons, curtail its support for terrorism, make it more difficult for Iran

to interfere in the region, and deter the regime from committing human rights abuses against its own people.

PREPARED STATEMENT OF DAVID S. COHEN

UNDER SECRETARY FOR TERRORISM AND FINANCIAL INTELLIGENCE
DEPARTMENT OF THE TREASURY

OCTOBER 13, 2011

INTRODUCTION

Chairman Johnson, Ranking Member Shelby, and distinguished Members of the Committee:

Thank you for the opportunity to appear before you today to discuss the Department of the Treasury's contribution to the Obama administration's integrated strategy to address the threat posed by Iran's nuclear program and its extensive support for terrorism. I am pleased to be here with Under Secretary Sherman and Assistant Secretary Mills, as the approach the Administration has taken, and the progress we have achieved, have been marked by a robust, interagency collaboration to confront the threat we face from Iran.

I will focus my remarks today on our sanctions strategy, paying particular attention to the Treasury Department's vigorous implementation of the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA), the impact CISADA and other sanctions are having on Iran, and our plans to increase the pressure on Iran going forward.

Iran Sanctions Strategy

The Treasury Department's sanctions efforts are embedded in the dual-track strategy that the United States and our allies are pursuing to address Iran's continued failure to meet its international obligations regarding its nuclear program.

Notwithstanding the sincere offer of engagement extended to the Iranian Government by the United States since the outset of this Administration, Iran has refused to respond meaningfully. In order to compel Iran to change its approach and to make clear to Iran the consequences of its existing approach, the United States is implementing a broad-based pressure strategy. One of the most important elements of which are targeted financial measures designed both to disrupt Iran's illicit activity and to protect the international financial sector from Iran's abuse. Our actions have focused on key government entities involved in Iran's illicit conduct, including nearly two dozen Iranian state-owned banks; the Islamic Revolutionary Guard Corps (IRGC) and its external arm, the IRGC-Qods Force; and, Iran's national maritime carrier, the Islamic Republic of Iran Shipping Lines (IRISL), its affiliates.

This strategy has yielded significant results. We have imposed costs directly on the entities we sanctioned, and by focusing our efforts on exposing Iranian entities' illicit and deceptive activities, we have built support among foreign governments to take similar actions. The global private sector also has amplified our actions—often taking voluntary steps beyond their legal requirements—because our actions have highlighted the pervasive nature of Iran's illicit and deceptive conduct and the reputational risks associated with any Iran-related business.

Our ability to isolate and disrupt the IRGC and designated Iranian financial institutions was strengthened considerably last year when President Obama signed CISADA into law. CISADA has helped us make the case to foreign governments and foreign financial institutions that the IRGC and Iran's designated banks should not be allowed access to the international financial system. As I will describe in more detail, our implementation of CISADA has significantly impaired designated Iranian banks' access to the international financial system, impeding their ability to facilitate Iran's illicit activities, and creating unprecedented financial and commercial isolation for Iran.

Although we are making progress, there is, of course, still much to be done. Iran is feeling the impact of the pressure, but we have yet to achieve the objective of our dual-track strategy: concrete action by Iran to comply with its international obligations and to address the international community's concerns regarding its nuclear program.

Recent Actions and Progress

Since last May, when I last appeared before this Committee, Treasury has taken a number of significant actions that have increased markedly the pressure on Iran.

Tidewater Middle East Co. and Iran Air

The IRGC continues to be a primary focus of U.S. and international sanctions against Iran because of the central role it plays in all forms of Iran's illicit conduct, including Iran's nuclear and ballistic missiles programs, its support for terrorism, and its involvement in serious human rights abuses. As Iran's isolation has increased, the IRGC has expanded its reach into critical sectors of Iran's economy, displacing ordinary Iranians, generating revenue for the IRGC and conducting business in support of Iran's illicit activities. We previously imposed sanctions on several IRGC-related entities, and in June we continued the effort to expose the IRGC's expansive economic reach—this time, into Iran's maritime and transportation sectors.

Using our nonproliferation authorities, in June, we designated Tidewater Middle East Co. (Tidewater), an IRGC-owned port operating company that manages the main container terminal at Bandar Abbas and has operations at six other Iranian ports. The Bandar Abbas port handles approximately 90 percent of Iran's containerized shipping traffic and has been used by Iran to export arms and related materiel in violation of several United Nations Security Council Resolutions (UNSCRs). That same day, we also imposed sanctions against Iran Air, the Iranian national airline carrier, because it has been used by the IRGC and Iran's Ministry of Defense for Armed Forces Logistics (MODAFL) to transport military-related equipment.

The international private sector responded swiftly to these actions, taking steps to ensure that they have no part in dealing with these proliferators. For example, several of the world's largest shipping container firms, Maersk, Hapag Lloyd, and NYK Lines, have stopped calling at Bandar Abbas' Shahid Rejaie terminal and have stopped or will stop all shipments of Iran-bound cargo.

IRISL

Since IRISL was designated by the United States in 2008, the United Kingdom in 2009, and the EU in 2010 for supporting Iran's WMD proliferation activities, it has sought to evade sanctions by changing ships' names and nominal owners—often multiples times—and altering shipping documents to disguise its activities. Treasury, in turn, continues to expose IRISL's use of these and other deceptive practices and has imposed sanctions on more than 150 IRISL-related vessels, companies, entities and persons over the last 3 years.

In June, we added to this list by designating 10 IRISL front companies, as well as three individuals who each play a key role in aiding IRISL's sanctions evasion activities worldwide.

Our actions, coupled with similar sanctions imposed by many of our partners around the world, have substantially hindered IRISL's operations, causing it real financial distress. Because of sanctions imposed by the EU, IRISL today is largely shut out of European ports. It is also unable to obtain maritime insurance from any of the world's recognized insurers, including the Lloyd's market. Instead, IRISL is now insured, if at all, by a sanctioned Iranian insurance company with no history of writing maritime insurance and no track record of paying maritime claims. Along with this change in insurance, which in some cases has run contrary to the terms of IRISL's vessel mortgages, IRISL has had difficulty making payments on its mortgages. This has led to about a half-dozen IRISL ships being arrested in ports around the world by creditors seeking payment.

Iranian Human Rights Abuses

In response to the Iranian regime's serious human rights abuses, CISADA required that the President impose sanctions upon Iranian officials, or persons acting on behalf of the Iranian Government, who are responsible for or complicit in the commission of serious human rights abuses against Iranians. In September 2010, President Obama signed E.O. 13553, which authorizes Treasury, in consultation with the State Department, to expose serious human rights abuses by the Iranian regime, both inside and outside of Iran. As the regime's abuse of its citizens' human rights has continued, together we have imposed sanctions under E.O. 13553 against 11 senior Iranian officials and three Iranian entities—the IRGC, the Basij Resistance Force, and Iran's Law Enforcement Forces (LEF)—including the IRGC's commander, the LEF chief, and Iran's Intelligence Minister.

Treasury actions with State have also exposed Iran's support of the Syrian Government's ongoing violence and repression of the Syrian people. Under E.O. 13572, which targets those responsible for, complicit in, or providing material support to those engaged in human rights abuses in Syria, Treasury designated the LEF's Chief and Deputy Chief, and two senior IRGC-Qods Force officers—all for supporting the brutal suppression of the Syrian people orchestrated by Syrian General Intelligence Directorate.

Iranian Support for Terrorism

We have not lost—and must not lose sight of the fact that Iran is the world's most active state sponsor of terrorism. Iran has used its state apparatus—including especially the IRGC-Qods Force—to support a wide range of terrorist organizations, including Hizballah, Hamas, Palestinian Islamic Jihad (PIJ), the Popular Front for the Liberation of Palestine-General Command (PFLP-GC) and the Taliban. In addition to providing financial support to these terrorist groups, Iran has allowed al-Qai'da to use its territory for the movement of money, facilitators, and al-Qa'ida operatives. Al-Qa'ida's core financial pipeline—which runs from Kuwait and Qatar, through Iran, to Pakistan—depends upon an agreement between al-Qa'ida and the Iranian Government to allow this network to operate within its borders. In July, Treasury designated six members of this network headed by an Iran-based individual to further degrade al-Qa'ida and expose Iran's continued support to terrorist groups worldwide.

Financial Sanctions and Implementation of CISADA

The key focus of our efforts remains Iranian banks that either directly facilitate Iran's WMD and missile proliferation activity, or that provide material support to banks that have been designated for engaging in that activity. These sanctions, coupled with the power of CISADA, have continued to erode designated Iranian banks' access to financial services, protect the international financial system from risks posed by designated Iranian banks, and impede Iran's ability to acquire material for its nuclear program. Moreover, because many of Iran's largest state-owned banks have been sanctioned for engaging in, or supporting other banks engaged in illicit activity, our sanctions—along with complementary actions by many of our allies—have imposed substantial economic pressure on Iran.

In May, we continued these efforts by designating Iran's Bank of Industry and Mine (BIM) under E.O. 13382 for providing financial services to other designated Iranian banks. After the EU acted to implement UNSCR 1929 by prohibiting 18 Iranian banks from conducting transactions in Europe, BIM used one of its accounts as a conduit for transactions into Europe by designated banks, including Bank Mellat and Bank Saderat. That is, BIM, like Post Bank before it, engaged in a scheme to front for designated banks in an effort to evade U.S. sanctions. BIM is the 22nd Iranian state-owned financial institution to be designated by Treasury.

CISADA's powerful new financial authorities have amplified the impact of our designations of Iranian banks. Under CISADA, the Secretary of the Treasury is empowered to cutoff from the U.S. financial system any foreign bank that facilitates the activity of individuals and entities sanctioned by the U.N. Security Council in its recent Iran resolutions, as well as any foreign financial institution that facilitates a significant transaction, or provides significant financial services, for any Iranian bank designated by the United States or for the IRGC and any of its designated agents or affiliates.

Since President Obama signed CISADA into law, my colleagues in the Treasury Department and I have aggressively implemented it in close coordination with the State Department. We issued the Iran Financial Transaction Regulations just over a month after the law was passed, describing in detail the activity that could lead to action by the Treasury Department against a foreign financial institution. And we have embarked on a worldwide tour to spread the word of the serious consequences that could befall a financial institution that engages in CISADA-sanctionable activity. This has involved outreach to foreign financial institutions, regulators, and government agencies in nearly 50 countries across five continents. Just 2 weeks ago, for instance, I traveled to China to speak with government officials in Beijing and Hong Kong, and with the private sector in Hong Kong, about CISADA.

As we explain in these engagements, CISADA offers a clear choice: a foreign financial institution can have access the largest and most important financial sector in the world—the United States—or it can do business with the IRGC or Iranian banks sanctioned for facilitating

Iran's illicit activity, but it cannot do both. For the overwhelming majority of foreign banks, the choice has been a simple one, and those that had potentially sanctionable relationships discontinued that business. The result is exactly what Congress intended: CISADA has helped us deepen and broaden Iran's isolation from the international financial system.

We continue to be vigilant to uncover and investigate activity that may lead to action under CISADA. And we remain ready and willing to utilize the tools provided by CISADA whenever and wherever necessary.

The Impact of Sanctions on Iran

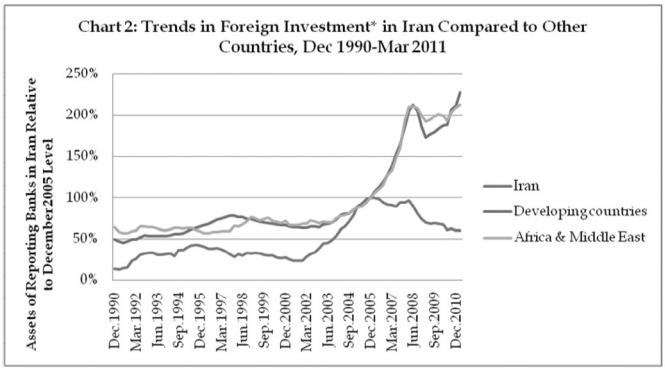
Last December, in testimony to the House of Representatives Committee on Foreign Affairs, my predecessor described the impact of sanctions on Iran this way: "Iran has become increasingly isolated from the international financial system, with limited access to financial services . . . Iran has been relegated to the margins of the international financial system, and is finding it increasingly difficult to access the large-scale, sophisticated financial services necessary to run a modern economy efficiently." I can report that Iran's financial isolation, and the economic impact of that isolation, have both continued to grow.

Due to a combination of factors—including UNSCR 1929, financial sanctions imposed by the United States, EU, and other like-minded countries, and foreign banks' interest in avoiding CISADA actions or the reputational risk of doing business with Iran—the number and quality of foreign banks willing to transact with designated Iranian financial institutions has dropped precipitously over the last year. Iran's shrinking access to financial services and trade finance has made it extremely difficult for Iran to attract foreign investment, pay for imports, or receive payment for exports. This has led to a number of significant macroeconomic effects in Iran, exacerbating persistent economic weakness due to the Iranian Government's mismanagement of its economy.

Sanctions have increased the cost and difficulty of accessing adequate foreign exchange, including the dollar, which has contributed to major instabilities in Iran's currency. (See chart 1) Last fall, following the adoption of UNSCR 1929 and various member states' actions to implement the Resolution, the spread between the official and the private-market exchange rates for the Iranian rial widened dramatically. In September 2010, the rial depreciated by up to 20 percent in 1 week alone. It recovered, but earlier this year, the spread between the official and the market exchange rate again began to widen. Iran's Central Bank intervened in early June, devaluing the rial by 11 percent in an effort to close the gap, but it has only grown wider since.

The Central Bank of Iran has so far been unable to contain volatility in the rial market exchange rate. There are a number of theories to explain this phenomenon, but it is surely driven by Iranians seeking to convert their rial into foreign currency, underscoring the extent to which Iranians lack confidence in their economy.

Dwindling direct foreign investment in Iran also reflects, in part, the impact of our targeted sanctions. At a time when Iran could badly use an infusion of international capital, foreign investment in Iran remains low in comparison to other developing economies. (See chart 2) The International Monetary Fund has attributed this trend to international sanctions and Iran's difficult business environment. Iran continues to struggle to attract investment in key sectors, particularly oil and gas. Many international and national oil companies have effectively withdrawn from Iran, depriving the country of large-scale foreign investments and technology. As a result, the International Energy Agency projects that Iranian oil production will decline by about 800,000 barrels per day (bpd) by 2016, a roughly 20 percent decline in production capacity. At current oil prices, such a decline will cost Iran on average about $14 billion (about 3 percent of Iran's GDP) in annual oil revenues through 2016.



Sanctions have also led to the IRGC taking over key aspects of Iran's economy, exacerbating the cronyism and corruption that pervades the Iranian regime. We have seen this in a number of areas. Khatam al-Anbiya, the U.S.-, EU-, and UNSC-designated engineering arm of the IRGC, has been recruited to develop key energy resources. The IRGC, through its sanctioned affiliates Bonyad Tavon Sepah and Mehr Bank, took over Tidewater, a port operator that until a few years ago had been privately owned. And President Ahmadinejad recently appointed Rostam Ghasemi, a U.S.- and EU-designated IRGC commander and former leader of Khatam al-Anbiya, as Minister of Oil. This appointment was applauded by the IRGC, which characterized Ghasemi's new role as a "meaningful and critical response to the attacks against the guards from the west's media empire." However, even members of Iran's Government have publicly questioned the wisdom of this decision. One member of Iran's parliament observed that "the integration of the guard, as a military force, in political and economic power is not in the interests of the system . . . In neighboring countries, military officials are distancing themselves from politics and power, while it's the opposite in Iran."[1] Furthermore, the inclusion of the IRGC throughout the Iranian economy has opened up Iran to greater pressure through sanctions.

Altogether, there is little doubt that our sanctions strategy has markedly reduced Iran's access to the international financial system and, consequently, has contributed to a noticeable weakening in the Iranian economy.

The Continuing Threat and the Way Forward

The Governor of the Central Bank of Iran, Mahmoud Bahmani, commenting on the financial sanctions, said recently that Iran should "fight back, and that's for sure," asking, "But how?"[2] It is clear that Iran has chosen to "fight back" against sanctions by using increasingly deceptive tactics in an effort to evade the scrutiny of governments, regulators, and banks around the world. As Iran has lost access to global banking and financial services, and suffered disruptions in its ability to conduct trade worldwide, Iran is trying to preserve the limited access its designated banks have to the international financial system while simultaneously seeking to secretly establish new footholds. To do so, Iran is targeting vulnerable jurisdictions and financial institutions that may willingly or unwittingly allow designated Iranian banks to operate.

For example, some branches and subsidiaries of designated Iranian banks continue to operate in jurisdictions outside of Iran. Although many foreign banks would prefer not to do business with these branches and subsidiaries, Iranian bank branches exploit legal systems that allow them to continue to operate, jeopardizing the integrity of their host countries' financial sectors. We have been working with these host countries to shut down the operations of overseas affiliates of designated Iranian banks. We have achieved some success, but there is more work to do.

We also know that Iran has attempted to purchase banks in other countries, relying upon third-party associates or firms to facilitate these purchases in order to mask Iranian involvement and ownership. Preventing these attempts to circumvent multilateral sanctions remains a key focus of our strategy. Where we have informa-

[1] *http://www.businessweek.com/ap/financialnews/D9OSLUI80.htm.*
[2] *http://af.reuters.com/article/idAFTRE67716B20100808.*

tion about these potential purchases, we work to alert our foreign partners and urge them to prevent Iran from gaining access to their financial sector in this manner.

We are also continuing our intense efforts to implement CISADA. Last week, we issued a final rule to implement Section 104(e) of CISADA, establishing a reporting requirement for U.S. banks that will complement our efforts to identify CISADA-sanctionable activity by foreign banks. We have already begun to utilize this regulation by issuing this week information requests to a number of U.S. banks regarding several foreign banks that we have reason to believe may be involved in activity sanctionable under CISADA. If we become aware of possible CISADA violations—through this or other investigative efforts under way—we will seek prompt resolution, either by insisting on confirmation from the foreign bank that it has ended its relationship with designated Iranian banks or by imposing CISADA sanctions.

As more and more countries and foreign banks refuse to deal with designated Iranian banks, we also remain keenly focused on the possibility that non-designated Iranian financial institutions may become involved in proliferation activity or terrorist financing, or may begin to provide material support to banks that are designated for doing so. And we continue to consider the case of the Central Bank of Iran (CBI). At this time, because of our country-wide sanctions program, U.S. financial institutions are already generally prohibited, with only limited exceptions, from doing business with any bank in Iran, including the CBI. Treasury has also consistently communicated to our foreign partners the risks of doing business with the CBI, as highlighted in UNSCR 1929. Further U.S. action against CBI, if it engenders multilateral support, could further isolate the CBI. I can assure the Committee that the Administration will continue to carefully weigh the legal bases and policy ramifications of further action against the CBI, and we are committed to continuing to work with the Congress on this crucially important issue.

Conclusion

As Iran continues to choose the path of defiance, Treasury, working with our colleagues across the Administration and in Congress, will continue to develop new and innovative ways to impose additional costs on Iran to create crucial leverage for our diplomacy. I look forward to continuing our work with this Committee as Treasury continues to pursue this important strategic objective.

PREPARED STATEMENT OF DAVID W. MILLS

ASSISTANT SECRETARY OF COMMERCE FOR EXPORT ENFORCEMENT
DEPARTMENT OF COMMERCE

OCTOBER 13, 2011

Mr. Chairman, Senator Shelby, Members of the Committee:

I welcome the opportunity to appear before the Committee today to discuss the Department of Commerce's role in implementing the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA), as well as the wider issue of enforcing United States' sanctions on Iran. My Department has a key role in administering and enforcing U.S. dual-use export control policies toward Iran. We also work closely with our colleagues at the Departments of State, Homeland Security, and the Treasury, as well as other agencies, to implement and enforce our sanctions regime effectively.

I wish to extend my thanks to the Congress for conferring permanent law enforcement authority on our agents last year as part of CISADA. The Office of Export Enforcement in our Bureau of Industry and Security (BIS) is the only Federal law enforcement agency solely constituted to conduct dual-use export investigations. Permanent authority allows our agents to focus on their law enforcement mission without the necessity of annual renewal of their authority as Special Deputies of the U.S. Marshals Service, and removes the potential that their authority may be questioned in a courtroom. It was one of many steps we are taking to strengthen our export control system as part of the Administration's export control reform initiative.

Over the course of the last year, our agents have been utilizing this authority to investigate a variety of export violations, but Iranian violations continue to be a primary area of focus. Iran continues to engage in widespread efforts to illegally acquire U.S.-origin commodities and technology. In fact, the majority of our criminal investigations now involve Iran as the ultimate recipient of diverted items. Much of our enforcement activity and analysis is focused on stopping the diversion of such items to Iran via transshipment hubs in the Middle East, South and East Asia.

The Bureau of Industry and Security employs a variety of criminal and administrative tools against these illicit Iranian procurement activities. I want to share with you some illustrative examples of these enforcement efforts.

BIS aggressively investigates U.S. companies doing business with Iran directly and through their foreign subsidiaries, as demonstrated by the following recent case. Just last month, we imposed a civil penalty totaling $2.5 million against Flowserve Corporation and 10 of its foreign affiliates to settle 288 charges related to unlicensed exports and reexports of pumps, valves and related components subject to the Export Administration Regulations (EAR) to Iran, Syria and other countries. Flowserve is headquartered in Irving, Texas, and is a supplier of goods and services to the oil, gas, chemical, and other industries. Six of Flowserve's foreign affiliates caused the transshipment of items to Iran and/or the reexport of items to Syria without the required U.S. Government authorization. Flowserve and a number of its foreign affiliates also exported or reexported items controlled for reasons of chemical and biological weapons proliferation to China, Malaysia, Singapore, Venezuela and other countries. In addition to the civil penalty, Flowserve and a number of the Flowserve affiliates will be required to conduct external audits of their compliance programs and submit the results to BIS. BIS pursued these administrative charges in concert with the Department of the Treasury's Office of Foreign Assets Control (OFAC). Flowserve also agreed to pay a $502,408 civil penalty to resolve related OFAC charges. Cooperation between BIS and OFAC on Iranian cases has been critical to maximizing the impact of U.S. laws against violators.

In recent years, export enforcement at BIS has also made extensive use of the BIS Entity List to disrupt a range of overseas procurement networks, most importantly involving investigations of the procurement of components for improvised explosive devices by Mayrow General Trading and related entities, resulting in the addition of over 190 new foreign entities to the Entity List. Most recently, on August 15, 2011, BIS added 15 persons, including aircraft leasing operations in Ukraine and Greece, to the Entity List for involvement in the lease, transfer, and operation of commercial aircraft subject to the EAR, without requisite licenses, for use in Syria and Iran.

The use of the Entity List highlights our focus not only on sanctions directed at the listed enterprises, but also the prevention of violations, and the public naming of individuals and entities that are involved in or that pose a significant risk of engaging in illicit export activity. This widely used list of parties of concern takes advantage of the automated name screening infrastructure that exists in banks, trading companies and manufacturing enterprises worldwide. This approach discourages resellers and other parties here and abroad from doing business with targeted entities and the procurement networks they represent, and prevents resellers and other parties in the United States and overseas from doing business with them.

BIS has also made effective use of its authority to issue Temporary Denial Orders, or TDOs, to prevent imminent violations of the Export Administration Regulations. A significant recent case involved Anvik Technologies of Malaysia and Hong Kong. Anvik used a worldwide network of "virtual offices" to procure items for ultimate shipment to Iran. "Virtual Offices" are organizations that provide a variety of services to clients which create the impression that the entity is operating from a particular facility when in fact it is somewhere else. In this case, one of the "virtual offices" was in Chicago, which provided the impression to U.S. vendors that they were shipping to a U.S. entity, when in fact the items would be forwarded outside the country, and ultimately to Iran.

This case demonstrates an important trend in international trade: the development of a global order management, payment, and delivery infrastructure that can be easily accessed and used for a very wide range of items. The problem is that it can be exploited by bad actors to divert items in violation of the law. We continue to seek creative ways to attack this sort of illicit activity.

On August 21, 2011, IBIS renewed a TDO against Mahan Air of Iran and related parties. This TDO, originally issued in March 2008, has been used to successfully block several attempts by Mahan to acquire or use U.S.-origin commercial aircraft. In its efforts to obtain access to additional capacity, Mahan has employed a variety of front companies, complex lease arrangements and proxies. BIS special agents continue to identify and unravel these transactions, denying Iran unauthorized access to U.S.-origin goods and technology. In the most recent renewal and modification of this order, BIS named two European companies that Mahan was using to register Airbus aircraft with U.S.-origin engines or other components and fly them into and out of Iran using European tail numbers.

Administrative tools such as the TDO have been critical in furthering our criminal investigations into Iranian procurement activities. The TDO issued against Mahan Air originally included Bali Group in the United Kingdom. That TDO was

critical in preventing additional violations of the EAR and furthering our investigation into Balli Group's involvement in obtaining Boeing 747 aircraft for Mahan Air. On May 11, 2010, Balli Aviation was sentenced to a $2 million criminal fine and corporate probation for 5 years. On February 4, 2010, Balli Group PLC and Balli Aviation entered a civil settlement with BIS and OFAC, under which Balli agreed to pay a $13 million civil penalty over the course of approximately 2 years, coupled with an additional $2 million suspended civil penalty designed to deter future violations by Balli and to encourage its timely payment of the underlying $13 million. BIS takes the conditions of these suspensions very seriously, and when Balli did not make a timely penalty payment, we revoked the suspension of the $2 million civil penalty. This total civil penalty of $15 million—the largest civil penalty imposed under the EAR to date—has been collected in full.

I would now like to say a few words about the Administration's efforts on Export Control Reform, and how that will affect enforcement activity. Last November, the President signed an Executive Order creating a central element of reform as it applies to export enforcement, the Export Enforcement Coordination Center (EECC).

The EECC will be a permanent center with dedicated staff intended to ensure that BIS, the State Department, the Federal Bureau of Investigation, U.S. Immigration and Customs Enforcement and other relevant agencies more efficiently coordinate their activities. It will enable U.S. agencies to better leverage their resources without duplicating or undermining each other's efforts in the field, and will allow all relevant agencies to approach investigations as full partners.

No element of the export control reform initiative is intended to impede or weaken strict enforcement of the U.S. embargo on Iran. The exact opposite is true. I have already spoken about the Entity List. This is but one list administered by the three departments represented here today against which exporters are required to screen transactions. Most of these lists include Iranian entities or entities involved with Iran. The U.S. Government has created a single, consolidated electronic list that exporters can download and easily search. It includes almost 24,000 entries. This enhances the effectiveness of the various lists and facilitates compliance, especially for small- and medium-sized companies who may not have the resources to stay current with all the various lists.

As part of CISADA, the Administration and Congress also harmonized our criminal export control penalties to a standardized maximum of up to $1 million per violation and up to 20 years in prison, or both. In one of the statutes used by my colleagues at the Treasury, the criminal penalty for convictions for Iran was only up to $10,000 and no jail time. No longer are criminal export control violations merely the cost of doing business.

The licensing mechanisms we are putting in place for close U.S. allies and our multilateral export control partners will improve the interoperability with these allies by liberalizing some licensing requirements but at the same time adding more robust compliance and enforcement provisions that will help ensure that products and technology are not diverted to Iran or elsewhere.

As an example, the notification and certification requirements of the new license exception, the Strategic Trade Authorization, not only ensures that information on the control status of U.S.-origin items is passed along to resellers and customers, but that an auditable chain of custody is established.

In the final or Phase III of Export Control Reform, we envision the creation of a single licensing agency that would include the administrative enforcement functions of BIS and the Department of State. The Administration also plans to seek legislation to consolidate BIS's criminal enforcement functions into U.S. Immigration and Customs Enforcement, which has a separate unit dedicated to enforcement of the export control and embargo laws. This consolidation plan will ensure that the fully synchronized export control system stays that way, and it is good government.

As Iran is a top enforcement priority, we fully intend to press forward with our efforts to combat illegal diversion of sensitive products and technology there. Likewise, our success at filling more than 50 enforcement positions, as well as our initiative to prosecute culpable individuals as well as companies, while not restricted to Iran, will greatly assist in our enforcement efforts involving Iran.

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

Summaries of Recent Commerce Enforcement Cases involving Exports or Reexports to Iran

- On August 12, 2011, Davoud Baniameri, an Iranian national who maintained a residence and business in California, was sentenced to 51 months in Federal prison after pleading guilty in May to two felony charges stemming from his

efforts to illegally export missile components and radio test sets from the United States to Iran, via the United Arab Emirates. Codefendant Andro Telemi, a naturalized U.S. citizen from Iran, is awaiting trial in Chicago. A third defendant, Majid Mousavi, an Iranian citizen living in Iran, remains a fugitive and is believed to be in Iran.

- On July 20, 2011, six overseas companies were added to the BIS Entity List. Biznest Ltd. and Yeraz Ltd. in Hong Kong, and Micro Power Engineering Group, Narinco Micro Sarl, Serop Elmayan and Sons Lebanon, and Serpico Offshore Sarl, all located in Lebanon, were placed on the Entity List based on evidence that they have engaged in actions that are contrary to the national security or foreign policy interests of the United States. The companies purchased electronic components from foreign subsidiaries of U.S. firms and then resold the components to persons in Iran and Iraq. The same components were later found in Iraq in unexploded improvised explosive devices and related materials.
- On June 24, 2011, Hamid Seifi was sentenced to nearly 5 years in prison for his role in a conspiracy to illegally export military components for fighter jets and attack helicopters from the United States to Iran, via the United Arab Emirates and France. Another defendant and his company have admitted their illegal conduct and also pleaded guilty in the investigation. A total of seven individuals and five corporate entities based in the United States, France, the United Arab Emirates, and Iran have been indicted for their alleged roles in the conspiracy. On June 23, 2011, based on evidence that they have engaged in actions that could enhance the military capability of Iran, eight of the defendants were added to the BIS Entity List.
- On April 21, 2011, Jeng Shih and his company Sunrise Technologies and Trading Corporation, as well as Massoud Habibion and Mohsen Motamedian and their company Online Micro LLC, were indicted on charges of illegally exporting computer-related equipment worth millions of dollars from the United States to Iran via the United Arab Emirates. The indictment charges Shih and his company with one count of conspiracy; 13 counts of violating the International Emergency Economic Powers Act (IEEPA); and 13 counts of making or causing to be made false statements to the United States. If convicted, Shih faces a maximum sentence of 20 years in prison and a $1 million fine for each of the IEEPA counts and 5 years for each false statement count.

RESPONSE TO WRITTEN QUESTIONS OF CHAIRMAN JOHNSON FROM WENDY SHERMAN

Q.1. Under CISADA, countries should be designated Destinations of Diversion Concern if they allow "substantial diversion" of certain goods, services, or technologies through the country to Iranian end users or Iranian intermediaries. No country has yet been designated a Destination of Diversion Concern, even though it's clear that some of this activity continues. Why haven't any countries been designated, and where are you generally in the process of assessing the major diversion countries—their export control laws, ports and other transportation hubs, and control regimes—in Asia and the Middle East?

A.1. I defer specific questions on country assessments to the Intelligence Community. The Director of National Intelligence submitted to Congress a report pursuant to CISADA Section 302, entitled "Identification of Countries of Concern with Respect to the Diversion of Certain Goods, Services, and Technologies to or through Iran" in December 2010. CISADA Section 302 requires the President to designate a country as a Destination of Diversion Concern if he determines that the government of the country allows substantial diversion to Iranian end users or intermediaries of certain goods, services, or technology. I would be happy to offer a classified briefing on the State Department role in this process; however, I defer any questions on the specifics of the 2010 Section 302 report to the Intelligence Community.

Q.1. Can you describe the current level of U.S. international cooperation, or lack thereof, with the international community in working to ensure that sensitive materials do not end up in Iran?

A.1. Iranian efforts to procure sensitive materials and technology for their proscribed programs through a variety of means are well documented. We continually work with foreign governments bilaterally and in multilateral fora to ensure that proliferation-sensitive materials, equipment, and technology do not end up in Iran.

We regularly engage with states that have uranium resources and other sensitive items to eliminate the proliferation risk of these materials. U.S. collaboration with other countries has made Iran's illicit procurement of sensitive materials more difficult, costly, and time-consuming. While we have had some successes in working to ensure that sensitive materials do not end up in Iran, we remain vigilant on this risk and maintain attention to this issue in engagement with other states.

We seek to lead by example and have worked to fully implement our U.N. obligations. Our efforts highlight that states must meet their obligations under binding U.N. Security Council Resolutions that prohibit the transfer of specific sensitive items as well as any

other items a state determines would contribute to Iran's proliferation-sensitive activities.

We also engage with partners to ensure that they robustly enforce their export controls, encourage the extensive use of end-user checks to confirm proper export, work with private enterprise to "know their customer", and remain vigilant to the risk of doing business with Iran. In addition to implementing our U.N. and domestic measures, we encourage all states to take similar steps and routinely discuss with them, as well as with industry, the risks of transferring sensitive items to Iran.

Q.3. As you work to ensure that goods services or other technologies do not end up in Iran, what do you see as the greatest areas of concern? What additional tools or resources do you think would be most useful for the Commerce Department as it seeks to enforce CISADA and other laws in this area?

A.3. I defer to the Intelligence Community to address our principal concerns with respect to the diversion of sensitive items. I also defer to the Commerce Department regarding U.S. export and reexport controls. The State Department continues to work closely with other countries to prevent the transfer of proliferation-sensitive technology and equipment as called for under relevant U.N. Security Council Resolutions (UNSCRs) and consistent with international nonproliferation commitments. UNSCR 1540 makes clear that all parties associated to a transaction share the responsibility for stopping proliferation, and we work with both supplier and transshipment countries to ensure that proscribed goods, services and technologies do not end up in Iran. Through the Proliferation Security Initiative, the United States works to enhance international tools to interdict and prevent trade in sensitive technologies.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SCHUMER FROM WENDY SHERMAN

Q.1. A major component of CISADA was the new sanction on foreign companies that provide refined petroleum products to Iran. The provision was initially successful in that it dramatically reduced Iran's ability to import gasoline. However, despite Iran's claims to be fully self-sufficient in gasoline production, the volume of gasoline imports to Iran has gone back up. In fact, Reuters reported on September 7 that, "Iran has been importing four to five cargoes of gasoline per month, with most of it supplied by China as the Islamic Republic finds ways to get around the U.S.-led sanctions, three industry sources familiar with the matter said."

This represents a clear violation of U.S. law, yet no action has been taken against any Chinese companies. Why?

A.1. We are aware of and looking carefully into these reports. We have repeatedly and regularly engaged with China in our determined efforts to impede Iran's ability to procure refined petroleum products. In fact, earlier this year, we sanctioned two of Iran's largest suppliers of refined products, Royal Oyster Group and SPD. We made note of these sanctions to China and have urged that Chinese companies not engage in the supply of refined petroleum to Iran.

We have pressed China at the highest levels not to "backfill" the business of other firms that have taken the responsible course and departed Iran's energy sector. We urge Chinese companies to discontinue activities in Iran's energy sector.

We have seen progress in some areas. Based on all available information, we assess that Chinese companies have not finalized any agreements on new upstream investments or new refinery construction projects since the passage of the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA). Recent press and industry reports indicate that Chinese firms have taken a "go slow" approach to their existing projects in Iran. In fact, Iran publicly threatened to hand over the rights to develop some fields to "other" (*i.e.,* presumably non-Chinese) companies if Chinese entities did not progress more rapidly. We note as well that Iranian Foreign Minister Ali Akbar Salehi has acknowledged in his public statements that some Chinese projects have slowed down.

Q.2. Has the State Department investigated Chinese companies including SINOPEC and the China National Petroleum Corporation for violations of ISA?

A.2. We would be happy to brief you or your staff on this issue in a classified setting.

Q.3. What is the United States doing to respond to this latest action by Iran against the United States?

A.3. As soon as the United States made public the Iranian plot, we briefed our international partners and asked them to join us in condemning Iran's flagrant violation of international law and in increasing Iran's isolation. In addition, we sent interagency teams to New York to brief U.N. Security Council members and key governments and to respond to questions regarding the plot. We also briefed the Washington Diplomatic Corps.

In light of the gravity of the charges, the United States also reached out directly through diplomatic channels to the Iranian Government to condemn its actions.

On October 11, the Treasury Department designated the five individuals involved in the plot—four members of the IRGC-Qods Force and the plot's main suspect, a U.S.-Iranian citizen who had acted as an agent for the Qods Force. The European Union, the United Kingdom, and Canada immediately followed with their own designations.

In addition, dozens of countries and many regional organizations stood by the United States and issued their own statements condemning the regime.

The Administration will continue to pursue a variety of diplomatic, law enforcement, and economic measures in response to this unacceptable act.

Q.4. How will we make clear to Iran that we will not stand by and allow them to act against our interests, kill Americans or acquire a nuclear weapons capability?

A.4. The Administration is committed to preventing Iran from developing a nuclear weapon capability. Our dual-track policy of pressure to encourage engagement is aimed at convincing Iran to comply with the demands of the U.N. Security Council and to engage

with the P5+1 on its nuclear program. The Administration will increase economic pressure on Iran. Options under consideration include new sanctions, new designations under the existing sanctions regime, and improved implementation of existing sanctions.

Iran continues to aid terrorist organizations like Hezbollah and Hamas, and it supports terrorism throughout the region and beyond. The United States will not permit Iran to endanger U.S. troops from Iran-sponsored attacks in Iraq. We will continue to shut off Iran's support to terrorist groups through diplomatic, economic and law enforcement measures.

Q.5. How will we get the Iranian Government to understand that there will be serious consequences for this latest act?

A.5. The Administration is reviewing diplomatic, law enforcement and economic options to hold Iran accountable. As soon as the United States made public the assassination plot, we immediately informed the international community and called on countries around the world to join us in condemnation. The U.S. Government also reached out directly through diplomatic channels to the Iranian Government to condemn its actions.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR MENENDEZ FROM WENDY SHERMAN

Q.1. China continues to be a major Iranian trading partner and has agreements with Iran for nearly $40 billion in investments to develop Iranian oil fields. China has reportedly directed the China National Offshore Oil Company and the National Petroleum Company to slow their work in Iran, presumably so that it can make the argument to Washington to hold off on sanctions. Can you comment on China's continued engagement with Iran and what level of confidence you have that the Chinese will slow-walk these deals? What would you consider to be a trigger for sanctions against these entities?

Why has the Administration been reluctant to sanction Chinese companies for energy sanctions when there is ample evidence that they are violating our laws and there is precedent for us sanctioning Chinese companies for nuclear and weapons proliferation concerns?

A.1. Based on all available information, we assess that Chinese companies have not finalized any agreements on new upstream investments or new refinery construction projects since the passage of the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA). The State Department continues to monitor closely China's activities in Iran's energy sector. We have pressed China at the highest levels not to "backfill" the business of other firms that have taken the responsible course and departed Iran's energy sector. We urge Chinese companies to discontinue activities in Iran's energy sector.

Recent press and industry reports indicate that Chinese companies have adopted a "go slow" approach to their projects in Iran. In fact, Iran has publicly threatened to hand over the rights to develop some fields to "other" (*i.e.,* presumably non-Chinese) companies if Chinese entities do not progress more rapidly. We note as

well that Iranian Foreign Minister Ali Akbar Salehi acknowledged in his public statements that some Chinese projects have slowed down.

Q.2. China's state-run energy firm, Zhuhai Zhenrong has reportedly been shipping refined petroleum to Iran monthly for the last year. Despite abundant information about this trade, the United States has not sanctioned Zhuhai Zhenrong. Is the Department of State investigating these sales?

A.2. We have seen these reports of shipments of refined petroleum by Zhuhai Zhenrong. We are concerned about these reports and have raised the issue as we regularly voice our concerns to China as part of our substantial efforts to impede Iran's ability to procure refined petroleum. In fact, earlier this year, we sanctioned two of Iran's largest suppliers of refined products, Royal Oyster Group and SPD. We made note of these sanctions to China and have urged that Chinese companies not engage in the supply of refined petroleum to Iran. We have engaged China at the highest levels to urge its companies to discontinue their activities in Iran's energy sector, and we have seen positive signs in some areas. Nonetheless, we are carefully evaluating these reports.

Q.3. Do you consider sanctions on the sale of refined petroleum to be a focus of your efforts? While I appreciate the steps the Administration has taken to sanction several front companies, such the Royal Oyster Group in the UAE, it would seem that we are missing the big targets—the major energy traders that are playing a shell game using front-companies to make sales of refined petroleum to Iran. Trafigura, for example, claims that it has ceased selling refined petroleum to Iran, yet there are reports that it merely changed front companies and continues to sell to Iran? Can you comment on your efforts to verify that major energy traders, like Trafigura, have in fact exited the market and ceased sales of refined petroleum to Iran?

A.3. The Administration has focused intently on Iran's energy sector and has vigorously enforced sanctions on suppliers of Iran's refined petroleum products. To date, this Administration, the first to impose sanctions under the Iran Sanctions Act, has sanctioned 10 companies under the Act, eight of them for the supply of refined petroleum products or related goods or services. Two of the latter, Royal Oyster Group and SPD, were Iran's largest suppliers of refined petroleum.

We have seen the reports that major energy traders are using front companies to supply refined petroleum. We are looking into these reports, but to date have been unable to corroborate many of them. Further, we have found that the major energy traders of the world have discontinued their activities with Iran altogether. We continue to monitor activities in Iran's energy sector and will ensure the law is implemented fully.

Q.4. Iran's Revolutionary Guard Corps has its fingers in all of the revenue pies and is known to play a key role in the crude oil export supply chain. Do you believe that designating more IRGC persons and entities and eliminating the IRGC's ability to profit from Iran's energy exports by prohibiting any person from knowingly export-

ing, refining and shipping Iran's energy resources if the IRGC or its affiliates are involved in the development, extraction, production, transportation, or sale of such resources would be an effective way to limit the IRGC's revenue stream?

A.4. The IRGC is a primary focus of U.S. sanctions against Iran because of its central role in Iran's nuclear and ballistic missile programs, its support for terrorism, and its involvement in serious human rights abuses. As Iran's isolation has increased, the IRGC has expanded its reach into critical sectors of Iran's economic infrastructure—at the expense of the Iranian private sector—to generate revenue and conduct business in support of Iran's illicit activities.

The Administration uses all the tools at its disposal to uncover and spotlight this illicit conduct. In the last few months, the Administration designated Tidewater Middle East Co., an Iranian port operator owned by the IRGC, and sanctioned two Iranian airlines, Iran Air and Mahan Air, for supporting the IRGC.

We continue to research, update and expand the U.S. designation list based on developments in Iran and as additional information and evidence become available. Together with our international partners, the United States is working to identify and close gaps where Iran is trying to circumvent sanctions, including sanctions and designations targeting the Iranian Revolutionary Guard Corps (IRGC).

Q.5. One of the barriers to the imposition of sanctions seems to be the narrow definition of "credible information" that the Department uses when determining whether to issue sanctions. My legislation, S. 1048, would expand that definition to provide greater latitude to the Department to find actionable activity. It would expand the definition to include public announcements by the person that the person has engaged in a sanctionable activity; announcements by the Government of Iran that the person has engaged in such an activity; as well as other credible information, such as report to stockholders of the person and reports by GAO, the Energy Information Administration, and the Congressional Research Service. What sources of credible information does the Department rely on presently when making sanction determinations? Does the Administration support broadening the definition of credible information?

A.5. The current definition of "credible information" enables us to investigate thoroughly and effectively all reports of possible sanctionable behavior and to make sanctions determinations. This Administration reviews every report of potentially sanctionable activity, regardless of whether an investigation is open or required to be opened, and the Secretary can impose sanctions whenever she makes a determination that a company has engaged in the activities described in the Iran Sanctions Act. We draw upon a range of sources to validate information we receive, including intelligence, the media, industry and other non-government sources, and foreign governments. We also reach out to firms directly to express our concerns about their reported activities, to inquire about the accuracy of such reports, and to discourage sanctionable activities. Broadening the definition of "credible information" would not improve our ability to render accurate judgments about sanctionable

activity. However, such a broader definition could impute credibility to information of questionable veracity. Press reports sourced from Iranian public statements, for instance, are often inaccurate.

Q.6. Is the Department continuing to investigate whether defense contractor, Kuwait and Gulf Link Transport (KGL), may be secretly doing business with Iranian front companies, including IRISL? If not, have you cleared KGL as a potential violator of U.S. sanctions?

A.6. Unfortunately, this matter is not within the Department of State's purview. Questions on this matter should be referred to the Department of the Treasury.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR TOOMEY FROM WENDY SHERMAN

Q.1. With regard to energy investments, in June 2010 your predecessor and current Deputy Secretary of State William Burns, told the Senate Foreign Relations Committee, " . . . there are a number of cases, less than 10, in which it appears that there may have been violations of the [Iran Sanctions Act] ISA." We have now sanctioned two companies and used the special rule to waive sanctions against five other companies.

- How many investigations for violations of the Iran Sanctions Act (ISA) are currently open?
- Due to the State Department's failure to complete investigations under ISA, Congress in CISADA enacted a statutory 180-day period in which investigations of sanctions violations must be completed. Has the State Department complied with this statutory deadline? If not, why not?

A.1. This Administration, the first to impose sanctions under the ISA, has to date sanctioned 10 companies for their activities supporting Iran's energy sector, including 8 for activities related to the sale or provision of refined petroleum products to Iran. The State Department constantly and closely monitors all activities in Iran's energy sector. There are currently numerous cases under review for which we have information of varying levels of credibility regarding potentially sanctionable activities. We have enforced U.S. law and will continue to do so aggressively. The Department is in full compliance with its obligations under the Iran Sanctions Act, including the requirement to complete investigations into investments in Iran's energy sector within 180 days.

Q.2. Has the State Department investigated Chinese companies, including SINOPEC and the China National Petroleum Corporation, for violations of ISA?

A.2. We would be happy to brief you or your staff on this issue in a classified setting.

Q.3. If so, why has the State Department delayed issuing sanctions on Chinese companies?

A.3. Based on the available information, we assess that Chinese companies have not finalized any agreements on new upstream investments or new refinery construction projects since the passage of the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA). The State Department continues to monitor

closely China's activities in Iran's energy sector. We have pressed China at the highest levels not to "backfill" the business of other firms that have taken the responsible course and departed Iran's energy sector. We urge Chinese companies to discontinue their activities in Iran's energy sector.

Recent press and industry reports indicate that Chinese companies have adopted a "go slow" approach to their projects in Iran. In fact, Iran publicly threatened to hand over the rights to develop some fields to "other" (*i.e.,* presumably non-Chinese) companies if Chinese entities did not progress more rapidly. We note as well that Iranian Foreign Minister Ali Akbar Salehi has acknowledged in his public statements that some Chinese projects have slowed down.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR MORAN FROM WENDY SHERMAN

Q.1. Ten companies have been sanctioned under the Iran Sanctions Act. Five companies have been exempted from sanctions by the Administration through use of the "special rule." In your written testimony, you said the Administration persuaded these five companies to "withdraw from all *significant* activity in Iran." Do any of these companies continue to engage in some activity in Iran? If these companies, who promised to stop doing business with Iran, still do business with Iran, when do you expect them to stop?

A.1. The "special rule" has given the State Department significant leverage to convince major international firms to withdraw from their activities in Iran. We have used this provision on five occasions to convince Total, Royal Dutch Shell, ENI, Statoil, and INPEX to exit Iran. All of the firms that received consideration under the "special rule" committed to the Secretary of State that they are no longer engaging in sanctionable activity in Iran or have taken significant verifiable steps toward stopping such activity and will not engage in any energy-related sanctionable activity in Iran in the future. We continue to monitor them very closely to ensure that they are living up to this commitment. All five firms have discontinued development activities within Iran's energy sector and handed over their respective projects to the Iranians. In some cases, the companies are still owed significant sums of money from Iran and we support their efforts to have Iran pay its debts. In the case of ENI, the company was obligated under its contract to provide certain technical services after the handover of the field. ENI has minimal staff in Iran to carry out these functions. Should ENI breach these contractual obligations, it could result in a windfall payment to Iran, possibly exceeding $1 billion.

The impact of these withdrawals on Iran's energy sector has been significant. For example, as part of our engagement with Royal Dutch Shell, we convinced them to discontinue negotiations over a $10 billion gas development project. Similarly, in order to receive consideration under the Special Rule, ENI opted not to develop a $1.5 billion phase of an oilfield project. Iran has yet to find foreign investors willing to take on these projects.

Q.2. What is the Administration doing to ensure that those companies for which it waives sanctions keep their word and end their illegal business in Iran?

A.2. To date, the Secretary of State has not waived sanctions on any entity under the amended Iran Sanctions Act. The State Department has utilized the Special Rule as intended under the law, in cases where firms have shown that they are withdrawing from Iran and have committed not to engage in energy-related sanctionable activity in the future. The Department is closely monitoring the activities of the firms that have received consideration under the "special rule" to ensure that they are living up to their commitments. To date, we have no reason to believe any of these companies has acted inconsistently with those commitments.

Q.3. In November 2010 and March 2011, I wrote Secretary of State Clinton about Indian and Chinese companies that may be doing business in Iran in violation of U.S. sanctions. In both letters I identified specific companies and asked Secretary Clinton to investigate these companies and sanction those that are in violation of U.S. law. Yet, no Indian or Chinese companies have been sanctioned. Are there Indian and/or Chinese firms that are doing business in Iran in violation of U.S. law?

A.3. We share your concerns regarding reported activities of Indian and Chinese firms in Iran's energy sector and of the potential consequences under the amended Iran Sanctions Act. We have raised these concerns with both governments at the highest levels and urged them to exercise restraint in their energy-related cooperation with Iran.

Both the Indian and Chinese governments have made clear to us that they share our goal of ensuring that Iran does not develop a nuclear weapon. We have seen the reports of Indian companies participating in investments in Iran's energy sector, however, the available information suggests that these deals have not been finalized. Similarly, based on the available information, we assess that Chinese companies have not finalized any agreements on new upstream investments or new refinery construction projects since the passage of the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA). We have pressed China at the highest levels not to "backfill" the business of other firms that have taken the responsible course and departed Iran's energy sector. We urge Chinese companies to discontinue activities in Iran's energy sector.

Recent press and industry reports indicate that Chinese firms have taken a "go slow" approach to their existing projects in Iran. In fact, Iran publicly threatened to hand over the rights to develop some fields to "other" (*i.e.,* presumably non-Chinese) companies if Chinese entities did not progress more rapidly. We note as well that Iranian Foreign Minister Ali Akbar Salehi has acknowledged in his public statements that some Chinese projects have slowed down.

Q.4. What diplomatic efforts is the Administration pursuing with India and China to get them to cooperate with U.S. sanctions?

A.4. We have engaged regularly with China at the highest levels regarding the importance of implementing sanctions in order to achieve our shared goal of preventing Iran from developing nuclear

weapons. As a member of the P5+1 process with Iran, China has supported that goal. China joined the P5+1 consensus in New York in September calling on Iran to resolve the international community's concerns over the Iranian nuclear program. A U.S.-China joint statement in January called for the full implementation of all relevant U.N. Security Council resolutions on Iran.

We engage with the Indian Government, as we do with governments around the world, to encourage them to sever ties with Iran. India has taken steps to conform its payments to Iran for crude oil with the requirements of U.S. sanctions. During President Obama's November 2010 visit to India, the United States and India in their joint statement called on Iran to take immediate steps to meet its obligations to the IAEA and the U.N. Security Council.

We continue to consult with all levels of the Chinese and Indian governments on the need to fully enforce sanctions on Iran.

Q.5. *Reuters* reported on September 7 that "Iran has been importing four to five cargoes of gasoline per month, with most of it supplied by China." This appears to be a clear violation of U.S. law. Why has action not been taken against these Chinese companies?

A.5. We are aware of and carefully evaluating these reports. We have also expressed our concerns about them to China.

We regularly voice our concerns to China as part of our determined efforts to impede Iran's ability to procure refined petroleum. In fact, earlier this year, we sanctioned two of Iran's largest suppliers of refined products, Royal Oyster Group and SPD. We made note of these sanctions to China and have urged that Chinese companies not engage in the supply of refined petroleum to Iran. We have engaged China at the highest levels to urge its companies to discontinue their activities in Iran's energy sector, and we have seen positive signs in some areas.

Q.6. Despite U.S. and international sanctions, Iran continues to enrich uranium. It now possesses enough enriched uranium that upon further processing, it could build three nuclear bombs. In your view, why have sanctions not stopped Iran from advancing its nuclear program?

A.6. Sanctions have not only slowed Iran's ability to procure equipment and technology for its nuclear program, but they have made what procurement Iran is able to undertake more expensive, more difficult, and more time-consuming.

Sanctions have also had a negative impact on Iran's economy. Shipping, air transport, energy, and finance are all sectors of the Iranian economy targeted and damaged by sanctions. It comes as no surprise that President Ahmadi-Nejad recently lamented that Iran's "banks cannot make international transactions anymore" because of U.S. sanctions. In a recent speech, Ahmadi-Nejad said that the sanctions against Iran are "the heaviest economic onslaught on a nation in history."

We will continue to increase the pressure on Iran to respond to the international community's substantial concerns over its nuclear program.

Q.7. What additional steps can the United States and our allies take to convince Iran to verifiably end its nuclear program?

A.7. We can continue to increase the pressure on Iran until we accomplish what we and our P5+1 partners seek to achieve: a resolution to the international community's concerns about the Iranian nuclear program. There is ample room for continuing to pressure Iran—through national, multilateral, and international actions.

This Administration has put in place the toughest sanctions package on Iran in three decades. We have imposed sanctions on critical sectors of the Iranian economy—from shipping to finance—and we have succeeded in building a strong international sanctions coalition, with many states implementing national measures of their own to increase the pressure on Iran. We are approaching like-minded governments following the issuance of the IAEA Director General's report on Iran to request that they take additional steps on the pressure track.

At the same time, however, when Iran is prepared to engage seriously in discussions about its nuclear program, we will join Iran at the negotiating table. This dual-track approach is the best way to persuade Iran to resolve the international community's concerns about its nuclear program because it ensures that we will have the strong international coalition to pressure Iran when we need to do so.

RESPONSE TO WRITTEN QUESTIONS OF CHAIRMAN JOHNSON FROM DAVID S. COHEN

Q.1. Even though many banks have voluntarily ceased operations with Iranian financial institutions, it seems clear that some financial institutions continue to violate U.S. sanctions laws. You said at your confirmation hearing that you were pursuing banks suspected of being violators, and expected to act on them soon. Can you give us an estimate of how many financial institutions and banks continue to work with Iran in violation of U.S. laws, and where you are in the process of assessing their activity and, as appropriate, imposing sanctions?

A.1. Consistent with Treasury policy, I cannot comment on possible or pending investigations under CISADA. I will note, however, that the number of banks anywhere in the world that continue to do business of any kind with designated Iranian banks has dropped precipitously; to the extent that any bank continues to work with sanctioned Iranian banks, or begins to do so, we investigate aggressively and are more than willing to apply the sanctions available under CISADA if necessary.

Q.2. I heard you discuss you recent trip to China, where you focused on the banking and shipping sectors' activity in Iran. I have seen the press clips on your trip in which you made clear that while the Chinese were observing the letter of U.N. sanctions, certain Chinese banks active in Iran's insurance and shipping sectors could be violating U.S. sanctions laws. What steps are you taking to investigate these banks and, if necessary, to sanction them? What diplomatic constraints, if any, are you working under on this front?

A.2. Consistent with Treasury policy, I cannot comment on possible or pending investigations.

During my September 24–28 visit to China and Hong Kong, I discussed the provisions of CISADA with both the government and private sector. China is one of more than 45 countries on five continents that Treasury has engaged as part of our outreach to regulators and financial institutions regarding CISADA's authorities, as well as the risks associated with doing business with Iran more generally. It is important that governments and financial institutions around the world understand CISADA and its potential implications for their business with the United States.

Treasury works closely with the State Department to implement CISADA as part of our dual-track policy of addressing Iran's efforts to expand its nuclear program, and does not face diplomatic constraints in fully implementing our authorities.

Q.3. I understand that Iran has been working hard to try to circumvent international sanctions by developing "work-arounds" to enable them to continue sanctionable activity. Briefly, what are the most significant examples of such "work-arounds," and how are we responding to combat them? Are there new statutory tools you need to do this—for example, to further limit barter transactions in which Iran's oil is traded for finished goods?

A.3. One of the most significant "work-arounds" involves the continued operation in jurisdictions outside of Iran by branches of subsidiaries of designated Iranian banks. Although many foreign banks would prefer not to do business with these branches and subsidiaries, Iranian bank branches exploit third country legal systems that allow them to continue to operate, jeopardizing the integrity of their host countries' financial sectors. We have been working with these host countries to restrict the foreign operations of designated Iranian banks. We have achieved some success, but there is more work to do.

We also know that Iran has attempted to purchase banks in other countries, relying upon third-party associates or firms to facilitate these purchases in order to mask Iranian involvement and ownership. Preventing such attempts to circumvent multilateral sanctions remains a key focus of our strategy. When we have information about potential Iranian efforts to evade sanctions, we strive to alert our foreign partners so that they can take appropriate action to prevent Iran from gaining access to their financial sector through deceptive means. Treasury has a robust set of tools at our disposal that allows us to impose additional measures and enforce implementation of existing sanctions as necessary.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SCHUMER FROM DAVID S. COHEN

Central Bank of Iran

Q.1. This past August, Senator Kirk and I led a bipartisan letter to President Obama cosigned by 92 Senators urging the Administration to sanction the Central Bank of Iran (CBI). The Bank has been heavily involved in the funding of terrorism and proliferation and has assisted numerous sanctioned entities to illegally bypass sanctions. Secretary Cohen, in response to our letter, you wrote: "All options to increase the financial pressure on Iran are on the

table, including the possibility of imposing additional sanctions against the CBI".

I appreciate your response, but I am hoping you could provide some clarification. Specifically: Is there a timetable for making a decision regarding the CBI?

A.1. The Treasury Department remains committed to addressing the full range of Iran's misconduct and increasing the pressure on the Iranian leadership and on the CBI. Recent events—including the disruption of an Islamic Republic of Iran-Qods Force plot to assassinate the Saudi Arabian ambassador to the United States and the IAEA's November 2011 report on Iran's nuclear program—coupled with Iran's continued refusal to meet its international obligations or engage meaningfully and substantively with the United States and the broader international community, have only reinforced our conviction that the pressure track of the dual-track policy must continue to be emphasized. We will work with our allies and partners to isolate and freeze the assets of the CBI, and to reduce our partners' imports of Iranian oil. These actions, taken on a coordinated basis, will constrict Iran's access to the hard currency and revenue that it needs to fuel its illicit activities. We will also implement the new law that, in certain circumstances, imposes financial sanctions on foreign financial institutions that transact with the CBI.

Regarding recent action Treasury has taken to expose the CBI's role in illicit activity, on November 21, 2011 Treasury identified Iran as a jurisdiction of "primary money laundering concern" pursuant to Section 311 of the USA PATRIOT Act. This finding identifies the entire Iranian financial sector for posing an illicit finance risk to the global financial system, and includes not only already designated banks and their branches operating outside of Iran, but also non-designated banks, their foreign affiliates, and the CBI. Unlike past jurisdictional 311 actions whereby Treasury explicitly exempted central banks from the reach of this regulation, the CBI was included in the Section 311 finding on Iran because of the support it provides Iran's designated banks and entities involved in Iran's proliferation activities.

Q.2. If indeed the CBI is engaged in terrorist funding and proliferation, do you not have an obligation to designate them?

A.2. As our track-record over the past several years amply demonstrates, Treasury will not hesitate to hold accountable those found to be engaged in any identified sanctionable activities, including terrorist funding and proliferation. With respect to the CBI, we remain concerned that the CBI may be facilitating transactions for sanctioned Iranian banks. For example, we have seen the CBI and Iranian commercial banks request that their names be removed from international payment messages to make it more difficult for intermediary financial institutions to determine the true parties to the transactions, as well as other forms of evasive behavior detailed in the recent finding under Section 311 of the USA PATRIOT Act to identify the jurisdiction of Iran a primary money laundering concern. We are keenly focused on applying additional sanctions on the CBI and will work with our partners to isolate and freeze the assets of the CBI, and to reduce our partners' im-

ports of Iranian oil. These actions, taken on a coordinated basis, will constrict Iran's access to the hard currency and revenue that it needs to fuel its illicit activities. We will also implement the new law that, in certain circumstances, imposes financial sanctions on foreign financial institutions that transact with the CBI.

Q.3. Have you discussed this possibility with our international partners that have joined us in imposing meaningful sanctions? If so, what have been the responses?

A.3. We believe that any effort to escalate pressure on Iran going forward will have the maximum effect if the United States is able to act in concert with our partners in the international community. My colleagues in the Administration and I have spoken extensively with foreign counterparts on this topic. Our partners take seriously Iran's continued failure to meet its international obligations. There is a growing awareness around the world regarding the risks that the CBI poses to the international financial system. In response to UNSCR 1929, many of our closest partners now require enhanced due diligence and scrutiny over transactions with Iran, including dealings with the CBI, and some are calling for bold action, including a multilateral asset freeze on the CBI. We will continue to work closely with allies to take meaningful and coordinated action against CBI.

Q.4. What particular advice would you give to foreign banks that continue to work with the CBI?

A.4. I would remind those foreign banks and their governments that the international community has expressed concern about Iran's abuse of the financial sector and its use of deceptive financial practices to evade sanctions in UNSCR 1929, which highlights the need to exercise vigilance over transactions involving Iranian banks and noted specifically the Central Bank of Iran. Particularly in light of the new legislation addressing transactions with the CBI, I would strongly encourage foreign governments and banks, especially those processing oil payments through the CBI, to cease transactional activity with the CBI and be alert to any attempts by Iran and its Central Bank to evade sanctions or facilitate illicit financial activity. And I would urge foreign banks and their regulators to study carefully the information set forth in the recently released finding under Section 311 of the USA PATRIOT Act identifying the jurisdiction of Iran a primary money laundering concern.

Iran's U.S. Terror Plot

Q.5. What is the United States doing to respond to this latest action by Iran against the United States?

A.5. The Department of the Treasury on Tuesday, October 11, imposed sanctions against five individuals, including four senior Islamic Revolutionary Guard Corps-Qods Force (IRGC-QF) officers, connected to a plot to assassinate the Saudi Arabian ambassador to the United States, Adel Al-Jubeir, while he was in the United States, and carry out follow-on attacks against other countries' interests inside the United States and in another country. Included in this action was Manssor Arbabsiar, the individual responsible for carrying out the assassination plot on behalf of the IRGC-QF,

who had been arrested by Federal agents in late September. Also on October 11, the Justice Department announced the unsealing of a complaint in the U.S. District Court for the Southern District of New York charging Mr. Arbabsiar and one of the sanctioned IRGC-QF officers with a number of criminal offenses in connection with the plot.

We continue to work with our partners, domestically and abroad, to explore additional measures that the international community can take to increase pressure on, and further isolate Iran, in response to this plot.

Q.6. How will we make clear to Iran that we will not stand by and allow them to act against our interests, kill Americans or acquire a nuclear weapons capability?

A.6. Following the Iranian-backed plot to assassinate the Saudi Ambassador to the United States, the U.S. Government has worked with key allies to secure assistance in targeting those identified as being involved, directly or indirectly, in the plot. To date, the U.K., EU, Canada, Australia, and South Korea have taken measures to freeze the assets of individuals involved in the plot, building on sanctions against the IRGC and Qods Force that have been in place for some time. We also continue to work with international allies to formulate a coordinated response to Iran's violations of its international obligations and continued abuse of the international financial system. For example, on November 18, the United Nations General Assembly overwhelmingly adopted a resolution that deplored the plot, further isolating Iran and demonstrating international resolve to stand against its illicit behavior.

Q.7. How can we get the Iranian Government to understand that there will be serious consequences for this latest act?

A.7. We have already seen the Iranian Government, including President Ahmadinejad, acknowledge that financial sanctions imposed by the United States are causing serious problems for Iran's banking sector. We believe financial sanctions are having an impact, and Treasury will continue to vigorously employ all of its tools and authorities to pressure Iran as part of our broader dual-track approach.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR MENENDEZ FROM DAVID S. COHEN

Q.1. The United States has passed sanctions laws that put pressure on investments in Iran's energy sector and which have reduced Iran's oil and natural gas production. Our Government has also passed laws prohibiting companies from helping Iran produce and import refined petroleum.

The Iranian regime, however, continues to sell 2.3 million barrels per day of crude oil which generates over $80 billion annually for the Iranian treasury. The sale of Iranian crude literally fuels the regime's ability to export terrorism, build a nuclear weapons program and repress its own population. One major loophole in our laws permits Iran to sell crude oil to Europe where it is refined and sold to the United States. What effect do you believe prohibiting

imports of gasoline and diesel with Iranian content would have on world oil prices and what effect on the sales price of Iranian crude?

A.1. We are currently looking carefully at the proposal to prohibit the importation of gasoline and diesel with Iranian content. I defer to my colleagues at the Energy Department who model global oil prices to assess the potential impact that such an action would have on world oil prices and the sale price of Iranian crude.

At the same time, the Administration is currently pursuing a multilateral path to affect Iranian exports of crude and thereby the revenue it generates as a result. We understand that the EU and other partners are considering carefully proposals to ban the import of Iranian crude which would likely address the concern expressed in this question.

Q.2. Secretary Cohen, I want to thank you for your recent effort to uncover the web of Hong Kong-based shell companies being used to obscure the Iranian ownership of at least 19 ships. A number of these ships have made their way, undiscovered, into the Mexican Port of Lazaro Cardenas, which has strong ties to U.S. Port of San Antonio—in theory, the Iranians could be shipping anything almost directly to the United States.

IRISIL has close ties to Iran's Revolutionary Guard Corps and has used Iranian ships to import weapons and components for its nuclear program. What efforts are you undertaking to ensure uncover this web of ownership leading back to Iran? Would the mandatory inclusion of hull numbers on shipping documents help to clarify ownership for unsuspecting shippers?

A.2. Treasury closely monitors IRISL activity and stands ready to notify the public of techniques used by IRISL to conceal Iranian ownership. For example, the Office of Foreign Assets Control (OFAC) issued an advisory in March alerting shippers, importers/exporters and freight forwarders to practices used by IRISL and companies acting on its behalf to evade U.S. and international economic sanctions. OFAC advised that all persons should be alert to the presentation of fabricated vessel names in trade documents and check the bona fides of unfamiliar entities issuing shipping documents. OFAC also advised that all persons exercise enhanced due diligence to ensure that they do not unwittingly process fraudulent shipping documents or facilitate prohibited activities. In addition, over the past 12 months, we have designated more than 100 IRISL vessels, companies, entities, and individuals. On October 27, 2011, we designated 6 front companies in Panama and highlighted how IRISL moved to Panama earlier this year after we uncovered its operations last autumn on the Isle of Man.

The fact that a single IMO number (hull number) is assigned to each vessel for its entire life, and actually etched into the vessel itself at the shipbuilding yard, makes it an extremely useful way to track ships. We include IMO numbers on the OFAC sanctions list and try to encourage others to use and publicize IMO numbers as much as possible to combat IRISL's attempts to obscure its fleet by frequently changing vessel names and flags. Treasury will continue its ongoing efforts to uncover deceptive practices used by IRISL, or other entities acting on its behalf.

Q.3. While our focus has been largely on isolating Iran, there is a vibrant opposition in Iran, that rejects Iran's export of terrorism and the iron-fisted rule of its clerics and leaders and that is seeking our support. U.S. groups that are interested in supporting indigenous Iranian efforts to cultivate democracy and civil society have not been able to do so in a timely manner, to the detriment of our foreign policy goals and to the disadvantage of pro-democracy advocates in Iran, because of long waits to get an OFAC license. What is the reason for such delays? My legislation would mandate an expedited licensing process for the consideration of requests for human rights and democracy-related activities with regard to the Islamic Republic of Iran. Would you support an expedited processing procedure to ensure that these important programs are not hung up in the bureaucracy?

A.3. The Administration's policy is to encourage positive change and promote democracy, human rights, and humanitarian activities in Iran, while maintaining pressure on Iran for its development of nuclear weapons and support of terrorism. In 2006, OFAC published a "Statement of Licensing Policy on Support of Democracy and Human Rights in Iran and Academic and Cultural Exchange Programs" on its Web site, which sets forth a favorable licensing policy under which U.S. persons can request OFAC approval of participation in projects in support of the Iranian people that are otherwise prohibited by OFAC's Iranian Transactions Regulations.

OFAC gives careful consideration to license applications submitted pursuant to this policy to make sure that they qualify for the favorable licensing policy. In all such cases, OFAC seeks foreign policy guidance from the State Department before making a final licensing determination. This interagency process is a critical part of our licensing activities and ensures that regulatory decisions support our foreign policy objectives. As such, while OFAC is amenable to an expedited process for reviewing and granting licenses relating to human rights or democracy-related activities for Iran, the agency is concerned that a proposed hard deadline of 30-days could be problematic in some instances, as it would not allow sufficient time for interagency consultations. The agency proposes that a goal, rather than mandate, of 60 days for such licenses would ensure that decisions be rendered quickly and in line with U.S. foreign policy.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR VITTER FROM DAVID S. COHEN

Q.1. The United States has been focused on Iran's nuclear program for a long time. When Congress passed the 1996 Iran-Libya Sanctions Act, it did so with the aim to compel foreign companies to diverge from trading with Iran. Yet, over the past 15 years despite additional international sanctions and the CISADA being signed last year, a failure to enact sanctions has produced an unmistakable message and precedent of allowing foreign companies to do business as usual with Iran. Allowing Iran to circumvent current laws and become alarming closer to nuclear weapons capability. They (Iran) now have much more efficient centrifuges, are enriching more uranium to 20 percent, and continuing work on militarizing their program.

- What is your agencies assessment of Iran's current nuclear program?
- Additionally, I have seen reports that Iran circumvents current laws by altering the material grade of its gasoline, and continues to use foreign countries that regularly do business with the United States. What can be done to better halt this flow?

A.1. I respectfully defer to the State Department and other agencies that are better positioned than Treasury's Office of Terrorism and Financial Intelligence to provide an assessment of Iran's nuclear program and to best assess what can be done to halt the flow of altered gasoline.

Q.2.a. Last week, the Financial Crimes Enforcement Network (FinCEN) issued a final rule to fulfill Section 104(e) of CISADA. I am deeply disappointed in the rule. The rule requires U.S. banks, only when asked by Treasury, to inquire of their foreign correspondent banks whether they conduct certain prohibited activities related to Iran. Several Senators (Senators Crapo, Vitter, Johanns, Moran, Wicker, and Kirk) on this Committee sent FinCEN a letter in May after the rule was first proposed and expressed concerns that it did not go far enough to implement the letter and spirit of law. Unfortunately, FinCEN choose not to take our advice. As we stated on our letter, it is "inexplicable" that Treasury has interpreted the law to be discretionary.

Under Secretary Cohen, why shouldn't U.S. financial institutions have to certify on a regular basis that to the best of their knowledge their correspondent banking partners do not conduct business with sanctioned Iranian banks or IRGC?

A.2.a. Treasury does not interpret section 104(e) to be discretionary. To the contrary, we interpret section 104(e) as requiring the Secretary of the Treasury to prescribe regulations mandating that domestic financial institutions take one or more actions, one of which is to provide requested reports to Treasury, and we believe that the final rule reflects this obligation. We have focused this reporting requirement on those foreign banks that Treasury has some basis to suspect may be engaged in activities that may be sanctionable under section 104(c) of CISADA. We considered requiring every U.S. bank to provide periodic reports from every foreign bank for which they maintain correspondent accounts, but concluded that we would be better served by a rule that focused on those foreign banks that are of interest for purposes of CISADA. By requiring reports from those U.S. banks that maintain correspondent accounts that are of interest to Treasury for purposes of CISADA implementation, we believe that Treasury will receive the information needed without generating a multitude of unnecessary and uninformative reports.

Moreover, the reporting requirement in the final rule is scalable. Based on the circumstances, it permits Treasury to expand the number of U.S. banks that would be required to file reports, as well as the number of foreign banks from whom information would be sought. Therefore, Treasury may ask any number of U.S. banks about any number of foreign banks, based on the number of foreign banks we determine there is some basis to suspect may be engaged

in activities that may be sanctionable under section 104(c) of CISADA.

FinCEN's final rule has provided Treasury with another tool to implement and enforce CISADA effectively. In addition to the other resources available to Treasury, section 104(e) provides an alternative method of conducting outreach to obtain information from foreign financial institutions and jurisdictions. For example, subsequent to FinCEN's final rule, Treasury issued a number of 104(e) requests to foreign financial institutions through their U.S. correspondent banks. We expect that the responses will provide us with information about these specific banks and Iranian sanctioned banks' activity in those jurisdictions. Furthermore, the 104(e) requests will provide us with an opportunity to engage these foreign financial institutions in the future in the event we become concerned about their activity with Iranian sanctioned banks or the IRGC.

Q.2.b. Under Secretary Cohen, in response to questions for the record at your confirmation hearing, you expressed concern that a limited number of banks may be continuing to engage in activity that could result in findings under CISADA.

Under Secretary Cohen, do you still believe this to be true?

A.2.b. CISADA has been enormously effective in curtailing Iran's access to the international financial system. While Treasury cannot comment on pending investigations, where activity of concern exists Treasury vigorously engages relevant governments and financial institutions about such activity. The overwhelming majority of foreign banks has been responsive to Treasury's outreach and have elected to discontinue their business relationships with sanctioned Iranian banks rather than risk losing their relationships with U.S. financial institutions. While it may yet be necessary to make a finding against an institution under CISADA, an outcome where foreign banks voluntarily sever their ties with U.S.-designated, Iranian-linked financial institutions is equally effective, if not preferable. Nevertheless, Treasury remains ready and willing to utilize the tools provided by CISADA whenever and wherever necessary.

Q.2.c. Under Secretary Cohen, can you or someone from your office please update the Committee or my office (a classified briefing if necessary) on the status of these investigations? Specifically, the number of investigations that are ongoing, and whether there are banks that are facilitating Iranian financial transactions?

A.2.c. Treasury cannot comment on possible or pending investigations under CISADA. We are implementing the financial provisions of CISADA in a fair and robust manner and will continue to engage jurisdictions where financial institutions may be engaged in activity that is sanctionable under CISADA. We would be happy to provide a briefing on our implementation of CISADA.

Q.3. Earlier this year, following a report from the International Atomic Energy Agency on Iran's nuclear program and recent Iranian missile tests, I along with 91 fellow Senators signed a letter to President Obama urging him to sanction the Central Bank of Iran (CBI). The Bank appears to have been heavily involved in the funding of terrorism and proliferation and has assisted numerous

sanctioned entities to bypass sanctions. Secretary Geithner, in response to our letter, wrote, "all options to increase the financial pressure on Iran are on the table, including the possibility of imposing additional sanctions against the CBI." We remain seriously concerned that Iran continues to accelerate its uranium enrichment and ballistic missile programs and that the CBI may be facilitating transactions for sanctioned Iranian banks for illicit activities.

Under Secretary Cohen, Has there been any progress in determining the financial institutions complicitness in the illicit activities? If so, and it is as appears that the CBI is engaged in terrorist funding and proliferation, does your agency plan to designate them as such?

A.3. The Treasury Department remains committed to addressing the full range of Iran's misconduct and increasing the pressure on the Iranian leadership and on the CBI. Recent events—including the disruption of an Islamic Republic of Iran-Qods Force plot to assassinate the Saudi Arabian ambassador to the United States and the IAEA's November 2011 report on Iran's nuclear program—coupled with Iran's continued refusal to meet its international obligations or engage meaningfully and substantively with the United States and the broader international community, have only reinforced our conviction that the pressure track of the dual-track policy must continue to be emphasized. We will work with our partners to isolate and freeze the assets of the CBI, and to reduce our partners' imports of Iranian oil. These actions, taken on a coordinated basis, will constrict Iran's access to the hard currency and revenue that it needs to fuel its illicit activities. We will also implement the new law that, in certain circumstances, imposes financial sanctions on foreign financial institutions that transact with the CBI.

Regarding recent action Treasury has taken to expose the CBI's role in illicit activity, on November 21, 2011 Treasury identified Iran as a jurisdiction of "primary money laundering concern" pursuant to Section 311 of the USA PATRIOT Act. This finding identifies the entire Iranian financial sector for posing an illicit finance risk to the global financial system, and includes not only already designated banks and their branches operating outside of Iran, but also non-designated banks, their foreign affiliates, and the CBI. Unlike past jurisdictional 311 actions whereby Treasury explicitly exempted central banks from the reach of this regulation, the CBI was included in the Section 311 finding on Iran because of the support it provides Iran's designated banks and entities involved in Iran's proliferation activities.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR TOOMEY FROM DAVID S. COHEN

Q.1.a. Last month, you travelled to China where you reportedly warned Chinese financial institutions that they could face sanctions if they do not end certain business with Iran. You were quoted as saying that Chinese financial firms were "as much in jeopardy as a bank anywhere else of being the subject of a Comprehensive Iran Sanctions, Accountability and Divestment Act (CISADA) action."

Is there evidence that Chinese financial institutions have carried out transactions in violation of CISADA?

A.1.a. Consistent with Treasury policy, I cannot comment on possible or pending investigations or enforcement actions.

During my September 24–28 visit to China and Hong Kong, I discussed the provisions of CISADA with both the government and private sector. China is one of more than 45 countries on five continents that Treasury has engaged as part of our outreach to regulators and financial institutions regarding CISADA's authorities, as well as the risks associated with doing business with Iran more generally. It is important that governments and financial institutions around the world understand CISADA and its potential implications for their business with the United States.

Q.1.b. If so, why have the banks not been sanctioned?

A.1.b. Consistent with Treasury policy, I cannot comment on possible or pending investigations or enforcement actions.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR MORAN FROM DAVID S. COHEN

Q.1. In response to questioning about the success of sanctions, you said "no question" sanctions work. While I acknowledge that the sanctions have impacted Iran, they have yet to achieve the fundamental goal, which is to compel Iran to change its behavior and abandon its pursuit of nuclear weapons. Against what metric do you judge the success or failure of sanctions?

A.1. Many in the international private sector have responded to the risks of doing business not only with sanctioned entities and individuals, but also with Iran in general, by severing ties or restricting their Iranian business relationships. Iran's access to much needed foreign investment, financing, and technology to modernize its aging energy infrastructure is declining, which threatens its oil and gas production and export capacity. Because of the sanctions, particularly the energy-related provisions of CISADA, which amended the Iran Sanctions Act, Iran is having difficulty importing refined petroleum from previous suppliers. And Iran's shipping industry, a major conduit for its international trade, has found that international insurance companies are refusing to cover its ships and shipments.

The contrast between Iran's situation in 2005 and today is stark. Prior to Treasury's first action against an Iranian state-owned bank in 2006, Iran had access to financial services from the world's largest and most prestigious financial institutions, allowing it to conduct business in all corners of the globe.

Today, Iran's access to international financial institutions is greatly limited. We know that the Iranian Government is very concerned about the sanctions that are being implemented. Indeed, we have already seen the Iranian Government, including President Ahmadinejad, acknowledge that financial sanctions imposed by the United States are causing serious problems for Iran's banking sector.

Q.2. In August, 91 senators and I wrote a letter to President Obama urging him to sanction the Central Bank of Iran. The Bank

has been heavily involved in the funding of terrorism and proliferation and has assisted numerous sanctioned entities to bypass sanctions. Secretary Geithner, in response to that August letter, said, "all options to increase the financial pressure on Iran are on the table, including the possibility of imposing additional sanctions against the Central Bank of Iran". Before this Committee you said Administration officials were "looking very actively" at sanctioning the Central Bank of Iran. Is there a timetable for making a decision regarding the Central Bank of Iran?

A.2. The Treasury Department remains committed to addressing the full range of Iran's misconduct and increasing the pressure on the Iranian leadership and on the CBI. Recent events—including the disruption of an Islamic Republic of Iran-Qods Force plot to assassinate the Saudi Arabian ambassador to the United States and the November 2011 IAEA's report on Iran's nuclear program—coupled with Iran's continued refusal to meet its international obligations or engage meaningfully and substantively with the United States and the broader international community, have only reinforced our conviction that the pressure track of the dual-track policy must continue to be emphasized. We will work with our partners to isolate and freeze the assets of the CBI, and to reduce our partners' imports of Iranian oil. These actions, taken on a coordinated basis, will constrict Iran's access to the hard currency and revenue that it needs to fuel its illicit activities. We will also implement the new law that, in certain circumstances, imposes financial sanctions on foreign financial institutions that transact with the CBI.

Regarding recent action Treasury has taken to expose the CBI's role in illicit activity, on November 21, 2011 Treasury identified Iran as a jurisdiction of "primary money laundering concern" pursuant to Section 311 of the USA PATRIOT Act. This finding identifies the entire Iranian financial sector for posing an illicit finance risk to the global financial system, and includes not only already designated banks and their branches operating outside of Iran, but also non-designated banks, their foreign affiliates, and the CBI. Unlike past jurisdictional 311 actions whereby Treasury explicitly exempted central banks from the reach of this regulation, the CBI was included in the Section 311 finding on Iran because of the support it provides Iran's designated banks and entities involved in Iran's proliferation activities.

Q.3. Last week, the Financial Crimes Enforcement Network (FinCEN) issued a final rule to fulfill Section 104(e) of the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010. Several Members of the Senate Banking Committee and I had questions about Treasury's draft rule to implement section 104(e), including concerns that not all U.S. financial institutions would have to certify that their correspondent banking partners were not conducting business with sanctioned Iranian entities. How will the rules Treasury issued last week in regard to Section 104(e) of CISADA work in practice? How many foreign banks do you believe are engaged in sanctionable activity? How many information requests to U.S. banks will Treasury issue to get more in-

formation on the foreign banks it has reason to believe are engaged in sanctionable activity?

A.3. The frequency of information requests issued under 104(e) authorities is informed by the availability of information relevant for targeting what to request. The application of the final rule is scalable, so Treasury can ask any number of U.S. banks about any number of foreign banks as is necessary, based on the number of foreign banks there is some basis to suspect may be engaged in activities that may be sanctionable under section 104(c) of CISADA. Treasury made its first round of inquiries regarding certain foreign banks on the date the rule became effective.

For most foreign banks, the choice compelled by CISADA has been a simple one: the clear majority of foreign financial institutions have been extremely responsive to Treasury outreach, and have elected to discontinue their business relationships with sanctioned Iranian banks rather than risk losing their relationships with U.S. financial institutions. While I cannot comment on specific cases, where activity of concern may still exist, Treasury will continue to vigorously engage jurisdictions where financial institutions may be engaged in activity that is sanctionable under CISADA. Treasury remains ready and willing to utilize the tools provided by CISADA whenever and wherever necessary.

Q.4. On October 3, *Bloomberg Markets* magazine ran a story titled, "Koch Brother Flout Law Getting Richer with Secret Iran Sales." The story unfairly singles out Koch Industries for the business a foreign-based, independent subsidiary of Koch Industries legally engaged in with Iran. Although not required by U.S. law, Koch Industries voluntarily put into place a more stringent policy for business with Iran more than 4 years ago, prohibiting all trade with Iran by any of its subsidiaries. Can you tell me how many other U.S. companies have instituted a similar policy? How many U.S. companies have foreign-based, independent subsidiaries that currently do business with Iran?

A.4. We do not have information about the specific number of foreign subsidiaries of U.S. firms that continue to do business with Iran, but we believe that they are the exception rather than the rule. In recent years, many major American corporations have instituted similar policies prohibiting any business with Iran.

Q.5. Despite U.S. and international sanctions, Iran continues to enrich uranium. It now possesses enough enriched uranium that upon further processing, it could build three nuclear bombs. In your view, why have sanctions not stopped Iran from advancing its nuclear program?

A.5. This Administration has attempted to address Iran's continued pursuit of a nuclear program through a dual-track strategy that includes both the offer of a diplomatic solution through negotiations and pressure through sanctions. We believe that this dual-track strategy is necessary to ensure that any future negotiations are constructive and enhance the chance of success.

One of the most important elements of this approach is a broad-based pressure strategy, which includes targeted financial measures designed both to disrupt Iran's illicit activity and to protect the international financial sector from Iran's abuse. Our actions

have focused on key government entities involved in Iran's illicit conduct, including the Atomic Energy Organization of Iran (which oversees Iran's nuclear program) and Aerospace Industries Organization (which oversees Iran's missile industries); nearly two dozen Iranian state-owned banks; the Islamic Revolutionary Guard Corps (IRGC) and its external arm, the IRGC-Qods Force; and, Iran's national maritime carrier, the Islamic Republic of Iran Shipping Lines (IRISL), and its affiliates.

Q.6. What additional steps can the United States and our allies take to convince Iran to verifiably end its nuclear program?

A.6. My colleagues in the Treasury Department and I have aggressively exercised our authorities and worked in close coordination with the State Department to implement CISADA as part of our dual-track policy of addressing Iran's efforts to expand its nuclear program. All options remain on the table as we continue to explore and consider ways to implement the pressure track of our policy.

RESPONSE TO WRITTEN QUESTIONS OF DAVID W. MILLS FROM CHAIRMAN JOHNSON

Q.1. Why haven't any countries been designated, and where are you generally in the process of assessing the major diversion countries—their export control laws, ports and other transportation hubs, and control regimes—in Asia and the Middle East?

A.1. Under the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, the State Department has the lead on designating Destinations of Diversion Concern. The Bureau of Industry and Security (BIS) has requested that State respond to this question.

Q.2. Can you describe the current level of U.S. international cooperation, or lack thereof, with the international community in working to ensure that sensitive materials do not end up in Iran?

A.2. BIS engages with a variety of foreign governments on Iranian procurement issues, both directly and as part of multi-agency U.S. Government delegations. These engagements have generated significant successes in the fight against illicit Iranian procurement: Foreign governments have enacted export control laws, cooperated in multi-national investigations, brought foreign prosecutions and assisted in U.S. prosecutions, including extraditing suspects to the United States. Global cooperation to stymie Iranian procurement has never been higher.

BIS has Export Control Officers (ECO) in six foreign locations—Abu Dhabi, Beijing, Singapore, Hong Kong, New Delhi, and Moscow. These ECOs are BIS enforcement agents temporarily assigned to the International Trade Administration's U.S. & Foreign Commercial Service. The principal mission of the ECOs is to ensure that U.S. dual-use items (commodities, software, and technology) entering their region are used in accordance with U.S. export control laws and regulations. Compliance verification is accomplished through targeted end-use checks and by working with the host governments and local businesses to ensure that they understand and comply with U.S. export control laws and regulations. ECOs also work with host governments and local businesses to provide infor-

mation and appropriate training to facilitate better understanding of U.S. dual-use export control requirements, and to help develop indigenous export control capabilities.

Other agencies such as the Department of State also work with foreign governments to thwart the export of sensitive items to Iran.

Q.3. As you work to ensure that goods services or other technologies do not end up in Iran, what do you see as the greatest areas of concern?

A.3. The area of greatest concern continues to be deceptive practices used by Iranian front companies to illegally obtain U.S.-origin items. Iran employs a large network of procurement agents that set up front companies in various countries. These front companies feed U.S. exporters a steady stream of orders with false end-use information causing U.S. companies to ship items destined for Iran under the mistaken belief that they are destined for legitimate businesses in third countries. Identifying and disrupting these networks is a top BIS priority and we have used a variety of tools to attack the problem, including bringing criminal and administrative charges, placing front companies and related persons on the BIS Entity List and imposing Temporary Denial Orders.

Q.4. What additional tools or resources do you think would be most useful for the Commerce Department as it seeks to enforce CISADA and other laws in this area?

A.4. The Administration's export control reform initiative envisions the eventual creation of a single licensing agency as well as a consolidated enforcement unit that would merge the criminal law functions of BIS's Export Enforcement and U.S. Immigration and Customs Enforcement's export enforcement unit into a single entity within ICE. In advance of this ultimate goal, however, BIS's Export Enforcement would benefit greatly from permanent, independent authorities in four key areas. Currently, we must rely on complex arrangements with our sister agencies to conduct investigations under their authorities in these areas. These areas are:

- Overseas investigative authority—The BIS Office of Export Enforcement (OEE) currently conducts overseas investigations though a complex arrangement with the Department of Homeland Security. Having permanent, independent overseas investigative authority would reduce the bureaucratic steps OEE currently has to take, thereby streamlining the investigative process. The additional authority to conduct overseas investigation would not require additional appropriations. Having permanent, independent overseas investigative authority would remove bureaucratic inefficiencies and allow streamlined use of BIS's current resources.
- Undercover investigative authority—Undercover authority is a sophisticated investigative tool that is used against individuals and entities that attempt to evade detection and to do harm to United States' interests. BIS is currently dependent on the participation and support of other law enforcement agencies in undercover operations and is thus limited by the priorities, resources and availability of those agencies. Providing BIS with independent undercover investigative authority would remove

this impediment. This proposed authority also would not require additional appropriations for BIS. BIS currently has agents who have gone through undercover certification training. Other agents could be trained on an as-needed basis utilizing current appropriations. The additional undercover authority would allow OEE agents to participate in undercover operations as full law enforcement partners.

- Forfeiture authority and authority to participate in the Treasury Forfeiture Fund—The independent authority to obtain forfeiture of the fruits and proceeds of export violations and to participate in the Treasury Forfeiture Fund would provide BIS with the practical ability to attack the underlying economic motives for export violations, and deprive violators of the profits of their illegal activities.
- Wiretapping authority—Wiretap authority would give OEE access to the inner workings of export control conspiracies as they are occurring, thereby providing invaluable evidence for a prosecutor seeking to prove the elements of a conspiracy, including evidence to present to a jury about the intent of the parties.

Additional Material Supplied for the Record

2011 IMF Article IV Consultation Report Comparisons: US and Iran

	US	Iran
Background	Economy continues to recover at a modest pace, but remains vulnerable. However, there was a significant growth slowdown in first half of 2011, which may be a result of transient factors. Housing and labor markets and weak consumption have delayed recovery. Specifically, the lack of residential construction is considered a main roadblock to faster recovery.	Growth recovered on the strength of international oil prices, strong rebound in agricultural sector and rapid credit expansion. Inflation was contained while fiscal and external positions improved. The sharp increase in the domestic prices of energy products on December 19, 2010 is estimated to have reduced the cost of subsidies by about 15 percent of GDP (US$60 billion)
Real GDP Growth (factor cost; percentage change)		
2010/11	2.5****	3.2**
2009/10	2.9	3.5
2008/09	-2.6	.6
Central Government balance (in percent of GDP)		
2010/11	-9.3	1.7**
2009/10	-9.6	1.0
2008/09	-11.4	.7
Current Account Balance (in percent of GDP)		
2010/11	-3.2	6.0**
2009/10	-3.2	3.0
2008/09	-2.7	6.5
Debt held by public (in percent of GDP)		
2010/11	70.2	5.4**
2009/10	62.1	5.9
2008/09	53.5	6.1
Gross National Savings (in percent of GDP)		
2010/11	12.3	43.6**
2009/10	11.6	40.4
2008/09	10.9	43.9

*Iran's fiscal year ends on March 20.
**Estimate
***According to the draft of the IMF's World Economic Outlook 2.5% was lowered to 1.6%
("IMF slashes U.S. GDP forecast: report, http://www.reuters.com/article/2011/08/29/us-imf-forecasts-idUSTRE77S30S20110829)
****Data for the first quarter

	US	Iran
Overall outlook/Projections	Outlook is for continued modest growth. With sluggish private domestic demand economic slack remains large: in particular, the unemployment rate has declined only modestly from its recent peak. As a result, inflation pressures will likely remain contained, despite the recent firming in core inflation.	Outlook is positive with growth expected to rebound in the medium-term due to the high oil prices and potential efficiency gains from subsidy reform, however it is subject to downside risks. With a more labor-intensive growth (that is, a higher elasticity of employment to growth), unemployment could decline in the medium-term.
Recommended Policies	Although macroeconomic policies have been supportive, fiscal policy will face future constraints and a cautious approach is needed to decrease macroeconomic support is needed. It is critical that public debt be placed on a sustainable path; debt-to-GDP ratio should be stablized by 2015 and reduced after. Fiscal adjustment should start in FY2012 to guard against the risk of a disruptive loss in fiscal credibility, and encompass cuts in mandatory spending, as well as revenue increases.	Save any oil revenue windfall and sterilize the related foreign exchange inflows. Full removal of subsidies and steadfast implementation of the ongoing tax and customs reforms are essential to further reduce Iran's dependency on oil and natural gas.

Sources-

*IMF Executive Board Concludes 2011 Article IV Consultation with the Islamic Republic of Iran," http://www.imf.org/external/np/sec/pn/2011/pn11107.htm
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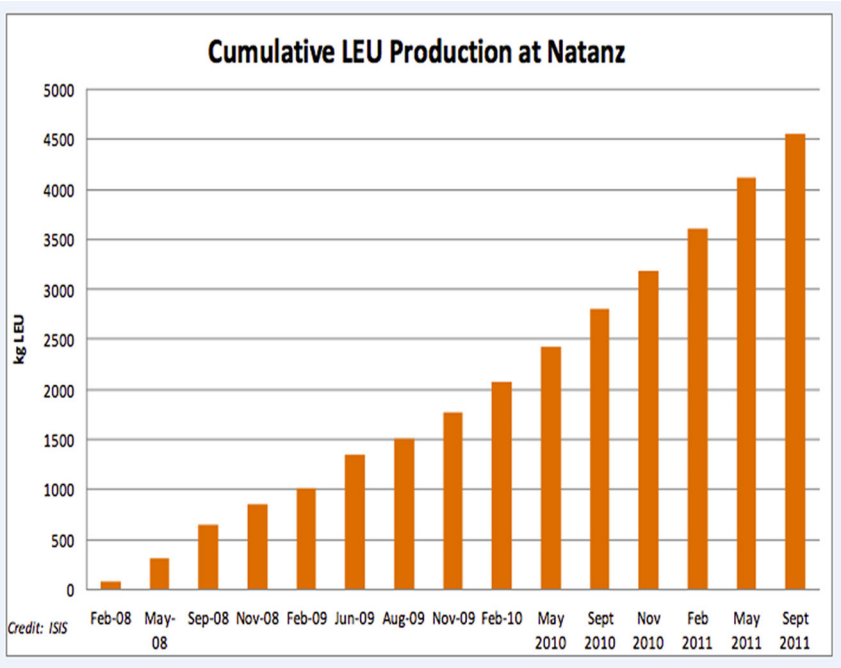
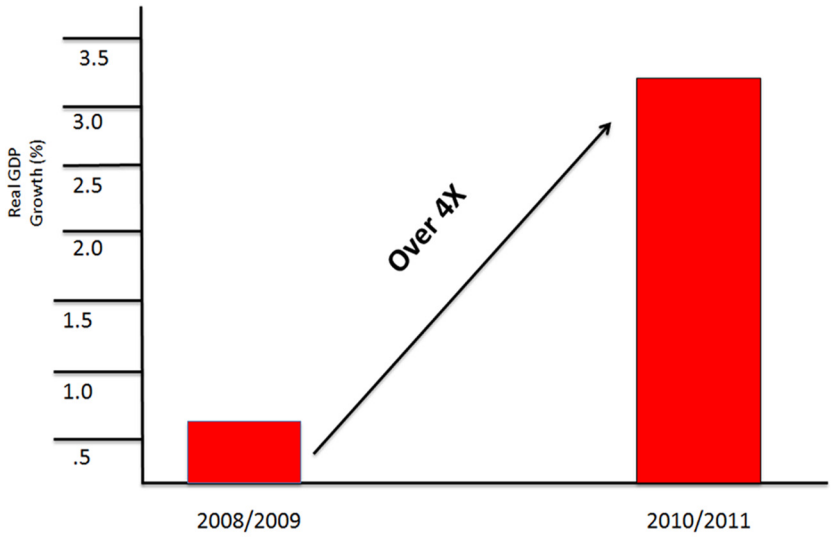


The Iranian Economy



* Credit: The International Monetary Fund