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Senate Committee on Banking, Housing and Urban Affairs

"Iran Sanctions: Ensuring Robust Enforcement, and Assessing Next Steps"

INTRODUCTION

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

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

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

INCREASING PRESSURE ON IRAN

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

Designating Iranian Banks and their Financial Partners

When I last appeared before the Committee, I described the Administration's extensive efforts to implement the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010

(CISADA). CISADA calls for the exclusion from the U.S. financial system of any foreign financial institution that knowingly facilitates significant transactions or provides significant financial services for Iranian financial institutions designated in connection with Iran's nuclear or missile proliferation activity, or its support for international terrorism.

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

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

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

The logic behind the measures in the NDAA is two-fold. First, it seeks to isolate the CBI from the international financial system – a process begun in November 2011 when we designated the entire jurisdiction of Iran as a "primary money laundering concern" under Section 311 of the USA PATRIOT Act. These actions undercut the CBI's ability to facilitate the conduct of designated Iranian banks and to support Iran's illicit activities within Iran and abroad.

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

Locking Up Iran's Oil Revenues

The impact of the NDAA was further enhanced by a powerful measure contained in the Iran Threat Reduction and Syria Human Rights Act of 2012 (TRA) that entered into effect on

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

February 6, 2013. Under Section 504 of the TRA, any country that has received an NDAA "significant reduction" exception – meaning that its banks can pay Iran for its significantly reduced oil imports without risk of correspondent account sanctions – must now ensure that those revenues are used only to facilitate bilateral trade or humanitarian trade. Iranian oil-import revenue cannot be repatriated to Iran, transferred to a third country, or used to facilitate third-country trade, except for humanitarian purchases. This is a very powerful provision, as it effectively "locks up" Iranian revenues in the few countries that still buy Iranian oil and denies Iran the free use of its diminishing oil revenue.

Tightening the Sanctions Regime Through Executive Orders

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

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

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

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

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

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

In July 2012, the President issued E.O. 13622, which enhances the NDAA by authorizing sanctions on foreign banks and persons that facilitate the activities of, or provide material support to, the National Iranian Oil Company (NIOC) or its energy-trading subsidiary, the Naftiran Intertrade Company (NICO), or that facilitate the acquisition – from any party – of Iranian petroleum, petroleum products, or petrochemicals. This authority also gives us the ability to target those who provide material support to the Central Bank of Iran or who sell gold to the Government of Iran. My colleagues at the State Department imposed sanctions on two petrochemical companies last week under this order, and we have used this measure to important effect in our engagement with foreign partners, warning countries about the risk of undertaking this conduct and, we believe, deterring it.

Expanding Energy, Shipping, and Shipbuilding Sanctions

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

RECENT ADMINISTRATION ACTIONS

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

WMD Proliferation

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

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

Terrorism

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

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

Syria

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

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

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

Human Rights

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

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

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

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

Sanctions Evasion

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

IMPACTS ON IRAN

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

Petroleum Sector Impacts

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

Shipping Sector Impacts

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

Economic Impacts

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

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

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

We have also begun to see the impact of the bilateral trade restriction in Section 504 of the TRA, which went into effect in February. This measure has limited Iran's access to its foreign exchange reserves and impeded the Government of Iran's ability to support the rial. Supported by our extensive outreach efforts, this powerful provision is rendering Iran's reserves increasingly inaccessible.

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

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

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

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

NEXT STEPS

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

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

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

Increasing the Government of Iran's Isolation

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

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

Targeting Additional Sources of Revenue

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

Engaging with International Partners

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

Aggressive Enforcement

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

CONCLUSION

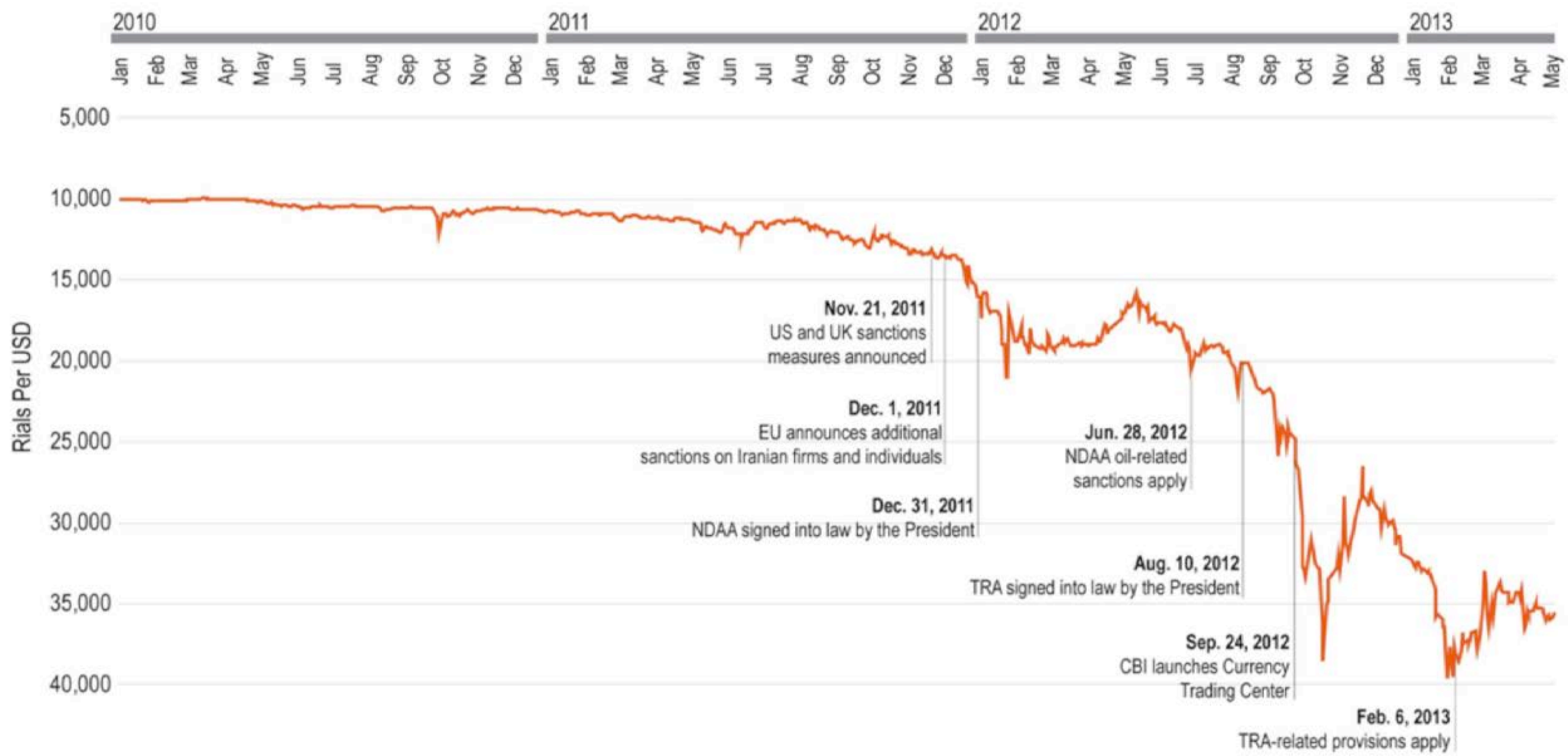
Despite our efforts to isolate and pressure Iran, we know there is far more to do.

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

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

THE DEPARTMENT OF THE TREASURY

Currency Sharply Weaker Over Last Two Years



Source: Foreign Press

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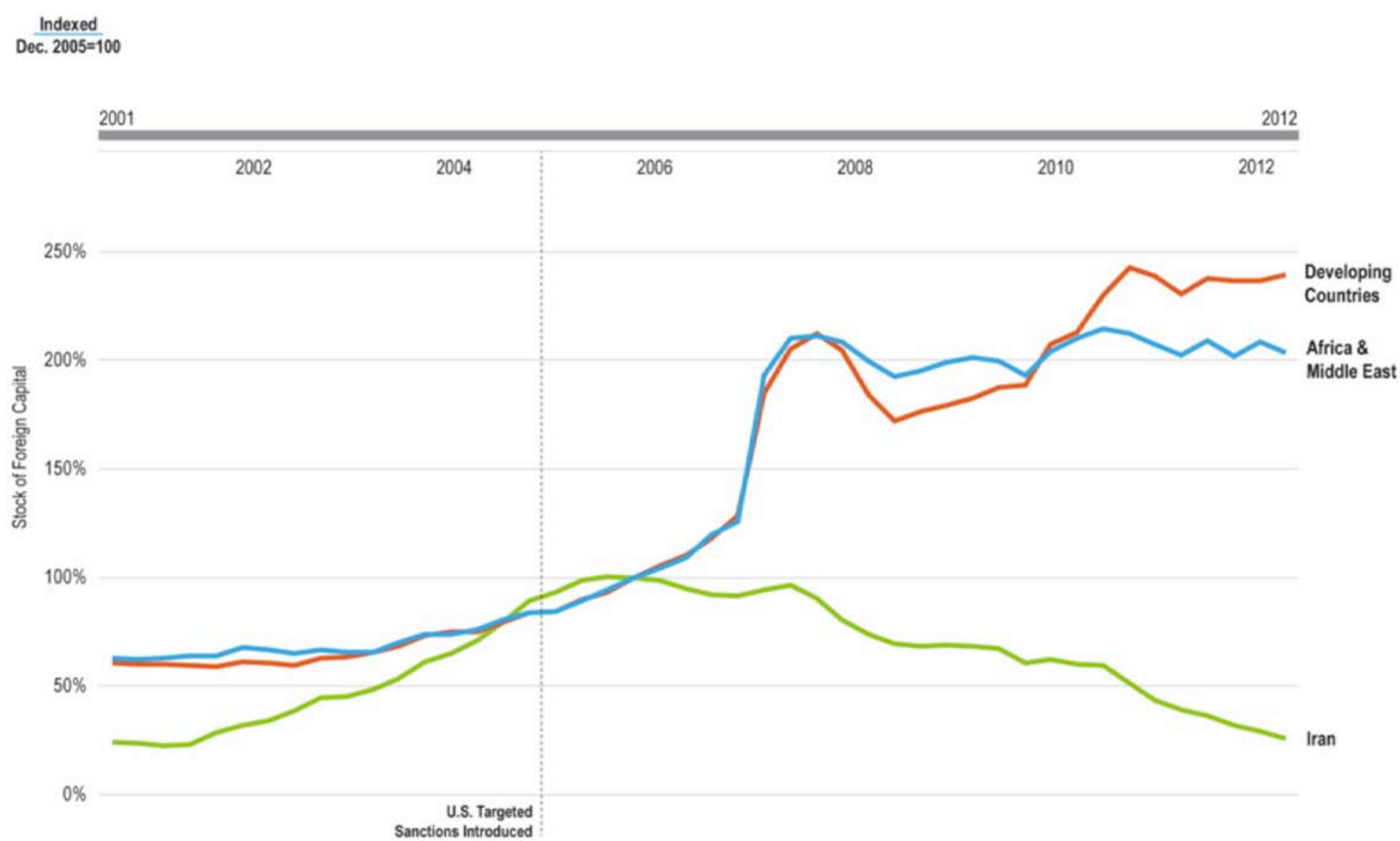
Foreign Capital Shuns Iran as Sanctions Bite



Source: Bank for International Settlements (BIS). Includes data provided by banks in 43 BIS reporting countries, which do not include China and Russia.
Note: Data through December 2012