

IRAN POLICY IN THE AFTERMATH OF U.N. SANCTIONS

HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS

UNITED STATES SENATE

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TUESDAY, JUNE 22, 2010

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The committee met, pursuant to notice, at 9:33 a.m., in room SD-419, Dirksen Senate Office Building, Hon. John F. Kerry (chairman of the committee) presiding.

Present: Senators Kerry, Feingold, Boxer, Menendez, Cardin, Casey, Webb, Shaheen, Kaufman, Gillibrand, Lugar, Risch, Barrasso, and Wicker.

OPENING STATEMENT OF HON. JOHN KERRY, U.S. SENATOR FROM MASSACHUSETTS

The CHAIRMAN. The hearing will come to order.

I just wanted to take a minute as we start to respond to remarks made by General McChrystal and his staff in a magazine article. I had a conversation with General McChrystal about a half hour ago and emphasized to him that I think obviously, those are comments that he's going to have to deal with with respect to the Commander in Chief, his Vice President, and his National Security staff.

I have enormous respect for General McChrystal, I think he's a terrific soldier, and this is a critical moment in Afghanistan. And as far as I am concerned, personally, the top priority is our mission in Afghanistan and our ability to proceed forward, competently.

It will be up to the President of the United States, as Commander in Chief to make the decision as to whether or not he and his national security staff feel that they can do that. But my impression is that all of us would be best served by just backing off and staying cool and calm and, you know, not succumbing to the normal Washington twitter about this for the next 24 hours. We have troops on the front lines, we have a major mission that we're in the middle of and I think the priorities of that mission are best served by letting the President and his top general have their conversation and make a determination as to how we proceed forward.

I want to thank you for coming this morning to discuss the next steps in America's policy toward Iran. This is as critical an issue as we could face. The potential of a nation securing a nuclear weapon when it behaves as outside of the norm of international behavior as Iran has chosen to behave, raises serious national security concerns, not just for the United States, but for many other countries.

And I know that regionally, from my meetings with leaders throughout the region, they are deeply concerned about it. There is not a leader in the Gulf States or the Arab world who hasn't expressed concern about the potential of a nuclear Iran.

Today, we are privileged to welcome two of the principal architects of our policy toward Iran: Ambassador William Burns, Under Secretary of State for Political Affairs; and Mr. Stuart Levey, Under Secretary of the Treasury for Terrorism and Financial Intelligence.

This hearing comes at a crucial moment in our efforts to curtail Iran's nuclear ambitions. All of us understand the stakes: A nuclear-armed Iran would pose an intolerable threat to our ally, Israel, risk igniting an arms race in what is already the world's most dangerous region, and undermine our global effort, which we have just taken significant steps to underscore with the New START Treaty, to halt the spread of nuclear weapons.

That's why, 2 weeks ago, the U.N. Security Council passed Resolution 1929, widening the scope and scale of international sanctions against Iran. It expands sanctions against the Revolutionary Guard Corps, subjects Iranian vessels to inspection on the high seas, bans most categories of arms sales to Iran, and restricts the kind of investments that are allowed in Iran.

Resolution 1929 also contains a number of nonmandatory measures which give the Treasury and State Departments important new leverage to persuade financial institutions, oil companies, and other countries to divest from Iran. I want to congratulate all of those who have been involved in this impressive diplomatic effort. I know it took a lot of personal work, a lot of sitting down and working through the possibilities with many countries, and particularly, obviously, with the Perm-5, and among those, China and Russia.

As we gather this morning, Congress is also finalizing legislation that contains a number of tough new economic penalties aimed at persuading Iran to change its behavior. Among other measures, it targets firms that sell refined petroleum to Iran or that deal with the Revolutionary Guard.

These steps to increase pressure are necessary, not because we want to target Iran, but because Iran itself has decided to continue to defy the international community, the International Atomic Energy Agency, and the U.N. Security Council. Iran's publicly disclosed stocks at its Natanz enrichment facility now include more than 2,400 kilograms of reactor-grade low enriched uranium. I think I am correct in saying that, at the time that the original deal was offered for taking the enrichment out of Iran, there were somewhere around 1,600 or 1,700 kilograms. So, there's been a growth in the amount of available nuclear fuel that they have, and that growth narrows the window with respect to their ability to break out in terms of nuclearization.

That is enough feedstock, the 2,400 kilograms, is enough feedstock for two nuclear weapons, though it's important to note that Iran, in order to achieve that, would have to first expel inspectors, and then enrich that materiel to the much higher level required for weapons purposes, and cross separate weaponization hurdles after they've done that. So, it is especially troubling that Iran has

recently begun enriching small quantities of uranium to a concentration of around 20 percent, crossing yet another nuclear threshold.

If Iran continues much further down this path—and there is reason through its prior actions to believe that it intends to—then a later move to produce bomb-grade uranium would be significantly easier and faster.

Given Iran's dangerous progress, some will argue that engagement has been wasted. Well, we all wish Tehran's response had been different. But, frankly, our ability to secure a new resolution at the United Nations, and our ability to persuade allies to go still further in pressuring Iran came about because we were prepared to engage and show our willingness to have engagement over some period of time. And it is the exhaustion of patience with that effort to engage, that has, in fact, helped to bring a reluctant China and Russia to the table.

In the end, though, the true test of our policy will not be pressure applied, but behavior changed. Recent experience suggests that neither sanctions nor engagement alone will convince Iran to abandon its nuclear program. Only by combining both pressure and diplomacy into a comprehensive and coordinated strategy will we have a chance at altering Iran's behavior.

Now, there's no guarantee that Iran will not continue to reject our diplomatic overtures. And that will present an opportunity to turn the pressure even higher. But given the stakes involved, if there is an opening, we must be willing to explore it. When I was recently in Syria, President Assad talked to me about the possibilities for that kind of an opening, and for the possibilities of even building on Iran's initial offer. I know the administration will look at any opportunity to legitimately try to do so.

But the current situation brings us to the heart of the questions at today's hearing. Given the failure of the previous three U.N. Security Council resolutions to deter Iran, the pregnant question is, How will this one be different? How much time do we have and how long will it take for these sanctions to have an impact? What are the real redlines for the Iranian nuclear program and what consequences are we willing to impose if Iran crosses those redlines?

We need to articulate an end state that is rigorous enough from a nonproliferation standpoint, but also has some prospect of being acceptable to both parties. America and our allies have put proposals on the table. The June 2008 proposal by the P5+1 to Iran, endorsed by both the Bush and Obama administrations, was reiterated this month as an annex to Resolution 1929. Last October's proposal to take 1,200 kilograms out of Iran for further enrichment for the Tehran Research Reactor held a lot of promise. But Iran failed to provide a concrete response until the eleventh hour, on the eve of new U.N. sanctions, even while continuing to enrich uranium to 20 percent, and having already grown the amount that it had to that 2,400 kilograms. So, we look forward to hearing from our witnesses today on the status of each of these initiatives.

We also need to understand how our efforts play into Iran's volatile domestic politics. We need to take care that efforts to deter Iran's nuclear program don't come at the expense of the Iranian

people, who may yet emerge as a force for moderation within Iran. We recently passed the 1-year anniversary of Iran's flawed Presidential elections. In the unrest that followed, Iranian security forces were responsible for widespread violence and for abuse against their own people. Dozens of democracy activists were killed and thousands more thrown in jail without due process.

Three American citizens, Josh Fattal, Sarah Shourd, and Shane Bauer, remain in prison 11 months after being jailed for straying onto Iranian soil and the whereabouts of Robert Levinson remains unknown more than 3 years after he went missing in Iran. So, we will continue to speak up for the rights and well-being of the Iranian people, but also, of those Americans being held in Iranian custody.

In the interest of time, I'm not going to recite the long and impressive resumes of our witnesses, other than to note that they are two of the best public servants that we have in government today.

And before I introduce them, I want to say one other word about Iran. Any history, any reading of the history of Iran has to elicit from the United States some statement of responsibility for the events that took place in the early 1950s with the CIA's involvement in a change of government effort there. And that is a longlasting and deep memory in the Iranian people, it's something we don't always think about.

In addition to that, the Iranian people have an extraordinarily accomplished, long, long, history in terms of civilization, a lot longer than the United States of America. And their contributions to civilization in so many things, in science and art, in discoveries, are quite extraordinary. It would be wonderful if we could move beyond the repression of this current administration to embrace that history and to see Iran take a more legitimate and rightful place in the context of that global history.

I think Ambassador Burns and Mr. Levey both understand that, but their task is to hold the process accountable in these days. And Ambassador Burns' sustained diplomacy over the course of many months, working closely with Ambassador Susan Rice in New York, was absolutely instrumental in securing the passage of the U.N. Security Council Resolution 1929.

And Mr. Levey's efforts have been very significant. The Treasury Department is not as well known in its engagement, here, but it's a very, very significant one. And their ability to be able to dissuade international banks and businesses from doing business with Iran has had a significant impact, and shown some significant results already.

So, gentlemen, we welcome the both of you, we thank you for your work and your appearance here today and look forward to your testimony.

Senator Lugar.

**OPENING STATEMENT OF HON. RICHARD G. LUGAR,
U.S. SENATOR FROM INDIANA**

Senator LUGAR. I thank you, Mr. Chairman, for holding this important hearing on United States policy toward Iran. Today, our examination occurs against the backdrop of several significant developments.

First, the U.N. Security Council adoption of Resolution 1929 on June 9 added incrementally to three previous rounds of U.N. sanctions against Iran. This was followed on July 17 by the European Union's announcement of new sanctions, most notably a ban on investment by companies in Iran's oil and gas industry.

In addition, June 12 marked the 1-year anniversary of Iran's disputed Presidential elections and the brutal repression of the protests that ensued. I would just say the anniversary serves as a reminder of the values we Americans hold dear and to which Iranian citizens aspire: freedom of expression, freedom of assembly, and the freedom to choose our government through transparent, fair elections.

As we debate as to how most effectively to constrain Iran's nuclear ambitions, it is important to keep in mind those who continue to pay a personal cost for expressing their opposition to the Iranian regime.

Iran represents a direct threat to United States national security, as well as to the security of Israel and that of our other friends in the region. It has long provided materiel and financial support to terrorist organizations, such as Hezbollah in Lebanon and Hamas in the Gaza Strip. Concerns about this activity were augmented earlier this year by reports of Iran's transfer of long-range rockets to Hezbollah via Syria.

The exact status of Iran's nuclear program and the degree of progress it has made toward a potential nuclear weapon continue to be debated. But Tehran clearly is not complying with international nonproliferation regime. The latest report of the Director General of the International Atomic Energy Agency pointed to "Iran's continued failure to comply with its international obligations," and noted its "sustained lack of cooperation with the IAEA." The revelation last year of Iran's clandestine enrichment facility was but one case in point.

Restraining Iran's nuclear program requires significant cooperation with allies and partners, most of whom have commercial interests with Iran and independent views about the Tehran regime. The progress this month toward broader international sanctions was welcome, but a sanctions strategy is likely to require much more work. For example, as additional countries in Europe, Asia, and elsewhere expand sanctions, what efforts are being made to persuade other nations—particularly China—to forgo the opportunity to substitute their own investment and trade for that which is being withdrawn? Greater international unity is vital, not only to materially inhibit Iran's nuclear program ambitions and raise the costs of Iran's noncompliance, but also to demonstrate international resolve that can help deter other states from violating NPT commitments and pursuing nuclear weapons.

While the administration was engaged in negotiations over international sanctions, Congress has deliberated on legislation that would expand unilateral U.S. sanctions toward Iran. Although we are grateful for the briefings on this matter by administration officials, including Under Secretary Bill Burns, one of our witnesses today, it is past time for the administration to weigh in with a concrete response to this legislation. What provisions are supported or opposed by the administration, and what changes does it rec-

commend? How would additional U.S. unilateral sanctions affect the ongoing campaign to construct a more comprehensive system of international sanctions?

The administration is conducting a review of existing United States sanctions on Iran. What lessons from this review can be applied to the new measures? I have my own reservations about certain provisions of this legislation, but I look forward to hearing from our witnesses today on the administration views.

Beyond sanctions, I am hopeful that the witnesses will shed light on the administration's broader strategy. At what point will President Obama's offer of engagement reach the end of its shelf-life? What will become of the P5+1 track? Is the administration considering steps to further isolate the regime in Tehran? To what extent has the need to isolate Iran been elevated on the bilateral agenda with countries that remain friendly with Tehran?

I look forward to hearing our witnesses' views. To the extent that some of these discussions would be more appropriately held in a classified setting, I would also welcome that opportunity at a future date.

We thank you for coming, and I thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Lugar. I think that, together hopefully we have framed the questions and the backdrop for the hearing today if, indeed, as it could easily be that some of questions wind up taking us to a place that is classified. We'll just sort of set those aside, mark them, but we would like to go into a classified session, then, because I would like to make sure we make that part of the record.

So, we welcome your testimony, again. Your full testimonies will be placed in the record as if read in full.

We look forward to any summary you would like to make.

Secretary Burns, why don't you lead off?

STATEMENT OF HON. WILLIAM J. BURNS, UNDER SECRETARY FOR POLITICAL AFFAIRS, DEPARTMENT OF STATE, WASHINGTON, DC

Ambassador BURNS. Thank you very much. Chairman Kerry, Senator Lugar, and members of the committee, good morning and thank you very much for the opportunity to appear before you today.

The passage of United Nations Security Council Resolution 1929, 2 weeks ago established the most comprehensive international sanctions that the Government of the Islamic Republic of Iran has ever faced. It reinforces the determination, not only of the United States, but of the rest of the international community to hold Iran to its international obligations and to prevent it from developing nuclear weapons.

At this critical moment as we vigorously implement Resolution 1929 and use it as a platform upon which to build further measures by the European Union and other partners, it is important to take stock of what's at stake and where we go from here. Let me start with the obvious. A nuclear-armed Iran would severely threaten the security and stability of a part of the world crucial to our interests, and to the health of the global economy. It would seriously undermine the credibility of the United Nations and other

international institutions, and seriously undercut the nuclear non-proliferation regime at precisely the moment we are seeking to strengthen it. These risks are only reinforced by the wider actions of the Iranian leadership, particularly its longstanding support for terrorist groups, its opposition to Middle East peace, its repugnant rhetoric about Israel, the Holocaust, and so much else, and its brutal repression of its own citizens.

In the face of those challenges, American policy is straightforward: we must prevent Iran from developing nuclear weapons; we must counter its other destabilizing actions in the region and beyond; and we must continue to do all we can to advance our broader interests in democracy, human rights, and development across the Middle East.

President Obama has made clear repeatedly—including in his statement on the adoption of Resolution 1929—that we will stand up for those rights that should be universal to all human beings, and stand with those brave Iranians who seek only to express themselves freely and peacefully. We'll also continue to call on Iran to release immediately Shane Bauer, Sarah Shourd, and Josh Fattal, and all other unjustly detained American citizens, and we continue to call upon Iran to determine the whereabouts and ensure the safe return of Robert Levinson.

We've pursued out broad policy goals over the past 18 months through a combination of tough-minded diplomacy, including both engagement and pressure, and active security cooperation with our partners in the gulf and elsewhere. We've sought to sharpen the choices before the Iranian leadership. We've sought to demonstrate what's possible if Iran meets its international obligations and adheres to the same responsibilities that apply to other nations and we've sought to intensify the cost of continued defiance and to show Iran that pursuit of a nuclear weapons program will make it less secure, not more secure.

Last year, we embarked on an unprecedented effort at engagement with Iran. We did so without illusions about whom we were dealing with or the scope of our differences over the past 30 years. Engagement has been both a test of Iranian intentions, and an investment in partnership with a growing coalition of countries deeply concerned about Iran's nuclear ambitions. We sought to create early opportunities for Iran to build confidence in its intentions. In Geneva, last October, we supported—along with Russia and France—a creative proposal by the International Atomic Energy Agency to provide fuel for the production of medical isotopes at the Tehran research reactor. Unfortunately, what appeared to be a constructive beginning in Geneva was later spurned by the Iranian leadership. Instead, Iran pursued a clandestine enrichment facility near Qom, announced plans for 10 new enrichment facilities, flatly refused to continue discussions with the P5+1 about international concerns about its nuclear program, provocatively expanded enrichment to near 20 percent, in further violation of U.N. Security Council resolutions, and drew new rebukes for the IAEA in the Director General's most recent report a few weeks ago.

Iran's intransigence left us no choice but to employ a second tool of diplomacy—economic and political pressure. Passage of Resolution 1929 is the essential first step in that effort. The provisions

of 1929 go well beyond previous sanctions resolutions. For the first time, it bans significant transfers of conventional weapons to Iran. For the first time, 1929 bans all Iranian activities related to ballistic missiles that could deliver a nuclear weapon. For the first time, it imposes a tough framework of cargo inspections, to detect and stop Iran's smuggling and acquisition of nuclear materials and other illicit items. It prohibits Iran from investing abroad in sensitive nuclear activities such as uranium mining. It creates important new tools to help block Iran's use of the international financial system to fund and facilitate nuclear proliferation. For the first time, it highlights, formally, potential links between Iran's energy sector and its nuclear ambitions, and it targets, directly, the role of the Islamic Revolutionary Guard Corps in Iran's proliferation efforts, adding 15 specific IRGC entities to the list of designations for asset freezes.

Resolution 1929 provides a valuable new platform, and valuable new tools. Now, we need to make maximum use of them. My colleague, Bob Einhorn, will lead this effort for the State Department. He'll work closely with Under Secretary Levey, whose own leadership on these issues for a number of years has been extraordinarily effective. Already, the European Union has acted strongly to follow up 1929. Its leaders decided last Thursday to take a series of significant steps, including a prohibition of new investment in the energy sector, and bans on the transfer of key technology, as well as tough measures against Iranian banks and correspondent banking relationships.

Australia has indicated similar resolve, and other partners will follow suit, shortly. Meanwhile, as Stuart will discuss in more detail, we continue to have success in persuading a whole variety of foreign companies that the risks of further involvement in Iran far outweigh the benefits.

As all of you know very well, the administration has been working closely with the Congress to help shape pending legislation so that it maximizes the impact of the wider international sanctions that we are putting in place.

The net result of this combination of economic pressures is hard to predict. It will certainly not change the calculations of the Iranian leadership overnight, nor is it a panacea. But it is a mark of their potential effect that Iran has worked so hard in recent months to avert action in the Security Council, and tried so hard to deflect or divert the steps that are now underway.

Iran is not 10 feet tall, and its economy is badly mismanaged. Beneath all of their bluster and defiant rhetoric, its leaders understand that both the practical impact of Resolution 1929 and its broader message of isolation create real problems for them. That is particularly true at a moment when the Iranian leadership has ruthlessly suppressed—but not eliminated—the simmering discontent bubbled over so dramatically last summer. Millions of Iranians went to the streets last June, and in smaller numbers over the course of the ensuing months, with a simple but powerful demand of their leaders: That their government respect the rights enshrined within its own constitution, rights that are the entitlement of all people; to voice their opinions, to select their leaders, to assemble without fear, to live in security and peace. A govern-

ment that does not respect the rights of its own people will find it increasingly difficult to win the respect that it professes to seek in the international community.

Sanctions and pressure are not an end in themselves. They are a complement, not a substitute, for the diplomatic solution to which we and our partners are still firmly committed. We continue to acknowledge Iran's right to pursue civilian nuclear power, but with that right comes a profound responsibility to reassure the rest of the international community about the exclusively peaceful nature of its intentions.

Facts are stubborn things, and it is a striking fact that Iran is the only NPT signatory in the world today that cannot convince the IAEA that its nuclear program is intended for purely peaceful purposes. The Foreign Ministers of the P5+1 countries made clear in the statement they issued on passage of Resolution 1929 that we remain ready to engage with Iran to address these concerns. E.U. High Representative Ashton has written directly to an Iranian counterpart to convey this readiness. We've joined Russia and France in expressing to IAEA Director General Amano a number of concerns about Iran's latest proposal on the Tehran research reactor, and the TRR remains a potential opportunity in the context of the broader P5+1 efforts to address Iran's nuclear program. The door is open to serious negotiation, if Iran is prepared to walk through it.

The road ahead will not be easy, and the problems before us posed by Iran's behavior are urgent. But there is growing international pressure on Iran to live up to its obligations and growing international isolation for Iran if it does not. Resolution 1929 helps significantly to sharpen that choice. We will work very hard to implement and build upon it. We are absolutely determined to ensure that Iran adheres to the same responsibilities that apply to other nations. Too much is at stake to accept anything less.

Thank you.

[The prepared statement of Ambassador Burns follows:]

PREPARED STATEMENT OF AMBASSADOR WILLIAM J. BURNS, UNDER SECRETARY OF STATE FOR POLITICAL AFFAIRS, U.S. DEPARTMENT OF STATE, WASHINGTON, DC

Chairman Kerry, Ranking Member Lugar, distinguished members of the committee, thank you very much for inviting me to be here before you today.

This hearing comes at a pivotal moment for U.S. policy toward Iran. Only 2 weeks ago, we adopted United Nations Security Council Resolution 1929, the sixth such resolution on Iran, and the fourth which commits the international community to implementing the most comprehensive sanctions that the Iranian Government has ever faced. This resolution represents the culmination of months of concerted effort and the realization of a truly multilateral partnership focused on pursuing a diplomatic resolution to the threat posed by Iran's nuclear ambitions. The measures contained in this resolution underscore the determination of President Obama to prevent Iran from developing nuclear weapons and to reinforce global norms and institutions of nonproliferation—a resolve that today is shared by the international community.

Resolution 1929 sends a clear, global message of what is expected from Iran, and the consequences for Iran's decision to shirk its responsibilities to the global nonproliferation regime. It strengthens existing U.N. sanctions by expanding the breadth and reach of those measures and breaks new ground with additional categories of sanctions. It provides a platform upon which states can build to advance the objectives of the resolution, as our EU and Australian partners did last week. Adoption of this resolution is only one milestone in international actions on this front. Secretary Clinton announced that senior State Department official Bob Einhorn will coordinate our vigorous efforts to work closely with our partners and

allies to ensure these sanctions are fully enforced and built upon. And all our agencies—State, Treasury, and others—will continue to take action under our existing domestic authorities to sharpen Iran’s choices, as Secretary Geithner did last week in imposing sanctions on 12 entities and four individuals under proliferation-related sanctions authorities.

This is also an important time for those decisionmakers in Tehran who are in a position to shape the future of the Islamic Republic and its relationship with the rest of the world. Only a year ago, Iran was convulsed by massive public outrage and activism protesting election results. Millions of Iranians came to the streets last June and in smaller numbers over the course of the ensuing months with a simple but powerful demand of their leaders—that their government respect the rights enshrined within its own constitution, rights that are the entitlement of all people—to voice their opinions, to select their leaders, to assemble without fear, to live in security and peace. The government has been able to contain the public opposition, but only through the use of intense intimidation wielded against individuals and the burgeoning civil society that has struggled to survive under a repressive leadership. As a result, Iran’s Government today is facing profound pressure on multiple fronts. Navigating these realities will require Iranian leaders to decide what kind of future they want for their country.

A nuclear-armed Iran would have grave implications for vital American interests in the stability of the gulf region and broader Middle East. The concerns evoked by Iran’s determined expansion of its nuclear capabilities are only underscored by the destabilizing character of its regional foreign policy—its longstanding financial and operational support to terrorist organizations such as Hezbollah, Hamas, and Palestine Islamic Jihad; its cultivation of militancy, instability, and violence in Iraq and Afghanistan; and its hate-mongering rhetoric on Israel and the Holocaust. As President Obama said on June 9, “actions do have consequences. And whether it is threatening the nuclear nonproliferation regime, the human rights of its own citizens, or the stability of its neighbors by supporting terrorism, the Iranian Government continues to demonstrate that its own unjust actions are a threat to justice everywhere.” And therefore we will remain active in responding to these Iranian policies across the region, and through innovative programs, on advancing human rights and democracy and seeking to expand access to information within Iran. We will continue our efforts to coordinate with our allies on their own security, to promote more effective regional cooperation, and to buttress those states and political forces who are seeking to build a better more peaceful future for the region.

Our policy seeks to prevent Iran from developing nuclear weapons, counter its other destabilizing actions, and advance our broader interests in democracy, human rights, and development across the Middle East. Over the course of the past 18 months, we took unprecedented steps to demonstrate to Tehran the possibilities available through cooperation and engagement. Iran failed to take advantage of any of these historic opportunities—Iran has left unanswered President Obama’s outreach efforts, rejected a balanced and generous IAEA offer to refuel its Tehran Research Reactor (TRR), and has flatly and repeatedly refused to engage in negotiations to address international concerns regarding its nuclear program. Instead, Iran continues and expands its enrichment activities to include enriching uranium to nearly 20 percent, announces plans for the construction of new enrichment facilities, and continues to deny the IAEA full access and information regarding—among other places—the previously secret facility at Qom. Iran remains in noncompliance with its IAEA Safeguards Agreement; refuses to suspend all its uranium enrichment-related, reprocessing, and heavy water-related activities as required by the U.N. Security Council; and has yet to cooperate fully with the IAEA’s ongoing investigation, including by answering questions regarding the possible military dimensions of its nuclear program. For these repeated acts of noncompliance with Iran’s obligations, and as we had always foreshadowed, we demonstrated our seriousness about the second track of our two-track strategy.

The sanctions imposed under UNSCR 1929 achieve two important priorities—they minimize the impact on average Iranians, while imposing real penalties on Iran’s nuclear and destabilizing military programs and those who support them. At the same time, they also make it harder for Iran to continue its destabilizing activities and seek to inhibit its development of nuclear weapons capability and the means to deliver them. The scope and strength of 1929 speaks to the depth of international concern about Iran’s path and is a testament to the genuinely constructive partnership we have developed with our P5+1 partners. We believe that the resolution, and the close coordination among the international community to implement it, will send two vital messages to Tehran: that Iran’s nuclear program does not enhance its security and comes at an ever greater cost, and the world is united around an effort to change Iran’s calculus.

Resolution 1929 enhances existing U.N. sanctions by expanding the breadth and reach of those measures and at the same time breaks new ground with additional categories of sanctions to further pressure Iran to comply with its international nuclear obligations. 1929 reinforces the Security Council's longstanding demand that Iran suspend its enrichment program and other proscribed nuclear activities, and it imposes measures in several broad categories:

- It reaffirms the necessity of Iranian compliance with its IAEA obligations and its full cooperation with IAEA investigations;
- It bans Iran's investment in sensitive, including uranium mining, nuclear and ballistic missile-related activities abroad;
- It imposes new binding restrictions on Iran's import of eight broad categories of heavy weapons, and requires vigilance and restraint in the transfer of all arms and related materiel to Iran;
- It bans all activities related to Iran's ballistic missiles capable of delivering nuclear weapons;
- In order to deter, detect, and stop Iran's smuggling and acquisition of sensitive nuclear items and prohibited arms and related materiel, the resolution calls upon all states to inspect Iranian cargo, and notes that states may request inspections on the high seas consistent with international law and the consent of the flag state;
- It includes provisions to help block Iran's use of the international financial system—particularly its banks—to fund proliferation;
- It alerts states to the potential link between Iran's energy sector revenues and energy-related technologies and its nuclear and proliferation activities;
- It addresses the activities of the Islamic Revolutionary Guard Corps, whose elements have been involved in proliferation by sanctioning the largest and most significant enterprise owned by the IRGC, the Khatam al-Anbiya Construction Headquarters, and 14 other IRGC-related companies;
- It establishes a U.N. Panel of Experts to help monitor and enforce sanctions implementation;
- The resolution also includes three annexes of specific entities and individuals subject to targeted sanctions (asset freeze/travel ban). The resolution more than doubles the number of designated entities subject to an asset freeze and imposes an asset freeze and travel ban on one individual. Thirty-five additional individuals previously subject to "travel vigilance" will now be subject to a travel ban. With the adoption of this resolution, there are now 75 entities subject to an asset freeze and 41 individuals subject to an asset freeze and travel ban.

Let me emphasize that sanctions are not an end in themselves. Our foremost objective—one that is shared by our international partners and our allies in the region—is a durable diplomatic solution to the world's concerns about the Iranian nuclear program and the broader issues at stake with Iran. U.N. Security Council Resolution 1929 offers Iran a clear path toward the suspension of existing sanctions. It is an unambiguous one: Iran must fulfill its international obligations, suspend its enrichment-related, reprocessing, and heavy water-related activities, and cooperate fully with the IAEA. The choice to reconsider its options and adopt a more constructive course is one that Tehran alone can make. As the P5+1 stated upon the adoption of resolution 1929, we remain ready to meet immediately with Iran on its nuclear program, and on other issues of mutual concern. EU High Representative Cathy Ashton already has reiterated the offer to Iran to meet with the P5+1 for that purpose. We hope Iran will take advantage of this standing opportunity. Two weeks ago the United States, France, and Russia responded jointly to IAEA Director General Amano regarding Iran's proposal on the TRR, including our concerns with that proposal. The TRR proposal remains a potential opportunity in the context of the broader P5+1 efforts to address Iran's nuclear program.

As we bear witness to the 1-year anniversary of Iran's disputed Presidential elections, we reaffirm our commitment to stand up for those who seek to exercise their universal rights. One year later, as the detentions and prosecutions proceed unabated, we will continue to call on the leaders of the Islamic Republic of Iran to meet their responsibilities to their people by respecting the fundamental rights afforded them. In fact, just this week, we joined 55 other nations in rebuking Iran for its atrocious human rights record at the Human Rights Council.

In the wake of the Iranian Government's violent suppression of dissent, closure of opposition newspapers, and overwhelming use of intimidation and force to prevent free assembly, the United States has taken steps to facilitate the free expression of Iranian citizens. As part of that effort, the U.S. Government is pursuing ways to promote freedom of expression on the Internet and through other connection technologies. We are working around the world with over 40 companies to help indi-

viduals silenced by oppressive governments, and have made Internet freedom a priority at the United Nations as well. State and Treasury have worked to issue a general license that allows free market downloadable communications software—e-mail, chat, blogging—available inside Iran. Our programming is also focusing on allowing innovative projects that support free expression and access to information via the Internet.

Let me note here our deep and continuing concern for the safety and well being of all American citizens currently detained or missing in Iran. We urge the Iranian Government to promptly release Shane Bauer, Sarah Shourd, and Josh Fattal, and all other unjustly detained American citizens so that they may return to their families. We also call upon Iran to use all of its facilities to determine the whereabouts and ensure the safe return of Robert Levinson.

The Iranian Government will not change its course overnight. We have no illusions about the obstacles before us. But we and the best of the international community have renewed our determination to sharpen the choice before Iran's leadership. Addressing international concerns about its nuclear program and meeting its international obligations can open up important opportunities for Iran and its remarkable people. Continued failure to do so only makes Iran less secure, less prosperous, and more isolated.

The CHAIRMAN. Thank you, Secretary Burns.
Secretary Levey.

STATEMENT OF HON. STUART LEVEY, UNDER SECRETARY FOR TERRORISM AND FINANCIAL INTELLIGENCE, DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Mr. LEVEY. Chairman Kerry, Ranking Member Lugar, members of the committee, thank you for inviting me to be here today. It is an honor for me to be here with Under Secretary Burns, with whom I've worked closely on these issues and many others for the last few years, and for whom I have tremendous admiration.

While he has described the overall strategy to address the threat posed by Iran, I will focus on the so-called "pressure track" that he mentioned of the administration's strategy.

The adoption 2 weeks ago of UNSCR 1929 creates an opportunity for us to further sharpen Iran's choices. Our effort to hold Iran accountable for its failure to meet its international obligations has two major fronts. The first is governmental action, encompassing actions both by the United Nations, by other concerned governments around the world and our efforts to build upon the four Security Council resolutions that have sanctioned Iran.

We have already begun discussions with other countries about the types of measures that should be taken to robustly implement U.N. Security Council 1929, and some governments have already acted.

At the same time, we are working with countries to ensure that they take actions to fulfill, for example, the Financial Action Task Force's call for countermeasures against Iran. Iran remains the only country in the world subject for such a call for countermeasures.

But perhaps as important as all of the governmental action is the second front of our strategy: the role of the private sector. As we have targeted Iran's illicit conduct, we have also taken public action and made an unprecedented effort to share the information that forms the basis of our actions with firms all over the world. We have made that evidence public, to the extent possible. That information demonstrates that Iran engages in illicit nuclear and ballistic missile transactions, supports terrorist groups, and that in

order to conduct those activities, it engages in financial deception designed to evade the controls of responsible businesses that have no desire to participate in illicit activity.

In response to this information, and to protect their own reputations, virtually all major financial institutions have either completely cut off or dramatically reduced their ties with Iran. We are now starting to see other companies, across a range of sectors including insurance, consulting, energy, and manufacturing, making similar decisions. The end result is that the voluntary actions of the private sector amplify the effectiveness of government-imposed measures.

U.N. Security Council Resolution 1929 represents a new and key catalyst in this strategy. The resolution contains a number of significant provisions summarized in our written testimony, and which Under Secretary Burns also summarized. There are a few key financial provision which I would like to highlight, as well.

In particular, under paragraphs 21 and 23 of the new resolution, states should prevent any financial services, including insurance and even including the maintenance of bank accounts for Iranian banks, if they have information that these services could—and I underscore could—contribute to Iran’s nuclear missile industries. And, of course, as this committee knows, there is ample information in the public domain to establish that Iran uses its banks and abuses the financial services of other banks for precisely those illicit purposes. We have also repeatedly revealed the mechanisms by which Iranian banks seek to mask their misconduct. This includes stripping their names from transactions, disguising the ownership of assets on their books, and using nonsanctioned banks to stand in the shoes of sanctioned ones. Given this record, it would be nearly impossible for financial institutions and governments to assure themselves that transactions with Iran are not being used to contribute to nuclear missile industries.

A perfect example of the types of thing I’m talking about is contained in the actions we took last week to begin to implement and build upon U.N. Security Council Resolution 1929. Among other things, we designated an Iranian bank, Post Bank, for facilitating Iran’s proliferation activities. At one time, Post Bank did business almost entirely within Iran. But when some of Iran’s largest state-owned banks were sanctioned for financing proliferation, Iran began to use Post Bank to facilitate international trade. Indeed, Post Bank stepped into the shoes of Bank Sepah, which is under U.N. sanctions, to carry out Bank Sepah’s transactions and hide its identity. Banks that would have never agreed to deal with Bank Sepah have handled these transactions that they believe are really for Post Bank.

In addition, last week we listed five front companies and more than 90 ships that Iran’s national maritime carrier, IRISL has used to evade international sanctions. We designated, in addition, two individuals and four entities that are part of the IRGC, including two that are subsidiaries of Khatam al-Anbiya, a major IRGC company. This action complements the designation of the 15 IRGC companies, as you’ve mentioned, Mr. Chairman, that are designated in the U.N. Security Council Resolution 1929. We have now designated 26 IRGC-related entities, including the IRGC’s Kuds

force for providing materiel support to the Taliban, Hezbollah, Hamas, the Palestinian Islamic Jihad, and others.

We also identified last week 22 petroleum, energy, and insurance companies that are owned and controlled by the Government of Iran under our Iranian transaction regulations. Seventeen of those companies are located outside of Iran, and many are not easily identifiable as being Iranian. These identifications enable United States persons—and, importantly, others around the world who are choosing not to deal with Iran—to be able to recognize Iranian Government entities and protect themselves against the risk of doing business with them.

As Under Secretary Burns pointed out, we know that officials in Iran have been anxious about this new round of sanctions. If the Iranian Government holds true to form, it will scramble to identify “work-arounds”—hiding behind front companies, doctoring wire transfers, falsifying shipping documents and the like.

We will continue to expose this deception, and thereby reinforce the very reasons why the private sector is increasingly shunning Iran. The overall result of these efforts is that Iran’s choice will become increasingly clear: to choose the path offered by President Obama and the international community, or to remain on a course that leads to further isolation.

Thank you very much. I look forward to your questions.
[The prepared statement of Mr. Levey follows:]

PREPARED STATEMENT OF STUART LEVEY, UNDER SECRETARY FOR TERRORISM AND FINANCIAL INTELLIGENCE, U.S. DEPARTMENT OF THE TREASURY, WASHINGTON, DC

Chairman Kerry, Ranking Member Lugar and distinguished members of the committee. With the adoption of United Nations Security Council Resolution (UNSCR) 1929 two weeks ago, the international community made clear that Iran’s continued failure to meet its international obligations will have increasingly serious consequences. As President Obama said, the resolution demonstrates the growing costs of Iranian intransigence. My colleague, Under Secretary Burns, will describe the wide range of challenges posed by Iran, and will provide an overview of the administration’s dual-track approach to addressing the Iranian threat. I will focus my testimony today on the so-called “pressure track” of that strategy. This track is intended to hold Iran accountable for its continued refusal to address the international community’s concerns regarding its nuclear program, as well as its support for terrorism, suppression of domestic dissent, and abuse of the financial system.

The adoption of Resolution 1929 marks an inflection point in this strategy, as it broadens and deepens existing sanctions programs on Iran and creates an opportunity for us to further sharpen Iran’s choices. We also intend to not only fulfill the letter of the resolution’s mandates, but also to live up to its spirit, by working together with our allies to impose measures that will affect Iranian decisionmaking.

As you know, we have been working to address Iran’s illicit conduct and to protect the international financial system from Iranian abuse for the past several years. Last week, the Treasury Department initiated a series of new actions to both implement and build upon UNSCR 1929 and its predecessor resolutions. In addition to last week’s actions, we published today a financial advisory providing public guidance on steps that can be taken to protect against the risks of transactions with Iran. Before I review the details of UNSCR 1929 and the new obligations it creates, I would like to provide an overview of our strategy to hold Iran accountable to its obligations and, in particular, the role that the private sector is playing in that strategy.

STRATEGY TO HOLD IRAN ACCOUNTABLE

Our strategy to hold Iran accountable for its failure to meet its international obligations has two major fronts.

The first front is governmental action, encompassing actions by the United Nations and concerned governments around the world. While we are working to encourage full implementation of the four U.N. Security Council sanctions resolutions

containing binding legal measures, governments around the world are also considering what additional measures might be necessary to address the grave threat posed by Iran. We are also looking to international partners to implement the Financial Action Task Force's (FATF) call for countermeasures to address the risks that Iran poses to the international financial system. In February, the FATF issued its most recent of several statements regarding the risks posed by Iran's lack of an adequate antimoney laundering and counterterrorist financing (AML/CFT) regime. The FATF called once again for jurisdictions to impose countermeasures on Iran, and urged them to protect against correspondent relationships being used to bypass or evade countermeasures and risk mitigation practices. Iran is currently the only country in the world subject to a call for such countermeasures.

Perhaps as important as government action is the second front: private sector action. The steps private sector firms around the world have taken in recent years to protect themselves from Iran's illicit and deceptive activity are extremely important. We have found that when we use reliable financial intelligence to build cases against Iranian actors engaged in illicit conduct, many members of the private sector go beyond their legal requirements regarding their interactions with these and other Iranian actors because they do not want to risk handling illicit business. This behavior is a product of good corporate citizenship and a desire to protect their institutions' reputations. The end result is that the voluntary actions of the private sector amplify the effectiveness of government-imposed measures. Thus, as we have taken action to target illicit Iranian conduct, we have shared some of the information that forms the basis for our actions with our partners in the private sector and, in response, virtually all major financial institutions have either completely cut off or dramatically reduced their ties with Iran. We are now starting to see companies across a range of sectors, including insurance, consulting, energy, and manufacturing, make similar decisions. Once some in the private sector decide to cut off ties to Iran, it becomes an even greater reputational risk for others not to follow, and so they often do. Such voluntary reductions in ties to Iran, beyond the requirements of U.N. and U.S. sanctions programs, in turn makes it even more palatable for foreign governments to impose restrictive measures because their countries' commercial interests are reduced. In the end, this dynamic can create a mutually reinforcing cycle of public and private action.

The impact of these actions on Iran has been significant, and is deepening as a result of Iran's own conduct. As international sanctions on Iran have increased, Iran's response has been to attempt to evade those sanctions. For example, sanctioned Iranian banks have, as a standard practice, concealed their identity by stripping their names from transactions so their involvement cannot be detected. In addition, when Iranian assets have been targeted in Europe by international sanctions programs, branches of Iranian state-owned banks there have taken steps to disguise the ownership of assets on their books to protect those assets from future actions. Nonsanctioned banks also have stepped into the shoes of sanctioned banks in order to evade international sanctions. We have used this conduct to our advantage by exposing it and making it public, reinforcing the private sector's preexisting fears about doing business with Iran. In this way, Iran's own evasion and deceptive conduct is increasing its isolation.

UNITED NATIONS SECURITY COUNCIL RESOLUTION 1929

Another key catalyst in this process is the adoption of Resolution 1929, which is the fourth resolution in as many years imposing legally binding sanctions on Iran. UNSCR 1929 broadens the existing U.N. sanctions framework, and it is important to remember that each resolution builds upon earlier resolutions. Resolution 1929 enhances the international community's obligation to impose measures on Iran's financial sector, businesses owned or controlled by the Islamic Revolutionary Guard Corps (IRGC), and on elements of Iran's transportation sector that have been used to evade sanctions. It also prohibits Iran from acquiring an interest in any commercial activity in another state involving uranium mining, the production or use of nuclear materials and technology, and ballistic missile technology. It also bans states from directly or indirectly supplying Iran with a range of heavy weapons, prohibits Iran from undertaking any activity related to ballistic missiles capable of delivering nuclear weapons, and prohibits states from providing bunkering services to vessels if they reasonably think these vessels are carrying nuclear or other materiel prohibited by Security Council resolutions. The resolution additionally imposes an obligation on states to take the necessary measures to prohibit the travel through their territories of individuals designated in this and previous Iran-related sanctions resolutions. The resolution also highlights the potential connection between Iran's revenues from energy production and funding for the development of its nuclear pro-

gram. And the resolution designates key entities associated with Iran’s proliferation sensitive nuclear activities and ballistic missile programs.

As I mentioned, the Treasury Department today published a public advisory that explains the financial provisions of UNSCR 1929 and provides guidance on steps that can be taken to mitigate the tremendous risks underscored by the Security Council. Implementation of the financial provisions of the resolution and its predecessors will be consequential, provided that countries implement them robustly and faithfully. The implementation of these provisions will also assist financial institutions around the world to avoid the risks associated with business that supports the Iranian Government’s proliferation activity and support for terrorism. In the coming weeks, the Treasury Department will continue to engage with finance ministries around the world and with financial institutions—not only to assure full implementation of the resolution, but also to assist the private sector in avoiding these serious risks. As described above, Resolution 1929 contains a number of important provisions; there are a few that we think are important to discuss in greater detail:

- First, paragraph 21 of the resolution calls upon all Member States to “prevent the provision of financial services, including insurance or reinsurance, or the transfer to, through, or from their territory . . . of any financial or other assets . . . if they have information that provides reasonable grounds to believe that such services, assets, or resources could contribute to Iran’s proliferation-sensitive nuclear activities, or the development of nuclear weapon delivery systems.” This provision is similar to one in UNSCR 1874 on North Korea, and it provides countries with the broadest possible mandate to restrict financial ties with Iran. As described above, there is a vast body of public information demonstrating that many of Iran’s banks are deeply involved in facilitating its proliferation-sensitive activities and other forms of illicit conduct. Over the last several years, we have designated 15 Iranian banks under Executive Order (E.O.) 13382 for facilitating Iran’s nuclear proliferation activities, and 1 bank under E.O. 13224 for providing support to international terrorism. As we have done so, we have publicized the types of illicit activities in which these banks engage in order to make international financial institutions aware of Iran’s illicit conduct, and permit them to take appropriate countermeasures against Iranian banks. Specifically, the designated banks have provided a broad range of financial services to Iran’s nuclear and missile industries. Banks like Bank Melli have also provided financial services to the IRGC, and Bank Saderat has facilitated the transfer of millions of dollars to terrorist groups. In the course of undertaking these transactions, Bank Melli employed deceptive banking practices, like requesting that its name be removed from financial transactions to obscure its involvement from the international banking system. We revealed similar information when we revoked Iran’s “U-turn” license in 2008. As a further example, Resolution 1929 highlights that Bank Mellat has facilitated hundreds of millions of dollars in transactions for Iranian nuclear, missile, and defense entities, and that Mellat owns First East Export Bank. This information, highlighting the risks associated with providing financial services to Iran, makes it nearly impossible for financial institutions and governments to assure themselves that transactions with Iran could not contribute to proliferation-sensitive activities.
- Second, paragraph 23 of the resolution calls upon states to prohibit “in their territories the opening of new branches, subsidiaries, or representative offices of Iranian banks, and also [to] prohibit Iranian banks from establishing new joint ventures, taking an ownership interest in or establishing or maintaining correspondent relationships with banks in their jurisdiction [and] to prevent the provision of financial services if they have information that provides reasonable grounds to believe that these activities could contribute to Iran’s proliferation-sensitive nuclear activities.” Consistent with this, governments are to take steps to be certain that correspondent relationships with Iran cannot be used for illicit conduct. Given the information described above regarding Iranian banks’ involvement in Iran’s proliferation-sensitive activities, coupled with well-known information about Iranian banks’ use of a range of deceptive conduct—such as concealing their identity by stripping their names from transactions—it is nearly impossible for governments to ensure that correspondent relationships with Iran are not abused for illicit purposes. As I just noted, we have revealed this deceptive conduct at numerous junctures in the past, and will continue to do so as appropriate in the future. We expect the private sector will respond to this new provision, and the information we have revealed, by further reducing its exposure to Iranian banks worldwide.
- Third, paragraph 22 of the resolution obliges “all states [to] require their nationals, persons subject to their jurisdiction and firms incorporated in their ter-

ritory . . . to exercise vigilance when doing business with entities incorporated in Iran or subject to Iran's jurisdiction, including those of the IRGC and [Iran's national maritime carrier, the Islamic Republic of Iran Shipping Lines] IRISL, and any individuals or entities acting on their behalf or at their direction, and entities owned or controlled by them, including through illicit means, if they have information that provides reasonable grounds to believe that such business could contribute to Iran's proliferation-sensitive nuclear activities" or to violations of other Security Council resolutions. To aid countries in this endeavor, the resolution identifies three companies owned or controlled, or acting on behalf of IRISL-Irano Hind Shipping Company, IRISL Benelux NV, and South Shipping Line Iran. Significantly, the resolution also identifies for sanctions Khatam al-Anbiya, an IRGC-owned company involved in major construction and engineering projects, as well as several of its subsidiaries. Khatam al-Anbiya subsidiaries were involved in the construction of Iran's uranium enrichment site at Qom.

- UNSCR 1929 also seeks to avoid the violation or evasion of sanctions by IRISL, as well as Iran Air's cargo division. Paragraph 14 of the new resolution therefore expands the call on countries to "inspect all cargo to and from Iran, in their territory, including seaports and airports, if the [s]tate . . . has information that provides reasonable grounds to believe the cargo contains items the supply, sale, transfer, or export of which is prohibited" by U.N. resolutions. Since January 2009, IRISL has been publicly implicated in multiple shipments of arms-related materiel from Iran to Syria in violation of U.N. Security Council Resolution 1747.

IMPLEMENTING AND BUILDING UPON THE RESOLUTION

All elements of the administration have been working with our partners around the world and will intensify those efforts to ensure not only that the resolution will be implemented robustly, but also that it serves as a foundation on which to build further measures that will increase the pressure on Iran to comply with its international obligations.

As part of this undertaking, we announced steps last week intended to reveal more of Iran's deceptive conduct, and to sanction actors engaged in the full spectrum of activity supporting Iran's nuclear and missile programs. The actions that the Treasury Department announced are also intended to reinforce the public sector-private sector mutually reinforcing dynamic that I described earlier. We designated more than a dozen entities and individuals under Executive Order 13382, the authority that targets those involved in WMD proliferation and their support networks. These include:

- Post Bank. Treasury designated Post Bank of Iran for providing financial services to, and acting on behalf of, Bank Sepah. Bank Sepah was designated in January 2007 pursuant to E.O. 13382 for providing financial services to Iran's missile industry, including two entities linked to Iran's ballistic missile program. At one time, Post Bank's business was conducted almost entirely within Iran. But when some of Iran's largest banks were exposed for financing proliferation, Iran began to use Post Bank to facilitate international trade. In fact, Post Bank stepped into the shoes of Bank Sepah, which is under United Nations sanctions, to carry out Bank Sepah's transactions and hide its identity. International banks that would never deal with Bank Sepah have been handling these transactions that they think are really for Post Bank.
- IRGC. The IRGC was first designated by the Treasury Department in 2007 for its efforts to procure sophisticated and costly equipment that could be used to support Iran's ballistic missile and nuclear programs. We also designated the IRGC's Quds Force, the branch of the Revolutionary Guards that has provided materiel support to the Taliban, Lebanese Hezbollah, Hamas, Palestinian Islamic Jihad, and others. Last week we supplemented these actions by designating additional branches of the IRGC. We sanctioned its Air Force and Missile Command, both of which have ties to Iran's ballistic missile program, as well as Rah Sahel and Sepanir Oil and Gas Engineering Co, which are owned by the IRGC's Khatam al-Anbiya construction company. In addition, we designated Mohammad Ali Jafari, the Commander in Chief of the IRGC, and Mohammad Reza Naqdi, who has served as head of the IRGC's Basij Resistance Force since October 2009. With these actions, we have now designated 26 entities and individuals connected to the IRGC for sanctions.

We intend to continue to focus on the IRGC as an important part of our strategy to hold Iran accountable for its actions because of the central role that the organization plays in Iran's most reprehensible and illicit conduct. In addition

to playing a key part in Iran's missile and nuclear programs and providing support for terrorism, the IRGC has been involved in the repression of internal dissent in Iran. It has also assumed control over broad areas of the Iranian economy, including through the use of no-bid contracts. The IRGC has gradually increased its influence over the energy, defense, and construction industries, and IRGC seeks to monopolize black-market trade of popular items. In so doing, it has deprived the Iranian people of valuable economic opportunities. The IRGC and its network of companies have no place in the world's legitimate financial system, and we will continue to work to prevent the IRGC and its companies from gaining access to it.

- **IRISL.** We also took action under 13382 to prevent IRISL from carrying out activities to evade sanctions. We publicly identified several IRISL front companies, including Hafiz Darya Shipping Company, Soroush Sarzamin Asatir Ship Management Company, Safiran Payam Darya Shipping Company and others, as well as more than 90 names of ships in its fleet. Since we designated IRISL for sanctions in 2008, it has desperately attempted to evade those sanctions, setting up new front companies and renaming and even repainting ships to hide their true ownership. Despite its deceptive maneuvers, IRISL has had to struggle to obtain insurance and other services. Our actions last week further expose IRISL's deception and make it more difficult for IRISL to carry out its illegal activities. One way to determine if a ship is an IRISL ship is the International Maritime Organization ("IMO") registration number, which, like the VIN number on a car, is a unique identifier that cannot be reassigned to another ship, and remains with the ship through the life of the vessel. The Treasury Department published these numbers at the time of its original designation of IRISL in 2008.
- **Petroleum, Energy and Insurance Firms.** We also identified 22 petroleum, energy, and insurance companies that are owned and controlled by the Government of Iran under the Iranian Transactions Regulations (ITR). Seventeen of these companies are outside of Iran, and many are not easily identifiable as belonging to the government. Americans have long been forbidden from doing business with Iranian entities, but increasingly companies around the world are deciding not to do business with the Government of Iran because of its wide range of illicit conduct, and because, as President Obama said recently, it is a government that has brutally suppressed dissent and murdered the innocent. These identifications enable U.S. persons and others to recognize Iranian Government entities and protect themselves against the risks posed by doing business with them.

We will continue to take action to address the full range of Iran's illicit conduct, and to target the support networks that facilitate Iran's WMD proliferation activities and to expose Iran's deceptive conduct and abuse of the international financial system.

As we have taken steps to implement and go beyond the resolution, so too have our allies. Last week, Australia announced its designation of Bank Mellat, IRISL, and IRGC General Rostam Qasemi. The European Union also announced its intention to impose further restrictions on Iran's financial sector and insurance industry, freeze additional Iranian banks, and impose restrictions on the Iranian transport sector, in particular IRISL. Additionally, the EU announced its intention to prohibit new investment, technical assistance and transfers of technology, equipment and services to key sectors of the gas and oil industry. The EU also announced its intention to impose new visa bans and asset freezes on the IRGC.

CONCLUSION

The adoption of UNSCR 1929 has enhanced a global effort to hold Iran accountable for its actions. The resolution adds important tools—but it is up to the U.S. and its partners around the world to ensure that we use the tools available to us comprehensively, effectively, and collectively. We know that officials in Iran have been anxious about this new round of sanctions. If the Iranian Government holds true to form, it will scramble to identify "work-arounds"—hiding behind front companies, doctoring wire transfers, falsifying shipping documents. We will continue to expose this deception, thereby reinforcing the very reasons why the private sector is increasingly shunning Iran. The overall result of these efforts is that Iran's choice will become increasingly clear—to choose the path offered by President Obama and the international community or to remain on a course that leads to further isolation.

The CHAIRMAN. Thank you, Secretary Levey.

Let me just follow up quickly with you on that. Are you satisfied, I mean, do you have the tools that you need, No. 1, and No. 2, do you feel you have confidence that our partners in this effort are going to help bring the hammer down sufficiently that all of these different cutout cardboards, phony shipping documents, et cetera, that will be able to really have an impact?

Mr. LEVEY. Well, Mr. Chairman, I do think that we have a robust set of tools already that we have used aggressively, and we've also used just the power of persuasion. That said, as you saw the statement from the White House yesterday, we welcome the new bill that is making its way through Congress, as well.

I think all signs are positive, at the moment, that our partners will take strong action to implement 1929 and counteract against evasion. The statement from the European Union was quite strong, of course we now hope to see that turned into action in the coming weeks. And the dynamic that I referred to in my statement about how the private sector is viewing this sort of evasion—what we've seen in the public domain in the last couple of years, especially, is such an overwhelming body of evidence of Iranian evasion and deceptive practices that the private sector really is getting the point that if they do business with Iran that they put themselves at enormous risk of being drawn into either illicit transactions or dealing with the IRGC. And they realize that that's both a reputational risk to them, but also may draw them into transactions that are actually illicit and that they really don't want to get involved in.

The CHAIRMAN. Well, probably—I want to come back to some of that, but first I want to pursue sort of a larger couple of policy issues with you, Secretary Burns.

First of all, as a threshold predicate to this entire discussion, to what degree is the administration convinced, and what is the evidence of it, that if Iran continues, other states in the region are going to go down the nuclear road? And is that the conviction of the administration?

Ambassador BURNS. Yes, sir, it is the concern of the administration and the conviction. I think the dangers of stimulating a regional nuclear arms race are quite serious, and it's one of the concerns that animates all of the efforts that we're making now to prevent Iran from developing nuclear weapons.

The CHAIRMAN. So, what is the redline, here? What is the administration's—give us a sense of both timeline and redline, if you will, with respect to whatever the timeline is—what action would precipitate, conceivably, what by the allies? I mean, we've made these very public protestations—no nuclear weapons program. We've laid out, in some detail, the various threats that it presents to Israel, to us, to the region, and so forth, so where's—is there a clarity to that? Because I haven't sensed it, to date, through the last administration and up until now.

Ambassador BURNS. Well, Senator, that's probably the subject of a longer, closed conversation. But what I would say is that first, you know, this administration is deeply committed to preventing Iran from developing nuclear weapons. We want to work very closely through a combination of both diplomatic engagement, but also pressure, to sharpen the choices for the Iranian leadership.

Iran claims that it doesn't seek nuclear weapons. The United States and the rest of the international community acknowledge the right of Iran and other states to pursue peaceful nuclear programs. It shouldn't be hard for Iran to demonstrate the exclusively peaceful nature of its intentions, but the track record over the last couple of decades is a very depressing one in this regard—a failure to address the very specific questions that the IEA has raised about past weaponization activities. The failure to meet not only the requirements of successive Security Council resolutions with regard to suspension of enrichment, but even to address, seriously, the creative ideas, the IEA and others have put forward to try to create some confidence, as we tried to do last October.

So, we're going to keep at it because too much is at stake, otherwise. But, I think our concern is growing, and the concern of the rest of the international community is growing, too.

The CHAIRMAN. Well, I do think that we need to—at the appropriate time, it may not be today—but we need to go into a classified briefing to go through some of the parameters of this.

Can you share with us a sense of sort of what steps that Iran might take that might trigger a next adverse reaction from ourselves and our allies?

Ambassador BURNS. Well, Senator, I'll give one example. I mean, we've already seen a reckless step by Iran in increasing enrichment from 3.5-percent levels, to 19.75-percent, near 20-percent levels. The pretext for that was that Iran claimed it needed to do that because it wasn't getting outside help for the Tehran research reactor, which requires fuel enriched to that level. I say pretext, because the Iranians don't have the capability to produce the finished fuel assemblies that you need to work that research reactor.

But more to the point, we and our partners have made clear our willingness to contribute to the provision of that kind of fuel in a way that would build confidence for Iran. So, the fact that Iran has nevertheless chosen to take enrichment to near 20-percent levels, I think, is a reckless sign. And certainly, any effort not only to continue that, but to go beyond 20 percent would be an even more dangerous sign.

The CHAIRMAN. I mentioned in my opening comments the need to expel the inspectors and go through a series of steps in terms of enrichment, et cetera. Is it possible that they could get so close to actual weaponization and/or the adequate level of development that there's a breakout capacity—could they do that without expelling the inspectors, in some clandestine way?

Ambassador BURNS. Mr. Chairman, at Natanz, which is the central nuclear facility where the IAEA conducts its inspections, you're absolutely right—the facility there would have to be reconfigured, as I understand it, to enrich to higher levels and move toward a breakout capacity, and that's something that the IEA could see and determine unless they were expelled from that site.

Of course, the bigger concern—which is reinforced by the revelation of the clandestine facility near Qom in September, is that there are other facilities under construction. And that's why we support the IEA so strongly in trying to ensure greater transparency in what's going on inside Iran.

The CHAIRMAN. Senator Lugar.

Senator LUGAR. Thank you, Mr. Chairman.

Secretary Burns, I would like your comment on a front-page story that appeared yesterday in the Washington Times entitled, "Military in Iran Seen As Taking Control." The story begins, "Defense Secretary Robert N. Gates said Sunday that Iran's Government is becoming a military dictatorship, with religious leaders being sidelined and, as a result, new sanctions could pressure Tehran into curbing its illegal nuclear program. 'What we've seen is a change in the nature of the regime in Tehran over the past 18 months or so,' Mr. Gates said on FOX News Sunday. 'You have a much narrower based government in Tehran now,' he said. 'Many of the religious figures are being set aside.'"

Furthermore, the article later points out that Mr. Gates said, "added economic pressures on top of the militarization, 'has real potential' of pressuring Iran into complying with international controls on its nuclear program." I had not seen that sort of analysis before concerning the evolution of Iran's Government, and furthermore the implication Secretary Gates thought with regard to the efficacy of sanctions. Do you have thoughts about that this morning?

Ambassador BURNS. Yes, Senator Lugar. I think it is a fact—as Secretary Gates and Secretary Clinton have also pointed out—that over recent years, I think, the Iranian leadership has become more closed, more dependent on the IRGC, whose role, not only in military affairs, but also in politics and in the economic sphere, has expanded over that time.

What we've also seen, as that circle has become more closed, is greater fissures within the Iranian political elite, and within the clerical establishment, as well, and certainly a large fissure between the elite and much of the rest of the population, as we saw so dramatically last summer during and after the election.

That's led us to try, in Resolution 1929, to very carefully target—and there's no perfect answer to this—but we've tried to target many of the measures that Under Secretary Levey and I have described, to focus on the IRGC, to focus on the leadership to try to reshape their calculus. And we will continue, as we implement 1929, as we work with the European Union and others, to focus those efforts as sharply as we can.

Senator LUGAR. These developments would mark quite a change, though, as most of us have not been thinking about Iran in terms of a military dictatorship in the country. We've had conflict between various religious leaders, with the military perceived to be more in the background. But it seems to me Secretary Gates was suggesting that the military is coming much more into the foreground. Furthermore, I think he suggested the possibility that as religious leaders are pushed aside, empowered military personnel could take a more pragmatic stance and realize that their security is more, rather than less, endangered by going forward with their nuclear program.

Ambassador BURNS. Senator Lugar, one thing I've learned is a certain amount of humility in making predictions about Iranian decisionmaking. But, I think it is a fact that—particularly the role of the Islamic Revolutionary Guard Corps in the Iranian leadership has increased. It is a fact, in my view, that the circle has narrowed

around the leadership, and that has led us to target our efforts as precisely as we can.

As Secretary Gates said, I think there is a reasonable chance that those efforts—combined with the continuing possibility of diplomatic engagement—will have an impact on the Iranian calculus.

Senator LUGAR. Secretary Burns, as you are likely aware, the Conference Committee cochairs taked with resolving House and Senate differences in Iran sanctions legislation came to an agreement yesterday on draft joint text. The administration has diplomatically asserted that it wishes to work with the Congress on this issue. Now, as I understand it, at least according to analysis in the press, an ongoing point of contention between the Congress and the administration is that the legislation, as it is currently crafted, targets foreign companies and even foreign governments that do not comply with its provisions. Now, the legislation offers exemptions from sanctions on a case-by-case basis if certain criteria are met by the foreign party in question, but the administration would rather it provide blanket waivers for certain countries. In the administration's view, this would prevent a potential set of diplomatic problems with others who believe they have been working even harder at this business of sanctions that we have. Nevertheless, this is an extraterritorial feature of the legislation as some have suggested.

What is your analysis, either one of you, as to the substance of this legislation as it currently stands?

Ambassador BURNS. Maybe I'll start, and then Under Secretary Levey can join me.

Senator Lugar, first, as the White House made clear yesterday, the administration does support the broad aims of the legislation that the conference has reported on. We want to work with you to help shape that legislation so that it amplifies the impact of the international coalition that we built.

It is no secret that our international partners contain their enthusiasm for extraterritorial applications of U.S. legislation, and that's why we continue to work closely with you and your colleagues to try to ensure that the measures are going to be targeted in a way that are going to maximize the impact on the goal, here, which is to constrain Iran's nuclear program, and change its calculus and give the President the flexibility that I think is useful to all of us in applying those measures, as well. And those are the areas that we're focused on. And we look forward to continuing to work with—

Senator LUGAR. Well, how is that advice going to be given? We're coming down to the final stages. Is the President, the Secretary, or someone else going to talk to Senator Dodd, Congressman Berman, or others who are guiding this along? It's one thing to talk in an advisory capacity, but what are the action steps that need to be taken at this point?

Ambassador BURNS. We certainly will be working very closely with the members of the conference as the conference members consider their report, to make clear the concerns we have and to make clear our interest in producing an outcome that serves the broad goals I just mentioned. So, we'll be working—and we have

been working—intensively, we'll continue to do that over the coming days.

Senator LUGAR. Thank you very much.

The CHAIRMAN. Thank you, Senator Lugar.

Senator Feingold.

Senator FEINGOLD. Thank you, Chairman, for calling this hearing, and I thank our witnesses for joining us today. We face, obviously, significant challenges from Iran which has repeatedly shown its unwillingness to play a responsible, constructive role in the international community. By working with the U.N. Security Council, with the broader international community, the administration has sent a strong message to Iran—that it needs to address the very serious and urgent concerns about the nature and extent of its nuclear program. These sanctions, of course, must now be enforced and strengthened. At the same time, it's important to remember that sanctions are meant to be a tool toward the resolution of the Iranian nuclear problem, not an end in themselves. And I hope that this hearing will provide a, you know, a better picture of our broader strategy and the plans going forth.

Under Secretaries Levey and Burns, I know you've touched on this, but how effective should we expect international and U.S. sanctions to be at limiting Iran's ability to further advance its nuclear program? First, in terms of the ability to enforce existing and previous sanctions—do the various sanctions regimes have strong enough enforcement tools in this regard and if not, what more should we do about those? And additionally, in terms of the ability of sanctions to slow down or curb Iran's ability to continue on with enrichment or to pursue weaponize efforts?

Ambassador BURNS. I'll start, just very briefly.

Senator Feingold, U.N. Security Council Resolution 1929 contains, for the first time, an extensive, comprehensive inspection regime modeled, in some ways, on Resolution 1874 as it applied to North Korea. I think with vigorous implementation of those measures, I think we're in a far stronger position as an international community to cut down and stop Iranian smuggling and efforts to acquire illicit items.

I think what we've already seen, also, Senator, is a very firm commitment on the part of our partners to implement some of the other notable provisions of 1929, for example, the provision banning significant transfers of conventional weapons to Iran. Russia, for example, has confirmed to us that it will not deliver the S-300 missile system in accordance with the new Security Council resolution. So, I think that's one concrete example of a firm commitment on the part of our partners.

Senator FEINGOLD. Mr. Levey.

Mr. LEVEY. The only thing I'd add to what Under Secretary Burns said is that the resolution also establishes a panel of experts to help with the enforcement. And while that sounds, maybe, like just a bureaucratic function, what we did see in the North Korea context was a very powerful report from a panel of experts about sanctions evasion. And those sorts of reports, then, enable us to do what I was referring to earlier, which is to use their evasion against them. Which is, to try to get at least the private sector around the world to recognize the Iranian evasive conduct and pro-

tect themselves against it by, frankly, not—choosing not to do business with Iran at all, so that we can try to use Iran’s inevitable evasion—they will try to evade, if history is any guide—but try to use that to our advantage.

Senator FEINGOLD. Thank you.

Under Secretary Burns, I want to get a little deeper into something that was already touched on—that our two-track effort appears to be focusing mostly on the sanctions track at the moment. But, given the need to prepare for various outcomes, does the administration have a plan for what we want to get out of negotiations, including our bottom-line demands, if Iran did come to the table?

Ambassador BURNS. Yes, sir, we do. And at the same time as Resolution 1929 was passed, the Foreign Ministers of the P5+1 countries issued a statement that made clear that the door is still open to negotiations. Kathy Ashton, the E.U. High Representative, then wrote to her Iranian counterpart to repeat that offer directly.

And we’ve also made clear that we have a number of concerns about the most recent Iranian proposals on the Tehran research reactor confidence-building proposal. But in the context of our wider P5+1 efforts, we’re certainly prepared to pursue those, as well.

So, we believe that it’s only through a combination of pressure and engagement that we’re likely to affect the calculus of the Tehran leadership.

Senator FEINGOLD. And, again Under Secretary Burns, can you comment on the relationship between Iran and our friends and our allies in the developing world? Particularly, to what extent does it have openings for influence in Latin America with its Venezuelan connection, and Africa, for example, Iran’s been reaching out diplomatically to a number of countries in Africa, including Jabudi, Kenya, the Camorros, Senegal, Uganda, the Gambia, and according to press reports, stated that Tehran’s growing relations with African countries were, “A priority for Iran’s foreign policy.” What are we doing to reach out to our friends and allies in these regions to express our concerns about Iran’s nuclear program, and are they being receptive to that?

Ambassador BURNS. Well, certainly in Africa, Senator, I think there is an understanding of the reality that Iran’s not living up to its international obligations on the nuclear issue. It’s striking that all three African members of the Security Council voted in favor of Resolution 1929 notwithstanding a very intensive Iranian diplomatic effort to produce a different outcome.

So, we take very seriously the concern you raised and we are staying in very close touch with our partners in Africa.

The same is true in this hemisphere. We’ve designated one Venezuelan bank because of its connection to Iranian banks, and we watch very carefully Iran’s relationship with Venezuela and its activities elsewhere in the hemisphere.

Senator FEINGOLD. Under Secretary Burns, the U.S.-Jordan Nuclear Cooperation Agreement that’s currently being negotiated has brought up the problematic issue that other Middle Eastern countries are interested in developing their own enrichment and reprocessing capability, or E&R. How can we minimize the danger that Iran will perceive the development of any such capabilities as

threatening, and insist on maintaining its own E&R as a result, given that Jordan does not seem to be interested in our offer providing it with nuclear energy assistance in exchange for any agreement to forgo E&R capabilities, and the nuclear supplier's group is not interested on a meaningful ban on E&R transfers, what is plan B for this situation?

Ambassador BURNS. Well, Senator, as you know, one of the broad initiatives we've strongly supported—and hopefully once we finalize the new 123 Cooperation Agreement with Russia we'll be in a better position to encourage this—is the idea of international assured fuel supply, international fuel banks, that would provide nuclear materiel to countries who forgo the pursuit, on their own, of enrichment and reprocessing activities. I think that's one promising initiative that we can do more to support.

Senator FEINGOLD. And finally, Under Secretary Burns, the GAO recently released a report indicating that Iran continues to successfully divert United States-made military and other controlled equipment and transfer—transship this equipment through such countries as the U.A.E. What has the United States done to identify and plug the loopholes in the export control regime that allow this to happen, and has the United Arab Emirates implemented the export control laws it's committed to implement?

Ambassador BURNS. I think, Senator, the record of the United Arab Emirates has improved considerably in recent years. We've worked very closely with them in the application of their own export controls and the sharing of information and law enforcement cooperation. So, I think their record is an impressive one, now, we want to work very closely with them to cut down and eliminate those loopholes.

Senator FEINGOLD. Thanks to both of you.

Thanks, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Feingold.

Senator Boxer.

Senator BOXER. Mr. Chairman, thank you so very much for holding this hearing, very important, timely hearing and welcome to both Under Secretaries today.

It is so important that we focus like a laser beam on Iran's reckless and dangerous refusal to cease Iranian enrichment in defiance of its own treaty obligations. I am so pleased that Congress is moving toward a final vote on the comprehensive Iran Sanctions Accountability and Divestment Act. I read that there's been agreement reached between the House and Senate—Senators Dodd and Berman—Congressman Berman—and so we may be voting on that this week.

Countless experts agree that the way to really pressure Iran is to target its oil and gas sectors, and that's exactly what this sanctions bill will do.

I was pleased that the U.N. Security Council approved a resolution imposing new sanctions on Iran, despite Iran's frantic attempt to derail the effort. And up until the last minute, they were trying to derail the effort. And I congratulate the administration for hanging in there and pushing back. I certainly would have liked to see a much tougher Security Council resolution. I'm hopeful that more countries are finally realizing what many of us have known for far

too long—that Iran not only poses a grave threat to the security of the Middle East, but to the security of the entire globe. Not only could Iran use any weapon that it acquires, but it could proliferate nuclear materiel and technologies to terror groups and rogue regimes around the world. So, every effort must be made to stop this from happening. I know our President feels very strongly about this.

Not only must we pass tough sanctions measures, but we must be sure that they're carried out and they're enforced to the fullest. And I'm going to ask you both about that in a minute.

But, it means going after American firms who value a quick profit over the national security of the United States of America. This means closing loopholes, so that U.S. firms can't simply acquire foreign subsidiaries that set up shop and do business in Iran. And I can tell you that I know this has been done.

The GAO conducted a narrow study and found that the U.S. Government awarded \$880 million to seven companies between fiscal years 2005 and 2009 that were also doing business in Iran's energy sector, and some of them are working in Iran today. I understand that the comprehensive Iran Sanctions Accountability and Divestment Act that we will hopefully pass this week and send to the President for signature, includes a provision that requires companies bidding on a U.S. Government procurement contract to certify that they are not engaged in sanctionable conduct, and that means either directly or through a shell company.

Can you assure us today, I would ask both Under Secretaries, that this provision—this provision which means that we're going to really look at these companies and their shell companies, that it will be enforced to the fullest extent possible? So that U.S. taxpayer dollars are not awarded to companies that are skirting United States sanctions laws and doing business with Iran?

Ambassador BURNS. Yes.

Senator BOXER. Under Secretary Levey.

Mr. LEVEY. Absolutely.

Senator BOXER. OK, because we're going to have to hold you to it.

By almost every account, the June 9 U.N. Security Council resolution is imposing another round of sanctions on Iran. It was not as comprehensive as we all had hoped for, the administration, those of us in Congress—in the end, concessions had to be made to obtain support from China and Russia when the resolution came to a vote. It was still—I don't want to, in any way, take away from the achievement, it was a great achievement, not tough enough, but we moved in the right direction with these other countries. I know that the administration did everything in its power to secure a very tough resolution, but I also know that China, in particular, didn't make it easy.

So, my question is, why does China not see Iran as a grave threat to both regional and international security in light of the facts—and I'll just go through a couple of the facts—Iran continues to enrich uranium to higher and higher levels, it is continually throwing up roadblocks to prevent the IAEA inspectors from gaining access to both known and suspected nuclear facilities; just yesterday Iran banned two nuclear inspectors from working in Iran for

filing what it has deemed false reports on its nuclear program, and earlier this year, the IAEA released a report stating that it had found extensive evidence of activities by Iran's military, "Related to the development of a nuclear payload for a missile."

So, in your opinion, what additional evidence does China need, or is something else going on there?

Ambassador BURNS. Senator, I think China is increasingly aware of its own stake in effective international action against Iran and its nuclear ambitions.

China obviously has a huge economic stake in the gulf and access to its energy resources, and I think is increasingly concerned about the dangers that Iran's nuclear ambitions poses to security and stability in the gulf.

It had voted for the three previous sanctions resolutions; you're absolutely right—this was a very tough negotiation, but in the end it voted for a resolution which contains some important measures.

The issue of China's continuing or potential investment in Iran's energy sector is going to remain a very important concern for us, an important priority in our bilateral dialogue with the Chinese, and we're going to continue to press that hard.

Senator BOXER. So, let me just cut through what you said. So, you think that China does understand the threat, but still, in all, they push for weaker sanctions, so why is that?

Ambassador BURNS. Well, I think they increasingly understand the threat, I'm not sure they share the same sense of urgency that we and others do, and we're just going to have to keep pressing hard. And I think in many ways, Iran's failure to live up to its obligations makes the case for us.

Senator BOXER. So, China's—I'm just pressing you on this, I don't want to make you feel uncomfortable, I know you can't speak for another nation's policies, but I'm just—it's so clear, the threat that Iran poses. And you're basically saying you're not sure they share the view that we do that it's that much of a threat at this time, and that we have to continue to make the case to them?

Ambassador BURNS. Well, I think, Senator, they increasingly share the concern that we, and many others, have, and that was reflected in their vote, after a tough negotiation.

I don't want to pretend that they have exactly the same view of tactics, or the same sense of urgency, but I think that's why we need to continue to press this issue, we made progress.

Senator BOXER. So, my last point, therefore, is that the administration is pressing China, continuing to tell them the truth about this threat and you're stating that unequivocally? That will not be abated?

Ambassador BURNS. Yes, absolutely.

Senator BOXER. Thank you.

The CHAIRMAN. Thank you, Senator Boxer.

Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman.

And thank you both for your testimony.

As a member of the conference committee, I'm looking forward to voting for the strongest set of sanctions. I see Ahmadinejad, who's largely dismissive of Resolution 1929, and in part I think it's be-

cause we roar like a lion and bite like a puppy. We need to change that dynamic, in my mind.

No matter what sanctions regime we have, there's really a real question of enforcement. A law is only good if it is enforced. I look at the U.N. resolution, and the financial sections in the resolution appear to be weak. For example, only one new bank was added to the list of sanction entities. Even here, in the United States, the sanctions announced last week added only one bank to the list of those sanctioned.

Nineteen twenty-nine specifically notes the need to exercise vigilance over transactions involving the Central Bank of Iran. So, I'd like to ask you, was this based on evidence that the Central Bank has been involved in facilitating Iran's illicit nuclear program and its support for terrorism? And does the Treasury Department intend to designate the Central Bank of Iran as a supporter of Iran's proliferation activities?

Mr. LEVEY. Senator Menendez, the current situation with respect to the Central Bank of Iran and the United States, as I think you know, is that already it is forbidden to do any business if you're a United States person with the Central Bank of Iran. Every financial institution in the United States would be violating our law—it would be a crime to do business with the Central Bank of Iran.

With respect to the banking sanctions—and frankly with respect to all sanctions—we have, by far, the toughest sanctions regime of any country in the world.

You're right, we did designate another bank last week, but that brings our list to 16 Iranian banks that we have designated—either for facilitating Iran's proliferation activities, in the case of 15 of them—or, terrorism in the case of one of them. So, we think that, you know, we will continue to enforce our sanctions regime very, very vigorously.

Those financial institutions who have violated our sanctions laws have found themselves on the other end of very, very tough enforcement actions. But Lloyd's and Credit Suisse found themselves on the other side of fines of over \$300 million, in the case of Lloyd's and over \$500 million in the case of Credit Suisse, for facilitating Iranian transactions among other sanctions—

Senator MENENDEZ. I understand about the interaction with the Central Bank. The question is, Does the Treasury Department intend to designate the Central Bank of Iran as a supporter of Iran's proliferation activities?

Mr. LEVEY. I can't say right now whether we will do that.

Senator MENENDEZ. All right.

Now, let me ask Mr. Burns—enforcement. On July the 9th of 2008, you testified before the House Foreign Affairs Committee that the State Department was investigating Norway's Statoil for a possible violation of Iran's sanctions act. For the record, that company was fined \$10 million by the Securities and Exchange Commission and the Justice Department for violating the Foreign Corrupt Practices Act by bribing Iranian Government officials in order to receive a contract. What was the result of that investigation from the State Department?

Ambassador BURNS. I'd just make two comments, Senator.

First, it's important to note that Statoil announced shortly after that testimony that they were not going to engage in new investment in Iran and they began to wind down their operations there. So, I think that's an example of where, you know, the use—aggressive diplomatic use of the Iran Sanctions Act—has actually helped produce a result.

On the broader issue of that kind of problematic cases that we talked about—we've talked about through the course of this administration, the State Department has completed its internal review of those cases. Secretary Clinton promised she would do this expeditiously at the start of the administration.

There are probably—they are a number of cases, less than 10, in which it appears that there may have been violations of the ISA. Most of those appear to involve activities that have stopped, in other words, involving companies that have pulled out of business in Iran, but there are a couple that appear to be ongoing.

The next stage, after the State Department has completed its internal review, is, you know, in accordance with the delegation of authority to Secretary Clinton, is to consult with other agencies, which we will do expeditiously, about what actions are appropriate, here, and then the Secretary will make her determinations.

So, just as Secretary Clinton promised, we're moving ahead vigorously in this administration—

Senator MENENDEZ. I respect that, except that we haven't sanctioned anybody.

You know, we can't keep doing the review and the review and the review. We come to the problematic cases, and then we go through the problematic cases, and now you're telling me that there's a group of problematic cases that are still problematic because they seem to be still engaged in Iran. DOE has information about companies doing business in violation of the Iran sanctions. I don't understand how it is that the SEC can make these determinations, that the DOE has these determinations, but we don't seem to come to a conclusion at State Department for sanctions. Which makes me wonder whether we really have the desire to implement the law and enforce it. No wonder Ahmadinejad goes, "Ho hum," to the resolutions; they mean nothing.

Ambassador BURNS. Well, Senator, it's a fair question. The proof will be in our actions. As I said, we've completed the internal State Department review, which is a significant step, and as the Secretary committed, we'll move forward quickly on those cases that appear to involve ongoing activity.

Senator MENENDEZ. Well, does the failure of the State Department result from a lack of manpower? Or, simply that you're not choosing to make a final determination for some political or diplomatic reason?

Ambassador BURNS. No, Senator, we're going to enforce the law. As I said, we have moved through and completed the internal review, it's not an issue of manpower. It is true, these are complicated issues because you've got to sift through a lot of information—some of it inaccurate because the Iranians have their own interest, sometimes, in exaggerating and broadcasting in the press stories about contracts that turn out, you know, not to be accurate in the end.

So, as I said, the proof will be in our actions, and we're moving ahead expeditiously on this.

Senator MENENDEZ. Well, I hope we have a cop on the beat, not asleep at the switch.

The CHAIRMAN. Thank you, Senator Menendez.

Senator Isakson.

Senator ISAKSON. Thank you, Mr. Chairman.

And I deeply apologize for missing your testimony and arriving late. And if what I ask is redundant, you can just correctly correct me or sanction me, and we'll move forward. [Laughter.]

Senator ISAKSON. I think all of us really recognize that the \$64,000 question is the weaponization of nuclear materiel in Iran, and that's what has the clock running. Is there any timetable we're using as a date that we think they will actually have it weaponized? The Iranians? Other than just guesswork?

Ambassador BURNS. Well, Senator, I mean, I'd be glad to participate in a closed session to talk about this in more detail. I guess what I would do is stand by the testimony that the Vice Chairman of the Joint Chiefs offered a couple of months ago before a different committee, in which case he was asked a similar question. And what he said is, it would probably take a year from today, judging from the experience of other countries of low enriched uranium stockpiles, to produce—for the Iranians—to produce the amount of weapons grade materiel, highly enriched uranium that they'd need for one nuclear weapon. That's only the materiel, that's not the weapon. And he estimated, in public testimony, that it would take 3 to 5 years to produce an actual nuclear weapon. In other words, take that enriched materiel over the course of the next 3 to 5 years and turn it into a weapon. That was his public estimate, and I'll stand by that.

Senator ISAKSON. Well, taking that general information, the fuse is getting a lot shorter, which is why the sanctions issue is important, to try and get the Iranians to come to the table.

Do you, in terms of the U.N. sanctions that recently passed the Security Council, what is the resolve of the Europeans in terms of being an enforcement mechanism, in terms of those sanctions? In your opinion—I know that's all that would be, would be your opinion.

Ambassador BURNS. Yes, sir. I think the best illustration of the strength of European resolve is what the European leaders decided last Thursday, which was to take Resolution 1929 and not only implement it, vigorously, to the maximum extent possible, but also to accompany it with a number of important new measures, for example, a ban on new European investment in the oil and gas sector, a ban on the transfer of important technologies to that sector, including those related to LNG where European companies, Western companies play an exceptionally important role in terms of provision of that technology to any countries in the world. So, those are quite significant steps, and I think it's a mark of deepened European resolve now.

Senator ISAKSON. Mr. Levey.

Mr. LEVEY. I don't have anything to add to that, it sums it up very nicely.

Senator ISAKSON. There is some movement in Congress on the sanctions bill, and one of the sanctions that I—it has always seemed to me—would be the one that might hit it the hardest—would be the one over the importation of refined petroleum. Is that correct, or incorrect? In terms of the gravity of that sanction on the Iranians?

Ambassador BURNS. It is true that Iran is dependent, to a significant degree, on the import of refined petroleum products of gasoline for consumption, although over the last few years, as I understand the statistics, they managed to reduce their exposure. A few years ago, they depended for about 40 percent of their consumption of gasoline, refined petroleum products on imports. Now, I think the figures I've seen are closer to 25 percent. So, they've anticipated, you know, their vulnerabilities, the kind of pressures that could be exercised against them, and tried to act accordingly. But, you know, there's still a significant exposure, there.

Senator ISAKSON. Do we have any knowledge that they're—in addition to increasing their capacity—that they're actually storing it so they could ride out a ban?

Mr. LEVEY. I think that's one of the measures that they are taking, Senator.

But, if I might just add on this point that, while this is a vulnerability and that we think it's one that could be exploited, on the other hand, it's not really—we, it's our belief that it's not a silver bullet in and of itself, that we need to do all of the other things that we've talked about in this hearing, in addition to focusing on this. But that, one of the things—two of the things that they may do in order to anticipate this attempt to constrain their ability to import refined petroleum is either to cut rations, or to reduce the subsidies on petroleum. And both of those things are, politically, very, very difficult for them to implement within Iran at the same time as we've been discussing that they're losing the support of their people, and for many other reasons. And so, they're very resistant to taking those sorts of steps. So, it's for that reason why we think it's quite useful to target this, but not necessarily sufficient in and of itself.

Senator ISAKSON. Well, we obviously have learned there's not really a silver bullet in this issue, but there may be a critical mass of weight that, when it finally all comes to bear, both U.N. sanctions as well as things that Congress does, we get to that critical point that they have to react, and that's where I think we need to be—if the window is 3 to 5 years that you were referring to in the previous statement, if it is there, we need to be working now to get that critical weight sooner rather than later, to get them to the table, I think. Do you agree with that?

Ambassador BURNS. Yes, sir. Absolutely.

Senator ISAKSON. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Isakson.

Senator Webb.

Senator WEBB. Thank you, Mr. Chairman.

Secretary Burns, I apologize for coming in late. I have followed a good bit of this hearing while we were going through meetings in my office, so I've been very interested to see some of the lines of questioning here.

Let me start by asking if the administration has any position or further thoughts of pursuing possible alternative approaches, such as the one that was offered by Brazil and Turkey, toward resolving this crisis?

Ambassador BURNS. Senator, I mean, this goes back to the original proposal that the IEA put forth last October, and that we, Russia and France strongly supported and would have participated in.

When the Iranians announced—just before the Security Council resolution was passed, along with the Brazilians and the Turks—their version of this proposal, we consulted with Russia and France and subsequently provided Mr. Amano, the Director General of the IEA a series of concerns about that, reflecting the fact that, you know, first the situation has changed, as Senator Kerry mentioned, before on the ground, in the sense that, you know, this is meant to be an important confidence-building measure, 1,200 kilograms of low enriched uranium last October would have been more than three-quarters of the then-stockpile that the Iranians had; now it would be less than half. The Iranians have since begun to enrich to 20 percent. It's not logical for them to continue to do that if they're getting help from the outside on the TRR.

It's a long way of saying that we put our concerns on the table. We're certainly prepared to engage with the IEA and others on that issue.

Senator WEBB. So, procedurally, it's not off the table—those sorts of approaches.

Ambassador BURNS. It's not all off the table, no sir.

Senator WEBB. I was very interested to hear Senator Lugar's question about an article that appeared discussing the possibility of the emergence inside of the Iranian Government, more toward I think Senator Lugar said, a military dictatorship, but a larger direct role, as opposed to the more theocratic approach, as existed in the past. Do you have a comment on that?

Ambassador BURNS. Senator, just to say that I do believe that it's a fact that the role of the Islamic Revolutionary Guard Corps in the leadership calculation and its influence as expanded in recent years, I think the circle of leadership has gotten smaller in Tehran, and I think that has revealed fissures within the political elite, as well as between the elite and much of the rest of the population.

Senator WEBB. Would you say that has accelerated over the last 8 or 9 months? That evolution?

Ambassador BURNS. Yes, sir, I think it has since the elections last June.

Senator WEBB. I have a question about the use of sanctions. We spent a lot of time talking about sanctions and existing laws, but there have consistently been waiver provisions that seem to have overridden sanctions provisions in the past. Would you have a comment on the use of waivers up to now? How broadly they've been used?

Ambassador BURNS. Well, Senator, I guess what I'd say is that, you know, we share the objective of constraining Iran's nuclear program; it's one of the highest national security priorities of the United States. What we want to try to do is work with the Congress so that whatever new legislation gets passed in terms of im-

plementing existing legislation, we're doing that in a way which carries out the law, but also amplifies the effect of the international coalition we put together. And in that sense, the kind of waiver authority that I know the conference is discussing now with regard to companies from countries that are closely cooperating would be a very valuable tool, I think, in all of our interests in terms of maximizing the pressure on the Iranian leadership.

Senator WEBB. And wouldn't it be fair to say that at least from the reading that I've been exposed to—the waiver provisions have been sort of the rule, rather than the exception, in terms of sanctions that now are in place?

Ambassador BURNS. Well, Senator, in response to an earlier question on the Iran Sanctions Act, I did state that the State Department has completed its internal review of a series of problematic cases—that's a significant step. And now we're going to be working with other agencies to consider appropriate actions, and that will lead Secretary Clinton to make determinations. And so, we're going to apply existing law vigorously, and we want to look carefully at the kind of flexibility that we think would help the President in future legislation to apply maximum pressure on the Iranian leadership.

Senator WEBB. Would you describe the main concern of the administration, with respect to the legislation that's now in conference, with the waiver provisions, or what other major concerns are there?

Ambassador BURNS. I think that's as significant a concern as I can think of. But we've been working very closely with the members of the conference, and we look forward to continuing that over these next few days.

Senator WEBB. OK. Thank you very much. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Webb.

Senator Risch.

Senator RISCH. Thank you, Mr. Chairman.

The reservations that were expressed by Senator Menendez here are bipartisan. I thought he was kind and gentle. You know, we've been at this a year, and nothing's happened. Ahmadinejad mocks the attempts by us, he demeans them, and if the objective—which I guess it is—is to stop them from enriching, it has had, seemingly, the exact opposite effect because of the ineffective way that we've gone about this.

So, I understand, and I've heard the arguments, up until recently, about how it was so delicate, what was going on in the U.N., and we can't act too aggressively, et cetera, but that's behind us now. And I've said this before, and I've said it again—the Israelis are not going to allow Iran to continue down this road. And they're going to get to a point where they're going to do something about it, and then everyone's going to wring their hands and say, "Well, why didn't America do something?" So, we're at that point where we really need to do something.

This is a serious situation, I appreciate hearing you say that it is one of the highest priorities for the American Government, but I'll tell you, we've got to get better at this because we're going to

have a real wreck on our hands and everybody's going to point back to us.

Your comments, Mr. Burns.

Ambassador BURNS. Well, Senator, we—as you know, the President, Secretary, other members of the administration share absolutely that sense of urgency. We understand what's at stake, just as you do. I think there's an increasing number of countries in the international community who share that sense of concern. That's reflected, not just in the passage of a new Security Council resolution, but in the steps that the European Union has announced that it's going to take, the steps we expect other governments are going to take. We're going to work at this issue as vigorously as we can because, like you, we understand what's at stake, here.

Senator RISCH. The only problem with that, Mr. Burns, and I agree with you 100 percent, the only problem with that is, we're in the same position we were a year ago. What you just said was the position of the administration and the world community and everyone else a year ago, but nothing's happened except Iran has continued down the road, in fact, more robust than it ever has before, for the last year.

Ambassador BURNS. Well, the only thing I'd say, Senator—and Stuart may want to add to this—is I think some things have changed. You're right, in terms of our collective frustration with Iran's intransigence. But I think what we tried to do was use an intensive period of engagement as an investment in partnership with other countries, and it has produced some new tools of pressure that I think—if we implement them effectively and systematically—do have a reasonable chance, as Secretary Gates said on Sunday, of having an impact on the Iranian calculus. And that's not just the Security Council resolution, it's what the European Union can do, it's what other governments can do, it's what we can do, as well. And, you know, to just add to my response to Senator Webb's question earlier about, you know, the implementation of the tools that we have, the Treasury Department, State Department and others—as Treasury announced last Wednesday—have continued to implement U.S. authorities vigorously. And we'll continue to do that, and take advantage of new legislation, as well.

Mr. LEVEY. Senator, could I just add one other comment, which is, I wouldn't be too overfocused on the bluster from President Ahmadinejad. We do know that the Iranian leadership is quite concerned about these new sanctions, not just from the fact that they tried so hard to keep them from being enacted, but from other indications, as well, and that we've already seen indications from within Iran from economists and so forth that are quite concerned about the effect of these new sanctions.

And I share your sense of urgency and in some sense, concern, about this issue. But now I would say we're at the beginning of pursuing this path of accountability. And we do have new tools.

So, on the one hand, you say that the one—the only thing that's changed is they've increased their stockpile of low enriched uranium. But, we now have new tools, and that's something that has changed, also. This Security Council resolution does give us a good platform to build on.

It targets exactly the right target. We were talking earlier about refined petroleum, I'd say that the focus in the Security Council resolution and around the world on the IRGC is an excellent target for sanctions, for all of the reasons that I think have been discussed. This is a part of the Iranian leadership that's taking opportunities away from the Iranian people, it's participating in the repression of Iranians, and it's the perfect target for sanctions, if I might. Because it's hard to imagine the Iranian leadership rallying the people around the IRGC as we target them for sanctions. That's one of the most significant provisions of the new resolution, that it's targeted not only 15 companies—the number's not what's important, quite frankly—but the largest of these companies is significant.

I'm not saying it's going to be easy, but I think that we're at the beginning of this process, and we intend to pursue it intensively.

Senator RISCH. Well, Mr. Levey, I hope you're right. My problem is that when people express this great concern and hand-wringing that Iran seems to have, they don't do anything about it. They keep enriching uranium that they don't need, and all they've got to do is stop and all of this stuff goes away. So, they can't be too concerned.

Anyway, thank you very much.

Thank you, Mr. Chair.

The CHAIRMAN. Thank you very much.

Senator Kaufman.

Senator KAUFMAN. Mr. Chairman, I want to thank you for holding these hearings. I think that anyone who is interested in Iran can look at the series of hearings that you've been holding and gain a great deal of information about what's going on and what's happening over there. It's been comprehensive, it's covered all of the different areas, and I think it's a kind of a tour-de-force in how the Senate Foreign Relations Committee can do its job.

And I want to thank the two of you who are, I think, exemplary Federal employees. And I think you exemplify all that's good about what's going on, I think the American people are lucky to have you here.

I also think that, you know, we tried 8 years of yelling at the Iranians. And that, I mean, this is not something that happened in the last year. We've known about what's been going on in Iran for a long time. And I don't think yelling at them did a whole lot of good. I think that this is very, very frustrating to all of us. It's obviously frustrating to Senator Risch, it's frustrating to me, it's frustrating to everybody.

But it's a frustrating world out there. I mean, it isn't just Iran—what about North Korea? I'm frustrated about them, I'm frustrated about lots of different things that are going on, and these are just very difficult problems.

And I believe—I'm not going to apologize for the administration, but I think we have made progress in terms of the fact that we have got Russian more involved. And what we're doing, we've got China on these resolutions, I think the stuff that Under Secretary Levey's doing with regard to the financial pressure being brought to bear on the Iranians, which he talked about in his opening testi-

mony is really quite impressive in gathering all of the world and going after them financially. This is a tough, tough fight.

But I do share Senator Risch's frustration, and I do think that we are on a short fuse, but I couldn't think of two better people to have working on this.

Now, that out of the way, Secretary Levey, could you talk a little bit about cooperation you're getting from the Gulf States in terms of what we're trying to do?

Mr. LEVEY. Well, thank you, Senator, and thank you for the kind words.

I'd say that, as others have commented here and as the chairman commented in his opening statement, the concern about a potentially nuclear-capable Iran—nuclear weapons-capable Iran—is felt just as deeply in the gulf as it is anywhere.

I do think that we certainly have the indications that we'll get strong cooperation. We're in much, much better shape now that we have a U.N. Security Council resolution. To be candid about it, I think that was something which our gulf allies wanted very much to see. They feel much more comfortable cooperating under the umbrella of a U.N. Security Council resolution. And so, we're going to pursue that right now. I think there are indications that we'll get good cooperation.

Senator KAUFMAN. Secretary Burns, you mentioned in your testimony about the U.N., the Russian decision not to transfer S-300 surface-to-air missiles to Iran. How significant is that?

Ambassador BURNS. I think it's a significant illustration of Russia's commitment to the full implementation of the new resolution. I think it's significant that Russia had shown restraint in the period of years before the new resolution. And I think it's a good example for other countries as they look at implementing all of the provisions of 1929.

Senator KAUFMAN. Secretary Levey, Senator Boxer went through a good series of questions about China, and China's involvement. Clearly, China signing on the sanctions is significant for us, but what are the chances that China is going to use this as an opportunity to do business in Iran, now that other Europeans are starting to cooperating with us, and other nations are cooperating with us, that China can move into this vacuum and pick up some of this business?

Mr. LEVEY. I'd also invite Secretary Burns on this, but I'd say that this is a significant challenge that we face and that we intend to make this a very, very high priority to use the U.N. Security Council resolution in the first instance to—which we have every reason to expect that China will faithfully execute, and they have historically executed U.N. Security Council resolutions that they—that have been passed. But, the key point is to try to make sure that they don't backfill from business opportunities that others are forgoing, and that's going to be a very high priority that we really push and urge them on.

Senator KAUFMAN. Under Secretary Burns.

Ambassador BURNS. No, I'd just echo the same thought.

It's going to remain a high priority for us in our dialogue with China.

Senator KAUFMAN. Secretary Burns, I noticed in your statement you talked about the Justice Week, 55 other nations joined and rebuked Iran for its atrocious human rights record in the Human Rights Council. Can you talk a little bit about how this and the 1929 Resolution indicates some change in the U.N.'s approach to Iran?

Ambassador BURNS. Well, I think since last June you have seen, as you know very well, Senator, a rising concern of the international community about the repression of Iranian citizens about the denial of rights that really ought to be universal for Iranians. And I think the administration, President Obama, has spoken out clearly about that, will continue to do it. And I think it is notable that 55 other countries joined us in this joint statement at the Human Rights Council. They came from a variety of regions of the world, and I think they do reflect growing concern. And that's something we're—I think the United States is certainly not alone in highlighting, and we will continue to work with others to amplify that.

Senator KAUFMAN. Under Secretary Levey, can you just kind of go through—kind of from Iran's view—what's happening to them financially around the world?

Mr. LEVEY. I'd be happy to, Senator.

If you were to rewind the clock to 2005, say, Iran was doing business openly like a quote-unquote "normal" country all over the world, and had access to the financial system, including all of the leading financial institutions in the world, and they were doing an enormous amount of business everywhere except in the United States, where we already had sanctions on Iran.

But, when we started to expose the way Iran was using the financial system for its proliferation activities and for terrorism, the financial institutions around the world looked at the information that we were providing and the actions that we were taking, and the deceptive conduct that Iran was engaging in, and they decided almost unanimously to dramatically cut off their business with Iran, or dramatically cut it back. That has left Iran isolated financially, and that has had real impact; it makes it harder for them to do trade, they have a very difficult time obtaining letters of credit from financial institutions around the world. They find it very difficult to obtain financing for the major infrastructure projects. One of the things that you asked earlier was about the risk of backfill as others pull out of projects in Iran. The truth is that already the major European companies are avoiding that business, in part because they don't want to do the business with Iran, partly because of urging from the United States, but in part because there's no financing available, because big financial institutions just will not finance deals in Iran.

This has real impact. It's also part of the reason why, I think, they are concerned about this new set of sanctions, and the potential implementation by governments around the world.

Senator KAUFMAN. Thank you. Thank you, both, for your service. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Senator Shaheen. Senator Wicker, excuse me.

Senator WICKER. Thank you very much, I appreciate your testimony, gentlemen.

What do you say to the charge that the U.N. sanctions have been so watered down and so weakened that they're relatively meaningless? What do we have to give up in order to get Russia and China on board with this U.N. resolution?

Ambassador BURNS. Well, Senator Wicker, I think first, two points. Security Council Resolution 1929 does go well beyond previous sanctions resolutions, and I think the provisions in it are significant. I'd just cite a couple of examples: the ban on significant transfers of conventional arms; Russia's subsequent decision that it will not deliver S-300 missiles to Iran in accordance with that resolution; the ban in the new resolution on all ballistic missile activity connected with missiles that could carry nuclear weapons; the range of provisions in the financial sector that Under Secretary Levey has already talked about. I think all of those provisions provide a stronger platform than we've ever had before internationally.

And that's my second point. I think we can build on that platform, as the European Union announced it was going to do last Thursday, in ways which further strengthen the impact on Iran of those kind of measures. And I think that's a significant advance on where we've been before.

Senator WICKER. Then the second part of my question—what do we have to give up, as compared to what we wanted—in order to get the Russians and the Chinese on board at the Security Council?

Ambassador BURNS. Well, it's like, Senator, any negotiation anywhere. I mean, we didn't get everything that we wanted in that resolution, but nor did the other parties get everything that they wanted. And I think what we produced in the end, collectively, especially amongst the permanent members of the Council, was a significant step forward—

Senator WICKER. Was there a draft proposal that we submitted that specifically listed some proposals that were taken out in the final version? I guess that's my question.

Ambassador BURNS. Well, sure. As I said, Senator, we didn't get everything that we, the United States, would have liked, if we were just writing the resolution ourselves, but—

Senator WICKER. And, what might those have been?

Ambassador BURNS. Sir, I don't want to go into all of the backing and forthing of a negotiation, but, you know, there were certainly provisions that if we were just doing this ourselves, you know, we would have preferred. But, I think at the end of the day, we were able to produce, collectively, a very significant set of sanctions. Which puts us on a very good position to build on them, with the E.U., with steps the United States can take, steps Australia and other countries can take.

Senator WICKER. Does it surprise you, Secretary Burns, that Russia has criticized the announced United States sanctions and the E.U. sanctions?

Ambassador BURNS. No, Senator, it didn't surprise me. Russia has been quite consistent and quite clear in its concern about measures that go beyond those in the U.N. Security Council resolution.

Senator WICKER. And so, would you say it's fair to characterize their opposition as being more to the forum of the sanctions, rather than to the specifics—the specific effects of those sanctions?

Ambassador BURNS. Well, you know, the Russians can speak for themselves on this—I think there is concern about measures that go beyond the forum of the U.N. Security Council. I think there's also concern that's shared—it's not only a Russian concern, it's shared by our European partners, too, about extraterritorial application of other countries' national measures. So, it's a variety of concerns that produced that.

Senator WICKER. OK. With regard to Turkey and Brazil voting no. Again, I'm asking you to characterize someone else's point of view. But, is it their contention that—that we sort of pulled the rug out from under them, that we had asked them to go forward with these negotiations with President Lula and President Ertigan, and—and they felt that they didn't get enough communication from the State Department. Is that a fair characterization of their viewpoint?

Ambassador BURNS. I don't think, Senator, there was any lack of communication on this issue. I think the Turks and Brazilians, while they share the same goals strategically, they're firmly opposed, both of them, to a nuclear armed Iran. We had differences over timing and tactics, and, you know, we expressed our disappointment in the votes that they chose to take, but we've also taken note of the fact that both Turkey and Brazil have made clear that they intend, as members of the United Nations, to implement fully the Security Council resolution that was passed.

Senator WICKER. Do you think this is a flap between the United States and Turkey and the United States and Brazil, that we're going to get past fairly quickly? Are there going to be any long-term ramifications of this decision on their part?

Ambassador BURNS. Well, as I said, Senator, you know, we've made clear our disappointment over those votes. We also recognize the number of areas, for example, with Turkey, where we have common concerns. One recent example has to do with the PKK, a terrorist group, where the United States has cooperated closely with Turkey in support of its efforts to protect its own security. And that's an area in which we're going to continue to work together.

So, you know, these are complicated relationships with countries that matter in lots of important ways, and we'll have to try to work through our differences. But they were real enough over the Security Council resolution.

Senator WICKER. Thank you very much.

The CHAIRMAN. Thank you, Senator Wicker.

Senator Cardin.

Senator CARDIN. Thank you, Mr. Chairman.

Let me thank both of our witnesses for the work their doing. Clearly getting the next U.N. sanction resolution passed was a major step forward, and we really do applaud your efforts in that regard.

But I must tell you, I think that the United States sanction legislation is critically important. Just by way of analogy, historically what happened with South Africa—there was a lot of angst about

the United States moving forward with sanctions against the apartheid Government of South Africa. They said we can depend upon the international community, and quite frankly, it was United States leadership that provided the impetus for the economic pressure on South Africa to change its apartheid government.

And I do remember the arguments at the time, people saying, gee, it's going to hurt the people of South Africa and result-wise, it was part of the strategy that brought about the transition of that country in a less bloody way that otherwise it would have happened. And, you look at economic sanctions working, of the Jackson-Vanik law, which was instrumental in freeing a lot of immigrants from the Soviet Union. And Iran may give its own assessments of this, but clearly the economic sanctions need to be strengthened. And the work that you did within the United Nations is a very positive step.

The legislation, which I hope we will approve this week, is strong, putting the United States in the forefront dealing with refined oil products. And, I understand the historic relationship between the executive and legislative branch. On foreign policy, we're usually together. But I think it's important that we speak with a very strong voice, and you can always point to the independence of Congress as you try to negotiate with our friends around the globe.

I want to get to the enforcement issues of the U.N. resolutions. I know you've talked about that, but, you know, I am concerned as to how we will be monitoring the work within the United Nations on enforcement of its own resolution, and how the United States will provide the international support that's going to be needed to provide the intelligence information as to whether the sanctions, in fact, are being complied with.

Can you just go into a little bit more detail as to how this will be handled as a priority within our government to make sure these sanctions are enforced at the highest levels?

Ambassador BURNS. Yes, Senator, I'd be glad to start. I mean, first, Secretary Clinton has appointed Bob Einhorn, one of her senior advisors, to be the full time coordinator in the State Department of implementation, exactly the kind of challenges that you talked about, working with Under Secretary Levey, our colleagues throughout the administration, and the intelligence community, and importantly, working with foreign governments to make sure that there's vigorous implementation of these measures. Because as significant as the new measures are, they're only as good as the implementation.

Second, as Stuart mentioned before, we do have in Resolution 1929, the creation of a so-called panel of experts. The Iran sanctions regime has, up until this point, been the only U.N. sanctions regime without such a panel, which is aimed at enforcing accountability. It will consist of eight members, including one from the United States, and that gives us another tool in the U.N. system to try to hold people accountable for implementing the new resolution.

Senator CARDIN. But as I understand it, a lot depends upon having reliable information as to whether there's reasonable cause to believe that a vessel contains illicit products. That information

most likely will be coming from sources that the United States has interest in. How is that coordinated with the United Nations effort?

Ambassador BURNS. Well, sir, the comprehensive inspection regime set up in Resolution 1874 in North Korea, is in some ways a good model from this, and we've learned a lot from that experience and had some successes. And, we will work, you know, very closely with our friends and allies with this new panel of experts at the U.N. to ensure that information is passed quickly, and that we can use it to identify suspect cargos and then take advantage of the new provisions of the resolution.

Senator CARDIN. Are there any additional resources that the United Nations needs in order to carry this out, or do you think they have adequate resources devoted to this?

Ambassador BURNS. Well, it's certainly something, Senator, we'll keep a careful eye on and stay in close consultation with the U.N. Secretariat on, but I think this new panel of experts is an important new tool.

And then—what Bob Einhorn's efforts and his coordination of, you know, the efforts of not only the State Department but others in the administration, I think is also an important new tool. We just need to plug the two together and I think that can produce real results.

Senator CARDIN. Once the United States has completed its bilateral sanction improvement, the one we sign when the conference board is completed—which we hope will be this week—can you just tell whether other countries are looking at the United States to perhaps follow our lead and enhance the sanctions in addition to the United Nations?

Ambassador BURNS. Yes, sir, the European Union, last Thursday when its leaders met, took a very significant step in announcing a series of measures that not only implement to its fullest, Resolution 1929, but accompany it with steps such a flat ban on new investment in the oil and gas sector, a flat ban on the transfer of certain important technology to the energy sector in Iran, a range of other measures which build on the new Security Council resolution. Australia has announced similar kinds measures. We know Canada is considering a similar set of provisions, and we're in touch with a range of other governments about steps that they could take as well.

Senator CARDIN. Well, I think that's important. I think it's important to show that this, again, beyond just the United Nations. That sets the framework, but it really does depend upon those who are concerned what Iran is doing, coming together with creative ways to make these economic sanctions really work. And then we can learn from each other, get the best practices, which will strengthen the U.N. effectiveness of its resolutions, but also help us figure out ways that we can close any gaps in the intended economic pressure.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Senator CASEY. Thank you, Mr. Chairman.

I want to thank both of you for being here and for your testimony and for your service at a tough time in our Nation's history. I do want to thank Ambassador Burns for mentioning, and Chairman

Kerry for mentioning, the three hikers, one of whom, Josh, is a Pennsylvanian, and Sarah and Shane. And I know that our government has taken a lot of steps to try to secure the release that has not happened yet. We're coming up on a year, but we're grateful for the work and we look forward to continuing to work with you on that.

And in that vein, with regard to freedom and human rights and Internet freedom and freedom of expression, I want to—I was noting from Under Secretary Burns, the reference on page eight, page seven onto page eight, where you state, "State and Treasury have worked to issue a general license that allows free market, downloadable communication software available inside Iran." And I know you may have already addressed this, but two things. One is, what can you tell us, in terms of an update—and again, this may be redundant from what you've testified to earlier—an update on how that effort is proceeding. And second, what if anything the Congress can do to help the administration in this area. I know we've passed the Voice Act, we've done a number of things, but is there a gap or a hole or a strategy that we haven't acted that we can be helpful to the administration with?

Ambassador BURNS. Thanks, Senator Casey. No, we admire very much the efforts that you and your colleagues in Congress have made to highlight the importance of free access to information on the part of Iranians, which is a universal right. You highlighted, sir, one of the specific steps we've taken, along with Treasury, in issuing a general license to make more accessible kinds of software, whether it's for e-mail or blogs that we think are very useful. The truth is that there are at least 25 percent of the Iranian population that is online regularly, and it's an extremely important way of people communicating with one another.

We've taken another step, which is to issue a specific waiver for a kind of technology that helps avoid jamming, which is a—certainly a tool that the Iranian Government has used to cut down on the free flow of information. We applauded the Voice Act, we'll try to take full advantage of the kind of provisions that are in that act, and look for other creative ways in which we can help Iranians have access to information, just like any other society ought to have.

Senator CASEY. When you say the waiver, explain how that works. When you said the providing waiver, tell me how that works.

Ambassador BURNS. Well, it's just under the—I'll probably get some of the details wrong, but under the current strictures, you know, that the U.S. Government applies to any kind of commercial interchange with Iran, there were proscriptions on, you know, certain kinds of equipment, and this would actually make an exception in that case.

Senator CASEY. Thank you. I know that Under Secretary Levey has been part of the effort to keep the heat on the regime as it relates to sanctions. I know we're—we meet here principally to focus on what the United Nations has done. And in that vein, I want to ask as well about some of the congressional action on this, but I was looking at your testimony as well. On page six where you talked about the—the Islamic Revolutionary Guard Corps being designated by Treasury in 2007, and you want to—you go on from

there, and I guess it's second or—I think it's the third sentence, about what happened last week, the actions taken to supplement those actions. And in the end of the paragraph, you talk about the 26 entities now that have been so designated.

What if—let me ask you first, what if anything is left there, in terms of work to be done on putting pressure, particularly on the Revolutionary Guard Corps, is there anything more that you would hope the Congress would do or do you think the sanctions that are being worked on now, by way of a conference committee, whether or not that's going to be sufficient to provide the kind of pressure, in particular, on the Guard Corps.

Ambassador BURNS. I'd make two points, Senator. One is that, as I understand the bill that is being considered, it does have IRGC provisions that would expand our authorities in this respect and that would provide the authority to restrict U.S. business with entities that are doing business with IRGC. But, perhaps most important, is the implementation—I mean, it comes back to the implementation of the U.N. Security Council resolution, because the designation in the Security Council resolution of Khatam al-Anbiya, which is the umbrella company that does all the—that does a lot of this business, and then a lot of it's subsidiaries and affiliate companies, that it's—it's frankly hidden behind, since we designated it ourselves in 2007. To have that be a global implementation of those restrictions will be very powerful, even in their most important industry, which is of course their energy industry.

Because they can't attract investment, they are turning over projects to IRGC affiliated companies. One knows that if those companies were capable of doing those—handling those projects, that's how they would have handled it in the first place. They need to contract out, outside of Iran, and those companies have a history of contracting out with companies around the world, including in Europe, to do the projects that they're given as sole-source contracts from the government.

So, we think that implementing that provision of the resolution, the designation of the IRGC companies, is a very, very powerful—a very, very powerful step.

Senator CASEY. And I know we don't have—we have not completed the conference work that will lead to final passage of the legislation. But, let me conclude with this. There are a lot of people who will say to me, "Well, it's great you guys are going to pass something in Congress to provide more authority for the President for administration." Some authority, of course, will relate, as Senator Brownback and I worked on the divestment, so we have other levels of government, pension funds, and local government and State governments helping us, but in terms of the new authority for this President, this administration and succeeding administrations, I would urge both of you to be a very strong voice, to use the power that's granted. I know it's I know it's unilateral, I know it's—there's discretion involved to a substantial extent, but we need to keep the heat on this regime and we don't want to pass legislation where it just sits on the shelf. So, I know you have strong feelings as well about this, but I urge you to be a strong voice for the use of those enhanced authorities.

Thanks very much.

The CHAIRMAN. Thank you very much, Senator Casey.
Senator Shaheen.

Senator SHAHEEN. Thank you, Mr. Chairman.

And thank you both for being here. I had a meeting recently with a representative from a large corporation who was expressing some concern about how they might be affected by the further Iran sanctions resolution at the U.N. and the action that we're taking here in Congress. And, they were expressing concern in a way that indicated some question about whether they thought this was really necessary.

And, I wonder if you can tell me how we're dealing with American corporations who we hope and expect to comply with the sanctions resolution and the action that we're taking, and are we educating them, are we—I mean, what surprised me, frankly, was that he didn't view this as his patriotic duty and that he didn't seem to recognize the very real threat that Iran poses.

Mr. LEVEY. obviously I don't know which company you're referring to, but, Senator, I, and I know Secretary Burns and others at the State Department do a lot of the sorts of discussions like this, to the extent that I'm talking to a company that's not American company, I make the point that our companies have been voting with their, you know, putting their money where their mouth is for a generation.

We have largely forsworn the economic opportunities of doing business with Iran through our unilateral sanctions for a long time, and so when I get push back from other governments I'm quick to point that out.

When it comes to U.S. companies, this is a very, very small and frankly, you know, it gets a lot of attention, but it's a very small amount of business in absolute terms, but we are very—very vigilant with respect to making sure that we enforce our law as it stands, which is that if you're a U.S. company and you have a subsidiary abroad, you can not use that subsidiary to evade the sanctions, and if you do, we'll take enforcement action against you. What frankly happens a lot of times is when we start to investigate the business of the foreign subsidiary, we get a public announcement that they're going to stop doing the business, and then we say that's great. And that's maybe a good outcome.

But we take this very seriously, and as I indicated to other Senators, when people violate our sanctions, we're very tough, as we were with the two major financial institutions that violated our sanctions in the last couple of years, and imposed multiple hundred million dollar fines on both of them.

Senator SHAHEEN. Thank you. Can you also talk about the reaction to the Financial Actions Task Force's recommendations and—I guess they're more than recommendations, they're countermeasures—and how responsive the international community has been to that.

Mr. LEVEY. Well, thank you for asking that, because this is something which—which the Financial Action Task Force, which is the standard setting body on money laundering and terrorist financing issues, and it has the buy-in of almost every country, major country in the world has—only one country that they have called out for countermeasures, and this is not done for political reasons, this is

a technical assessment of the risks posed by illicit finance within each country. And Iran is the only one that opposes such a risk, that they've asked countries to impose countermeasures.

We frankly intend to use that call for countermeasures and the combination of the financial provisions of the U.N. Security Council resolution to seek very robust countermeasures on Iran, and the indications, at least initially from the Europeans, as Under Secretary Burns said, their statement is at least a political statement in the right direction, we've now got to turn it into action.

Senator SHAHEEN. And you mentioned the Europeans, the Australians, is there anybody that we've been talking to who we are concerned will not go along with those countermeasures? Either one of you.

Mr. LEVEY. The issue about the countermeasures is that's there no prescribed—there's no prescription about exactly what countries have to do, and so we have to work with them to make sure that the countermeasures that are imposed are robust enough. And so, the direct answer to your question, is no one will say, no, we're not taking it seriously. My concern and what I intend to work on very hard to make sure that what they do impose is strong enough and isn't just a statement of concern, but rather some real teeth in these countermeasures.

Senator SHAHEEN. Under Secretary Burns, you talked about Turkey and—Turkey and Brazil having—supporting the underlying goals of the resolution, but thinking there were other ways to get there is that were more effective. Should I assume from that that they share our very real concern about the threat that Iran poses?

Ambassador BURNS. I think they do, Senator. I certainly—I think they share the strategic goal here, which is to ensure that Iran doesn't develop nuclear weapons, Turkey in particular, is a close neighbor and has as big a stake as anyone in the security and stability of that part of the world.

Senator SHAHEEN. And, can you also elaborate a little bit on how that action at the U.N. has affected Turkey's relationship with Israel?

Ambassador BURNS. Well, the relationship between Turkey and Israel, as you know, has been a complicated one for, you know, for reasons that go beyond simply the issue of the resolution in New York, and certainly the incident effecting the recent Gaza flotilla was a source of real friction between them.

In the past, Turkish-Israeli relationship I think had been one of the, you know, more encouraging developments in the region. Turkey played a very significant role, as Senator Kerry knows, in 2008 in facilitating an indirect exchange between Syria and Israel, and I think that was reflection of the kind of role that Turkey can play on a range of important Middle East issues.

Senator SHAHEEN. And finally, what impact on Iran's position within the Middle East have these sanctions had, or is it too soon to tell? So, have they increased some of the other countries within the Middle East who might—like Syria—who might have been more supportive of Iran, or have they decreased their commitment to Iran?

Ambassador BURNS. Well, I think the passage of the resolution—it's, you know, it's not a magic cure, but it does reinforce the isola-

tion of Iran in the international community. I think it reinforces in the region, I think, the concerns of, you know, our partners not only in gulf but elsewhere. There are concerns about Iran's nuclear ambitions and about its behavior in lots of other areas, its support for terrorist groups, its efforts to undermine efforts of Middle East peace.

So, I think in that sense the Security Council resolution has a constructive impact in highlighting what the real problem is here today, and the real problem is Iran's unwillingness to live up to its international obligations.

Senator SHAHEEN. Thank you.

The CHAIRMAN. Thank you, Senator Shaheen.

Mr. Secretary, I know you want to try to get out of here around 11:30, we'll try to get you right out of here momentarily, just a couple of quick questions, if I may.

How much international cooperation, Secretary Levy, do you anticipate for the nonbinding measures?

Mr. LEVEY. I have very high hopes and I think that our indications so far are quite positive. And these nonbinding measures, I think, I have two reasons for optimism. One is that we have had prior consultation with a lot of our allies about exactly what they needed to do the things that we want them to do. And my second reason for optimism is that the overwhelming information that is already in the public domain about—that the resolution calls for countries to meet before they can take action.

So, as I mentioned earlier, governments are asked to cut off all financial services and corresponding banking if they have reason—if they have enough information to believe that this could be used for Iran's nuclear missile enterprises. Well, the information that is in the public domain already is overwhelming, and in fact, even in the resolution itself, one of the criticisms of the resolution that I heard was that there's only one bank listed. And it is a bank that's a small bank that is owned by Bank Mellat, which is a large Iranian bank.

But the description in the resolution of what bank—of Bank Mellat, is that it moves hundreds of millions of dollars for Iran's nuclear and missile and other military enterprises. So there you have, even in the resolution itself, already the information that is necessary for governments to take strong action against Bank Mellat. And so, we can use that, I think, to get some strong response.

The CHAIRMAN. And what are the most significant provisions in 1929 that you think are going to bring real economic and financial pressure on Iran?

Mr. LEVEY. Perhaps the most important one is the simplest one, it's the IRGC designations, because that is a very significant and it's a larger part of the economy, as we've discussed. But I would again point to the restrictions—in terms of economic issues, I would point to the restrictions on any kinds of financial services, including banking, insurance, et cetera, that governments are called upon to cut off if there's any basis for believing that it could help Iran's nuclear missile enterprises.

The combination of all that, plus just the vigilance and the encouragement to stop doing business with IRISL, their shipping line,

and the IRGC. I think you put all of that together, it can have a strong impact, but the three provisions that are most important, I think, would be the IRGC provision, as well as its paragraphs 21 and 23 about financial services.

The CHAIRMAN. And once we've got the rules in place et cetera, what do you—what is the key to ensuring that these new sanctions are going to be as effective as possible? What do you, both of you, most—

Mr. LEVEY. You know, I think that there's—

The CHAIRMAN [continuing]. Just track and push.

Mr. LEVEY. There—well, what we've learned over time, I think, is that you've—this is in some ways a labor intensive process. You know, there is no, in my view, there is no substitute from, you know, showing up over and over again to talk about these issues. We have made a lot of progress by doing that, discussing, you know, sharing this information, showing up with the information, discussing it again. We have made that our priority to do over the last few years. Now with the appointment of Bob Einhorn to coordinate these efforts of the State Department, we'll be able to follow through and do that in a very concerted way. I think the more people understand that this is a high priority for the United States, the more likely they are to cooperate and—

The CHAIRMAN. You talked earlier about one bank shifting off to another bank once that bank gets, sort of, the hammer come down on it. Can they simply do that again, just shift off to yet another bank or create a bank to shift off to? Don't they have significant amount of flexibility in that?

Mr. LEVEY. Well, we've now designated 16 of their banks.

The CHAIRMAN. How many do they have?

Mr. LEVEY. They've got more, but the point is that—we're trying to use this evasion—you know, you could go the other way, but our view is that you use the evasion by pointing it out and getting people to see exactly how they're behaving so that they can take action themselves to not do business with Iran's banks. If we just issued an edict that said, you know, all of Iran's banks, you know, are in this category, it wouldn't have the effect because we wouldn't have the publicly available information to substantiate our concerns.

So, it's our view that the most effective way to do this is the way we have been doing it, to sort of—you point out exactly the illicit conduct, make it public, confront people with it so that they can take steps on their own.

The CHAIRMAN. Now I understand we pay Iran \$100 million a day for oil. Is that accurate?

Mr. LEVEY. I'm not sure what you're referring to, Mr. Chairman.

The CHAIRMAN. I'm trying to figure it out. I have seen the ads on television and recent reports in news media referring to \$100 million that goes to Iran, in terms of America's dependence on foreign oil. Can you speak to that?

Mr. LEVEY. I think I'd have to sit down with whoever is making those calculations and see what they're referring to. There's no—it's impermissible to directly purchase from Iran by any United States person, but—

The CHAIRMAN. Do you have any sense of how indirectly that money is getting to Iran? Obviously it's indirect, I understand that.

Mr. LEVEY. I don't want to speculate. I mean, it's possible that people are saying this is fungible product, and so the amount that we buy raises the prices to a certain extent, but I—that's a pure speculation. I don't know.

The CHAIRMAN. Have you not looked at that tracking, I mean, aren't there some joint oils fields shared? Don't the Qataris have a joint oil field in the gulf?

Mr. LEVEY. I believe that's a gas field, but you're correct.

The CHAIRMAN. And do we buy from them? Does some of that proceed go to Iran?

Mr. LEVEY. I don't know, but I do know that it's impermissible to buy directly from Iran by any United States person.

The CHAIRMAN. To what degree will our sanctions have the ability to deal with the indirect support structure, which if it is true, results in \$100 million a day, is kind of counterproductive?

Mr. LEVEY. You know, I don't want to say—I feel like we have a premise that we haven't really—

The CHAIRMAN. All right.

Mr. LEVEY [continuing]. Established yet.

The CHAIRMAN. We'll get the premise to you more directly. I was wondering whether you had any—if you could shed any light on that, because I've just seen that in these last days, and I wanted to try to—

Mr. LEVEY. Let me look into further and see if can get back to you.

The CHAIRMAN [continuing]. Focus in on it. Fair enough.

Let me thank both of you very much.

Senator Lugar, do you have any additional questions?

Senator LUGAR. Well, thank you, Mr. Chairman, I do, but I will submit them to the witnesses for the record, and if you would respond swiftly, we'd appreciate it.

The CHAIRMAN. Senator Lugar, we'll leave the record open until the end of the week, for colleagues, and in addition, there are questions we do need to ask in classified session. And if we could get you back, I could—I think you could sense from the participation of the committee here, the level of interest that obviously exists. We could try to do that, I hope in the near-term, we'll try to work that out with your staffs.

Thank you very much for being here today, very interesting and very helpful. We appreciate it.

We stand adjourned.

[Whereupon, at 11:48 a.m. the hearing was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

RESPONSES OF UNDER SECRETARY WILLIAM BURNS TO QUESTIONS SUBMITTED FOR THE RECORD BY SENATOR JOHN F. KERRY

Question. In your testimony you mentioned the three American hikers detained by Iran, Shane Bauer, Josh Fattal, and Sarah Shourd.

- a. What steps are being taken to help bring about their release?
- b. Do we have knowledge of their well-being?
- c. Recent reports suggested they may have been arrested by Iranian border guards on Iraqi soil. Is that your assessment as well?
- d. Another American who went missing in Iran is Robert Levinson. What do we know about his whereabouts?

e. What steps are being taken to find him and bring him home?

Answer. (A) The three hikers have been detained for nearly a year without official charges or access to their attorney. The Department is committed to ensuring fair and humane treatment for all U.S. citizens detained overseas, and we stand ready to assist detained citizens and their families within the limits of our authority in accordance with international law. In the case of the hikers, we are using a variety of diplomatic tools to ensure that Iran understands the U.S. Government's concern for the welfare of these three Americans. We are raising our concerns bilaterally, through the Swiss protecting power, and through third parties.

(B) We understand the three have not been physically harmed, although their psychological well-being is a major concern. The Swiss have been granted consular access on three occasions: September 29, 2009; October 29, 2009; and April 22, 2010. The hikers' mothers were able to visit them on May 20 and May 21, 2010. Although the Iranian Government has not permitted Sarah, Shane, and Josh to sign a Privacy Act Waiver, the families have released information on their welfare and well-being to the press. Through these reports we understand that Sarah Shourd has been in a cell by herself since her detention on July 31, 2009, and has serious preexisting medical conditions. We have asked the Iranian Government to share her medical records with us. The Iranian Government has yet to provide the results of medical tests she has undergone while in detention.

(C) The Department is unable to corroborate reports that the hikers were arrested by Iranian border guards on Iraqi soil.

(D) We continue to seek information regarding Mr. Robert Levinson, who disappeared on March 9, 2007, while on a business trip to Kish Island, Iran. In December 2007, Mr. Levinson's family traveled to Iran and met with Iranian officials. The officials expressed a willingness to share information about their investigation into Mr. Levinson's disappearance; however, the Iranians have yet to provide this information.

(E) The Department uses every opportunity to raise its concerns over Mr. Levinson's disappearance—both bilaterally, through the Swiss protecting power, and through third parties. The United States continues to call on the Government of the Islamic Republic of Iran to assist in providing any information on Mr. Levinson's whereabouts and following through on its promise to share the results of its investigation with the Levinson family or the Swiss Embassy in Tehran.

Question. In the wake of U.N. Resolution 1929, countries are taking "national measures" to increase the pressure on Iran. What do you expect will be the impact of the "national measures" taken by U.S. allies in the wake of U.N. Resolution 1929—both on Iran's economy and on its decisionmaking?

Answer. Already, the European Union has acted strongly to follow up UNSCR 1929, announcing in its June 17 European Union Council Declaration the plan to adopt EU-wide regulations, which we expect to occur at the July 26 Foreign Affairs Council meeting. Its leaders have decided to take a series of significant steps, including bans on the transfer of key technology, and tough measures against Iranian banks and correspondent banking relationships, and additional designations to include banks. Canada and Australia have indicated similar resolve, and other partners will follow suit shortly. Meanwhile, we continue to have success in persuading a variety of foreign companies that the risks of further involvement in Iran far outweigh the benefits.

The net result of this combination of economic pressures is hard to predict. It will certainly not change the calculations of the Iranian leadership overnight, nor is it a panacea. But it is a mark of their potential effect that Iran has worked so hard in recent months to avert action in the Security Council, and tried so hard to deflect or divert the steps that are now underway. Iran's leaders understand that both the practical impact of Resolution 1929 and its broader message of isolation create real problems for them and their pursuit of nuclear weapons.

Question. Europe's supply of refined petroleum to Iran is declining. Where is Iran getting its refined petroleum?

Answer. Major gasoline suppliers to Iran have included companies from India, China, Turkmenistan, the Netherlands, France, Singapore, Kuwait, Russia, and the United Arab Emirates. Exports from European companies have been in decline, due in large part to U.S. pressure; however, exports from Asian companies and wholesalers have increased to meet Iranian gasoline demand.

RESPONSES OF UNDER SECRETARY WILLIAM BURNS TO QUESTIONS SUBMITTED FOR
THE RECORD BY SENATOR RICHARD G. LUGAR

Question. Please describe, in a classified format if necessary, the administration's diplomatic efforts with gulf allies to counter the threat of a nuclear Iran.

Answer. As allies in the region potentially affected greatly by Iran's nuclear program, the United States works closely with members of the Gulf Coordination Council (GCC) both bilaterally and in the context of the GCC, to counter this threat to regional stability. Most recently, we have been working with the gulf states on the implementation of United Nations Security Council Resolution 1929. We continue to work with our GCC partners to enhance counterproliferation authorities and interdiction capabilities through activities such as the Proliferation Security Initiative (PSI). All GCC members have endorsed the PSI, and the United States engages our gulf allies with an active PSI program that includes the biannual PSI Exercise LEADING EDGE, issue-specific workshops, and bilateral training opportunities. Furthermore, the United States works closely with the United Arab Emirates—the largest transshipment hub in the region—through a bilateral Counterproliferation Task Force. Through this dialogue, we work together on a full range of counterproliferation issues including export controls.

We have worked closely in bilateral discussions with GCC countries on the need to fully and robustly implement obligations under existing UNSCRs and to consider imposing supplemental measures, in particular targeting Iran's ability to finance procurement of prohibited equipment through entities in gulf states.

Question. Please lay out, in a classified format if necessary, administration concerns about the potential for a nuclear arms race in the region, were Iran to obtain nuclear weapons. Likewise, how does the administration view the status of conventional arms races since the Gulf Security Dialogue began?

Answer. Our security strategy toward the Persian Gulf vis-a-vis Iran is to enhance bilateral and multilateral security relationships while deterring a conventional arms race. We believe our strategy has been successful. The Gulf Security Dialogue (GSD) is the State Department's primary security coordination mechanism with the Gulf Cooperation Council (GCC) countries. The GSD includes regular bilateral, interagency (State, NSC, OSD, JS, CENTCOM) consultations with the GCC states on the breadth of security issues affecting the gulf. For a number of years, through the construct of the GSD, we have worked with the countries of the Arabian Peninsula as well as other partners in the region to develop a common architecture that includes bilateral and multilateral security defenses, shared early warning systems, counterterrorism and counterpiracy programs, programs to build partner capacity and efforts to harden and protect our partners' critical infrastructure. In fact, we currently have missile defense assets in a number of gulf partner nations. CENTCOM maintains a robust exercise schedule in the region and a sizeable force presence which reaffirms our commitment to our partners.

We also maintain a full schedule of bilateral and multilateral engagement going up to the highest levels. In the last 2 months alone, Secretary of Defense Gates and Chairman of the Joint Chiefs Admiral Mullen have both traveled to the region. Strengthening the capacities of vulnerable states in the region is a vital avenue for countering destabilizing Iranian activities, and we believe we are seeing some results.

Question. The Conference Report on H.R. 2194 contains language authorizing appropriations necessary to implement provisions of the act. What additional resources will the State Department require?

Answer. Implementation of the act will require additional personnel having a variety of specializations in several State Department bureaus. Requirements for open source and classified data collection, technical and legal analyses and reporting will be considerably in excess of needs under the 1996 act. We expect that a portion of our personnel needs will be met, in the short term, through the hiring of contractors with specific skill sets not previously required. U.S. Embassies will be tasked with the responsibility to engage local governments and businesses on issues raised by the 2010 act and to investigate potentially sanctionable activities. Nevertheless, travel by U.S.-based personnel also will be substantially expanded. We are currently working up approximate cost figures for the expanded effort needed to implement the 2010 act. We will provide those to you as soon as possible.

Question. Please explain in greater detail the responsibilities that Ambassador Einhorn will have with respect to Iran sanctions.

Answer. Secretary of State Clinton has asked Bob Einhorn, Special Advisor for Nonproliferation and Arms Control, to take on the added role of our government's coordinator for the implementation of sanctions related to Iran and North Korea.

He will lead U.S. efforts with partners and allies around the world—including foreign governments, private industry and the United Nations—to strengthen multilateral and national measures to address Iranian proliferation activities. He will direct U.S. efforts to ensure full and effective implementation of all U.N. Security Council resolutions related to Iran, including most recently UNSCR 1929.

As part of these efforts, Bob Einhorn will work closely with the National Security Council, Treasury Department, Department of Defense, intelligence community and other agencies to ensure full and effective coordination of U.S. efforts for implementation of sanctions related to Iran and North Korea. Bob Einhorn's new responsibilities will further strengthen State Department's already close cooperation with other agencies on addressing Iran's compliance with its international obligations.

Question. How does the Department plan to implement the provisions relating to sanctions to be imposed on certain persons who are responsible for or complicit in human rights abuses committed against citizens of Iran or their family members after the June 12, 2009, elections in Iran?

Answer. The State Department's Bureau of Human Rights, Democracy, and Labor closely monitors human rights violations in Iran as reported and documented by human rights defenders and watch groups. As we do with our annual Country Report on Human Rights Practices in Iran, we will engage in consultations with and seek input from a range of sources that document human rights abuses in Iran in order to identify the appropriate persons to place on this list. Upon identifying these individuals, the Department will promptly notify Congress and, in accordance with the legislation, will publish the list of designees on the State Department Web site. We will then work with our colleagues in the Treasury Department to implement applicable sanctions under the International Emergency Powers Act, while our Consular Affairs Bureau implements visa restrictions on the designated human rights violators.

Question. Please share the results of the internal review of existing sanctions you mentioned during the hearing. What lessons has the administration learned from this process that can be applied going forward?

Answer. As I mentioned in my testimony, we have identified a few firms, less than 10, which may have violated the 1996 act. We have been in contact with these firms and relevant governments, often repeatedly, in order to establish the precise nature of their economic activity in Iran—both past and present. In most cases, we have good reason to believe that the firms of concern have wound down their activities in Iran. However, a few appear to be continuing their work there. According to the President's delegation of the 1996 act, the State Department is now required to consult with other agencies about appropriate next actions. Upon the completion of that set of consultations, the Secretary will make a determination about possible sanctions and/or waivers of the subject firms.

Looking forward, we are satisfied that we have put in place a robust system to review instances of possible violation of the 1996 act. An important part of our effort has been to make use of our embassies in the field, as well as our intelligence resources, to differentiate between actual activity in violation of the act and claims of activity made by the Iranian Government or its proxies. Those analyses are sometimes complicated by the reluctance of firms to publicly contradict statements by the Iranian Government, particularly if a company has a financial exposure in Iran. However, we have gone to pains to build credibility among energy firms, and many have shown sufficient confidence in our discretion so as to share commercial information with us. Finally, our work with many governments over recent months has permitted us to develop our understanding about which local institutions and individuals are helpful for the implementation of the act.

Question. How does/will the administration measure the success of its Iran policy, not only with respect to sanctions, but also to other aspects of its broader policy?

Answer. U.S. policy toward Iran is straightforward. We have sought to engage the Islamic Republic in dialogue in order to: (1) Prevent Iran from developing nuclear weapons; (2) counter its other destabilizing actions in the region and beyond; and (3) advance our broader interests in democracy, human rights, and development across the Middle East.

President Obama has made clear repeatedly, including in his statement on the adoption of Resolution 1929, that we will stand up for those rights that should be universal to all human beings, and stand with those brave Iranians who seek only to express themselves freely and peacefully.

We have pursued our broad policy goals over the past 18 months through a combination of tough-minded diplomacy—including both engagement and pressure—and active security cooperation with our partners in the Persian Gulf and elsewhere. We have sought to clarify the choices before the Iranian leadership, which has so far been unable to respond to President Obama's offers of outreach. Those offers have unsettled the leaders of the Islamic Republic, who now find their empty anti-American slogans completely discredited.

We have sought to demonstrate what's possible if Iran meets its international obligations and adheres to the same responsibilities that apply to other nations. And we have sought to intensify the costs of continued defiance, and to show Iran that pursuit of a nuclear weapons program will make it less secure, not more secure. The choice is Iran's: whether it will choose to comply with its obligations, or be further isolated from the international community.

Question. The House version of the Iran sanctions legislation contained language regarding Agreements on Civil Nuclear Cooperation (or "123 Agreements") which has since been dropped. Let me pose several questions regarding the 123 Agreement with Moscow, which Senator Kerry and I introduced legislation approving on June 21:

a. How will the administration use entry into force of an agreement for civilian nuclear cooperation with Russia to influence Russian behavior on Iran?

b. Has the Russian Federation executed a facility-specific safeguards agreement with the IAEA for the Bushehr nuclear power reactor?

c. Last week, Secretary Gates stated in testimony before the Armed Services Committee that Russia has a schizophrenic pattern of behavior on Iran. Do you share this assessment, and what is the status of the joint Iranian missile threat assessment the United States proposed to conduct with Russia last year?

d. This year the intelligence community concluded in an open assessment that "at least in the past" Russian entities had assisted Iran's ballistic missile program. If this is the case, then why did the assessment change from that given in previous years, which was that such assistance has continued?

Answer. (A) Russia has been a strong partner within the P5+1 and in international efforts to prevent Iran from acquiring a nuclear weapons capability. The administration has determined that the level and scope of Russia's cooperation with us were sufficient to justify resubmitting the 123 Agreement to Congress for review. We continue to work closely with the Russian Government to further our shared nonproliferation goals and to prevent Iran and other countries of concern from developing WMD and their means of delivery. The decision to move forward with the Agreement—a legal framework for enabling bilateral civil nuclear commerce—was made on its own merits: There are clear benefits with entry into force of the Agreement to promote our broader nonproliferation goals, such as joint research and development of international nuclear fuel cycle services as well as civil nuclear energy technologies that would limit proliferation and security risks.

(B) It is incumbent on the country where a safeguardable facility is located, not the country providing assistance to that facility, to have a safeguards agreement with the IAEA, and Iran has such an agreement with the IAEA that covers Bushehr. Russia has, in addition, engaged in a lengthy negotiation with Iran to secure very important nonproliferation measures in the Russia-Iran agreement, namely "just in time" fuel delivery and spent fuel take-back. These measures have gone a long way toward satisfying the immediate nonproliferation concerns we had with the Bushehr project. Russia has made clear to Iran that IAEA safeguards are a requisite part of reactor operation.

(C) Russia shares the United States concerns regarding Iran's nuclear and missile programs. To that end, it has supported all four United Nations Security Council resolutions imposing sanctions on Iran. With respect to the Joint Threat Assessment (JTA), we have met with Russia three times to exchange our views on the Iranian and North Korean missile programs. We have proposed another meeting in the near term to continue our discussions and hope to complete a written report to our respective leaderships by the end of this year that will describe the results of our discussions.

(D) We defer to the intelligence community, as it is better suited to substantively respond to this assessment.

RESPONSES OF UNDER SECRETARY STUART LEVEY TO QUESTIONS SUBMITTED BY
SENATOR JOHN F. KERRY

Question. During the hearing, I raised the question of the strategic impact of America's dependence on foreign oil on Iran and its behavior. The Center for American Progress Action Fund and the Massachusetts Institute of Technology, have found that capping carbon emissions would cost Iran up to \$100 million a day in oil profits.

- a. Is there a connection between America's dependence on imported oil and Iran's ability to pursue its nuclear program despite international pressure?

Answer. There is a limited potential connection between U.S. demand for imported oil and Iran's ability to pursue its nuclear program. The United States does not import Iranian oil, but U.S. demand has a large impact on international oil prices. Up to two-thirds of Iranian Government revenue comes from oil exports, according to data from the International Monetary Fund. Iran views its nuclear program as a strategic priority, and while a decline in revenue from lower oil prices would hurt the Iranian Government's fiscal position, it is unclear whether that effect would cause a cut in spending on its nuclear program.

- b. Is there a connection between America's dependence on imported oil and Iran's ability to sponsor terrorist groups abroad?

Answer. See response to (c) below.

- c. Can you comment on the nature of these linkages?

Answer. This is a complicated issue, but what is clear is that American demand for imported oil has an impact on its overall market price, and thus an indirect impact on Iran's oil revenues.

Question. In the wake of U.N. Resolution 1929, countries are taking national measures to increase the pressure on Iran.

- What do you expect will be the impact of the national measures taken by U.S. allies in the wake of U.N. Resolution 1929—both on Iran's economy and on its decisionmaking?

Answer. Following the adoption of Resolution 1929, the United States, the European Union, Norway, Canada, Australia, Japan, and South Korea, among others, have implemented national sanctions programs to implement the requirements of the resolution. These measures impose, inter alia, sanctions on Iranian financial institutions, other entities, and individuals that facilitate Iran's proliferation program, and impose broad systemic sanctions, such as prohibitions on the provision of insurance or export credits for business with Iran and prohibitions on certain activities in the energy sector. We expect that the growing coalition of countries that are imposing national sanctions as a means of implementing UNSCR 1929 will continue to put pressure on Iran, sharpening its choice between the path of engagement and the path of further isolation.

Question. Europe's supply of refined petroleum to Iran is declining.

- Where is Iran getting its refined petroleum?

Answer. In the past, major refined petroleum suppliers to Iran have included companies from India, China, Turkmenistan, the Netherlands, France, Singapore, Kuwait, Russia, and the United Arab Emirates. Passage of CISADA and the State Department's efforts to engage with these companies has had a strong effect on refined petroleum sales to Iran, as many of Iran's prior suppliers have decided not to sell refined petroleum products to Iran. As Under Secretary William Burns recently testified, open sources indicate that prior to last July, Iran imported roughly 130,000 barrels per day of refined petroleum products, and that in October, that figure had dropped by approximately 85 percent to 19,000 barrels per day. Although Iran continues to import some refined petroleum products from countries in Asia and the Middle East, diminished imports have forced Iran to increase its domestic production of refined petroleum. The rapid conversion of petrochemical facilities to petroleum refining is not without costs, as it decreases petrochemical output.

Question. Thanks in part to your work Iran is having an increasingly difficult time gaining access to international capital markets.

- a. Can you tell us more about where these efforts stand?

Answer. U.S. sanctions with respect to Iran generally prohibit U.S. financial institutions and their foreign branches from engaging in transactions with Iran and with Iranian Government entities. In addition, U.S. sanctions generally prohibit U.S. financial institutions and their foreign branches from dealing with numerous Iranian

entities, Iran-linked banks, and individuals that have been designated for their involvement in terrorism or WMD proliferation. Treasury regulations that implement section 104(d) of CISADA further prohibit the owned or controlled subsidiaries of U.S. financial institutions from knowingly engaging in transactions with or benefiting Iran's Islamic Revolutionary Guard Corps or its designated agents or affiliates. Iran and its designated persons are therefore unable to access U.S. and international financial markets and find it difficult to engage in transactions involving U.S. dollars and euros. Last, section 104(c) of CISADA gives Treasury authority to prohibit or severely restrict the U.S. correspondent accounts of foreign financial institutions that knowingly engage in certain transactions related to Iran. We have undertaken considerable outreach to financial market participants, both here and abroad, to educate them about Iranian sanctions and to inform foreign financial institutions about the risk that if they engage in sanctionable transactions, their own access to U.S. financial markets could be closed off.

- b. Can you provide details about Iran's ability to access international markets?

Answer. As a result of recent sanctions, the majority of Iran's state-owned banks are no longer able to conduct transactions with banks in most of the major financial centers in Europe, Asia, and the Western Hemisphere. Most of the world's most significant financial institutions refuse to do business with Iran because of ever-increasing reputational risk, international pressure, and concern that they themselves could lose access to U.S. financial markets. As a result, Iran is facing great difficulty gaining access to financial services, finding partners with which to engage in projects, and conducting financial transactions. Insurance companies are increasingly unwilling to insure Iranian cargo and shipping companies do not want to risk traveling to or from Iranian ports. This is especially manifesting itself in Iran's energy sector. Almost daily we receive reports of the world's major oil companies cancelling projects and drawing down their business with Iran. We also have seen governments around the world impose severe restrictions on government-backed export credits for projects in Iran, further reducing the incentive for the private sector to proceed with projects.

RESPONSES OF UNDER SECRETARY STUART LEVEY TO QUESTIONS SUBMITTED BY
SENATOR RICHARD G. LUGAR

Question. The Conference Report on H.R. 2194 contains language authorizing appropriations necessary to implement the provisions of the act. What resources will the Treasury Department require?

Answer. At this time, we are not certain what resources will be required to carry out the provisions of the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010. On August 16, we issued regulations implementing subsections 104(c) and 104(d) of CISADA and will work with the Office of Management and Budget to ensure that Treasury receives sufficient resources.

Question. You referred in your testimony to voluntary actions by private sector companies to curtail their activities in Iran.

- a. Is the administration satisfied with the extent of such voluntary curtailments?

Answer. As I described in my testimony, the reaction of the private sector to Iran's illicit conduct and deceptive financial practices has played an important role in increasing the pressure on Iran to comply with its international obligations. To date, the private sector has responded to the inherent reputational risk of doing business with Iran by withdrawing from projects, financial relationships, and investments. However, as would be expected in the global market economy, there are always some actors that are willing to accept higher risk in exchange for profit. We will continue to engage the private sector around the world to underscore the obligations inherent in the existing sanctions framework, explain the potential consequences of CISADA, and encourage responsible corporate behavior from all those who might be otherwise inclined to continue doing business with Iran.

- b. What efforts are being made to persuade other countries, particularly China, to forgo the opportunity to substitute their own investment and trade for that which is being withdrawn, and with what level of success?

Answer. Treasury and State Department officials are engaged in an ongoing effort to persuade our counterparts around the world to robustly implement the requirements of UNSCR 1929.

Since the adoption of UNSCR 1929, Treasury and State officials have traveled to Europe, the Middle East, Asia, and Latin America to discuss Iran sanctions implementation. We believe these engagement opportunities have been and will continue to be useful in underscoring the importance that the United States places on robust enforcement of the existing international sanctions framework and encouraging our partners all over the world to view the actions taken by the United States, the EU, Norway, Australia, Canada, Japan, and South Korea, among others, as examples of responsible implementation of this framework.

Question. How does the Treasury Department measure the success of its efforts with respect to Iran sanctions enforcement?

Answer. Some indicators are classified, but even public information shows that international sanctions programs have been having a pronounced impact on Iran in a number of different areas. First, many of the world's largest and most prestigious financial institutions are eliminating or dramatically reducing the business they do with Iran. This trend is in response to Iran's established history of using deceptive financial practices to mask the real nature of, or the true parties involved in, their transactions. The result is that 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. Second, beyond the financial services sector, companies from many industries, including manufacturing, automotive, insurance, engineering, and accounting, have similarly announced the withdrawal of business from Iran. Many foreign energy companies have also withdrawn their investments in Iranian petroleum projects, and have pulled out of joint ventures with Iranian energy companies. Some European and Middle Eastern companies have even stopped providing jet fuel to Iran's national air carrier in Europe. Iran also is increasingly unable to secure the foreign investment, financing, and technology it needs to modernize its aging energy infrastructure, threatening its oil and gas production and export capacity over the long term. The Iranian economy depends on energy revenues, and the continued stagnation or decline of energy outputs could adversely affect Iran's economic stability.

We believe that the speed, scope, and impact of sanctions have caught the regime by surprise. There are clear signs that the Iranian leadership is worried about the impact of these measures and is taking sanctions seriously. By sharpening the choice for Iran's leaders between integration with the international community and, alternatively, increasing isolation, sanctions are creating the leverage needed for effective diplomacy.

Question. What are the annual quantifiable costs for U.S. business interests of existing Iranian sanctions? Please list the top five industry sectors that are affected.

Answer. The Treasury Department has not undertaken such an analysis, which would require additional data and expertise from other U.S. Government agencies. Treasury and other appropriate agencies could potentially work with congressional staff to evaluate whether this would be feasible to undertake.

Question. What is the estimated effect that current and proposed sanctions have on Iranian GDP?

Answer. Because of many years of the Iranian Government's mismanagement of the economy, it is difficult to discern the causal relationships that exist between the state of Iran's economy and specific actions taken by the international community. We do know, however, that Iran is struggling to obtain investment in its oil and gas industry, which could ultimately affect Iranian oil production and therefore government revenues. Indeed, the head of Iran's oil ministry, Masoud Mir-Kazemi, has said that Iran aimed to attract at least \$25 billion per year in local and foreign investment in its oil/gas sectors over the next 5 years (2010–15). However, Iran had attracted only a few billion dollars in foreign investment each year in the previous 4 years.

Iran is poorly positioned to respond to the impact of sanctions and, as the leadership tries to formulate a response, it is faced with unappealing choices. As an example, in part because it is encountering difficulties in acquiring refined petroleum because of sanctions, the government is seeking ways to reduce domestic demand for gasoline. One obvious step would be to reduce the heavy subsidies on gasoline that now make the price at the pump about 37 cents per gallon. Iran recently announced that it would reduce subsidies on gasoline and other household and energy products by \$20 billion. The government, however, appears to have hesitated in going forward with these subsidy cuts, potentially because of concern about popular backlash. They have even deployed security forces to try to enforce order, and President Ahmadinejad has threatened to severely punish businesses that raise prices of consumer goods in reaction to subsidy cuts. Additionally, fears that inflation could ac-

celerate surrounding government implementation of subsidy reform, combined with increased barriers to Iranian banks and currency exchanges accessing dollars as a result of the implementation of recent sanctions, were likely the cause of the sudden near 20 percent depreciation of the Iranian rial on market exchanges in late September. The Central Bank of Iran was slow to respond to these pressures, and it took weeks of intervention to stabilize volatility in the rial market exchange rate.

Question. My office has interacted with branch campuses of some U.S. universities located in the Middle East who would like to recruit Iranian faculty and students to their campuses. As you interpret existing law, are they restricted from such activity? Could they offer a recruiting trip to visit their campuses, for example? Could they offer financial assistance? How could such educational opportunities be encouraged without involving the U.S. Government in each step of such a process? What recommendations should I give these institutions?

The application of Treasury's regulations to these activities is highly fact dependent, but it appears that certain activities identified in the question—e.g., recruitment of Iranian faculty and students to campuses of U.S. universities located in the Middle East and the provision of financial assistance, presumably to Iranian students—may be prohibited by USG sanctions on Iran unless authorized by OFAC. As a general matter, Treasury does not seek to discourage educational or cultural exchange programs designed to directly benefit the Iranian people and, in 2006, Treasury's OFAC issued a statement of favorable licensing policy to encourage applicants to seek authorization in the form of specific licenses for these types of programs, which are akin to academic exchange programs.

If institutions seek your recommendations on these matters, please encourage them to approach OFAC for guidance on the applicability of OFAC's regulations to the activities and, if necessary, seek formal authorization to engage in these activities.

