Thank you very much. It is a pleasure and an honor

to be back, especially as a private citizen.

I would like to ask if my remarks, full remarks, could be put into

the record, and I will just read a shortened version of them.

Thank you. The pressing question is how the United

States and international community can raise the cost for Iran’s

continued defiance of the international community over suspension

of its uranium enrichment program. What levers are likely to feed

on domestic discontent and induce the regime in Tehran to abandon

such objectionable and threatening activities?

Most commentators agree that any viable answer has to include

a combination of military, diplomatic, and financial tools, as well

as a mix of carrots and sticks. Where they differ is on the question

of how to apply these tools, and in what combinations.

Keeping the military option on the table is important, but is by

no means an attractive option. First, there is no simple military option

that could wipe out Iran’s nuclear program. And second, Iran

today is one of the few places in the greater Middle East where the

regime is anti-American, but the people are not. Invading Iran

would certainly draw on Iranian nationalism and unite the population

against us.

As for diplomacy, sitting at the table with Iranian officials in the

context of improving security in Iraq was a good thing. There is,

however, ample reason to doubt the sincerity of Iran’s diplomatic

message, and not only on Iraq, but on the nuclear issue and terrorism,

as well.

While maintaining both military and diplomatic options with the

former as a measure of last resort, and the latter as the preferred

tool of choice, the United States should continue to apply targeted

financial measures against Iran. These include not only graduated

sanctions, but also efforts to leverage existing market forces. Together,

these targeted financial measures offer the most flexible regime-

hostile, people-friendly, and realistic tool at our disposal.

Graduated sanctions, including multilateral U.N. sanctions and

unilateral measures to protect the U.S. financial system, are critical

and effective tools. Employing these in a graduated manner

demonstrates that the purpose of such measures is not simply to

punish Iran, but to encourage change in the regime’s behavior. Indeed,

targeted financial measures are aimed at illicit conduct, not

at a specific country.

The U.N. Security Council Resolution 1737 appropriately initiated

sanctions against illusive individuals and entities involved in

Iranian proliferation activity, and called for additional sanctions if

Iran continued to defy the international community. It is critical

that the international community both enforce the existing sanction

regime, and quickly agree on an implement, a second tier of

sanctions. Both should include a focus on key Iranian leadership

figures and Islamic Revolutionary Guard Corps, the IRGC.

Other international measures that should be included in the next

round of sanctions include an embargo on the sale of arms to Iran,

and purchases from Iran, asset freezes and travel restrictions on

senior Iranian officials tied to the regime’s procurement activities

and support for terrorist groups, and cutting off government-sanctioned

import-export credits to Iran. Additional measures could

focus on the shipping and shipping insurance industries, without

which Iran can neither explore its crude oil, which is the backbone

of its economy, nor import refined oil, which is heavily subsidized

by the government.

One thing that should not be tolerated is the introduction of a

false distinction between financial measures and trade, which some

European partners propose in an effort to maintain business contracts

with Iran while imposing other financial sanctions.

Domestically, Treasury should continue to take action to safeguard

the United States financial system from abuse by targeting

Iranian financial institutions knowingly facilitating financial transactions

in support of terrorism or proliferation activities.

Treasury’s domestic actions have also been graduated. In September

2006, the Department cut off Bank Saderat from the U.S.

financial system by denying it the ability to carry out so-called Uturn

dollar transactions through third-party banks.

Four months later, in January 2007, the Department went a step

further, fully designating Bank Sepah, its wholly-owned UK subsidiary,

and its chairman.

The effectiveness of sanctions has increased manyfold when they

are multilateral. That said, the impact of unilateral U.S. sanctions

is also felt internationally due to existing market forces.

Foreign financial institutions and private industry, for example,

increasingly incorporate Treasury’s designation lists into their due

diligence databases not because they are required to do so, but out

of their own fiduciary interests. While in the business of making

a profit, they have a responsibility to their shareholders to balance

profit margin and risk, as well as gaggles of cautious lawyers looking

over their shoulders to safeguard these firms from reputational

risk.

There exists today one global economy, one international financial

system. And the United States is at its center. Financial institutions

are eager to maintain branches in New York City, which

provides the Treasury Department significant leverage over their

activities worldwide.

United States officials have therefore met with much success discussing

global risk with governments and the private sector alike,

whether referring to government-sponsored import-export insurance,

lines of credit provided by public or private banks, maintaining

correspondent banking relationships with Iranian banks or

even facilitating their transactions, in dollars or other denominations,

the common question, all parties doing business with Iran

must ask themselves do you really want to be doing business with

a high-risk actor like Iran.

To be sure, there is near-unanimous agreement that Iran’s pursuit

of a nuclear weapon and its support for terrorism pose significant

risks to the global economy and global security. But there are

more specific economic reasons for avoiding business with Iran as

a country with a heightened risk for investment.

For example, Iran engages in a variety of deceptive financial

practices to deliberately conceal the nature of its illicit businesses.

Bank Sepah, for example, requested that other financial institutions

remove its name from transactions when processing these

transactions in the international financial system.

According to the State Department’s recently released International

Cardex Control Strategy Report, ‘‘There are currently no

meaningful anti-money-laundering controls on the Iranian banking

system.’’ Moreover, according to the report, Iran claims to have established

a financial intelligence unit, but has provided no documentation

or details on its existence.

In light of these deceptive practices and the lack of anti-money laundering

controls, how can financial institutions or multilateral

corporations have any level of comfort that their funds are going

to end up in Iran’s nine-digit budget line item for support to terrorist

groups, or in its clandestine efforts to procure materials for

its WMD programs through front and shell companies.

When the public sector shares information with the private sector

and informs banks and businesses of these risks, market forces

lead many to forgo business with Iranian institutions. In light of

all of the above, it should not surprise that the OECD raised the

risk rating for Iran in early 2006. And in the event banks and corporations

do not determine that the reputational and litigation

risks outweigh the potential profit benefits, the fact that these institutions

want to conduct business in the United States often

leads them to conclude that putting their United States business

at risk is not worth the investment in Iran.

Under Secretary of the Treasury Stuart Levey, under whom I

had the honor and pleasure to serve, put it best in a recent speech

he gave in Dubai. And he said, and I quote, ‘‘It is clear that many

businesses are taking it upon themselves to scale back on business

with Iran. At first glance this may appear to present a tempting

business opportunity for other corporations to step in. However,

there is reason that these other companies are pulling back. They

have decided that the risks of business with Iran outweigh any potential

gain.’’

And later in the speech he was more direct: ‘‘Those who are

tempted to deal with targeted high-risk actors are put on notice:

If they continue this relationship, they may be next.’’

Targeted financial measures represent, in short, the strongest

non-military tool at our disposal to convince Tehran that it can no

longer afford to engage in dangerous destabilizing activities like

proliferation and support for terrorism. A combination of graduated

sanctions and leveraged or marshalled market forces can compel

Iran to reconsider the utility of pursuing such endeavors.

Already there are signs of domestic discontent within Iran, and

targeted financial measures can produce further political pressure

on the regime. According to the Economist Intelligence Unit, the

nuclear crisis and subsequent sanctions ‘‘is imposing a heavy opportunity

cost on Iran’s economic development, slowing down investments

in the oil, gas, and petrochemical sectors, as well as in

critical infrastructure projects, including electricity.’’

This assessment stands in stark contrast to the findings of the

2003 World Bank Report on Iran, which noted the ‘‘daunting unemployment

challenge’’ facing Iran, and concluded, ‘‘Unless the country

moves quickly to a faster path of growth with employment, discontent

and disenchantment could threaten its economic, social,

and political system.’’

We are already seeing the benefits of this strategy. Banks like

UBS, HSBC, Standard Charter, Commerce Bank and others have

decided to cut off or curtail dealings with Iran. Some foreign banks

are refusing to issue new letters of credit to Iranian businesses,

and Iran is now facing a stand-off with Russia over Bushehr, over

Tehran’s apparent desire to pay for Bushehr in Euros, not dollars.

Targeted financial measures are not symbolic sanctions. They

have teeth, and Tehran is wary of their bite.

I am grateful for the invitation to testify before you, and I welcome

any questions you may have.

I can answer that in two ways. One is I think there

are lots of ways I think we can make progress with our allies with

what is beginning to come out in the press today, whether it turns

out to be accurate or not, about the second tier of 1737 sanctions.

If anybody thought that that was going to be comprehensive, that

would have been naive. But there are, I understand, 18 new entities

that are being listed in the Annex for designation purposes, 10

of which are associated with the IRGC. That is very good news.

There is a lot that needs to be done on two levels. One is, as I

mentioned, resisting the Europeans’ pressure to make a distinction

between financial measures and trade. It is a completely false distinction.

We should be stopping import-export credits, lines of credit,

et cetera.

The second one is working more, as Mr. Berman

said, on Russia, and I would add China, especially with the Security

Council, so that we can get something multilateral through, because

Iran will feel that.

If I may, the second sign, however, is our unilateral sanctions,

as I said, have an international impact just by marshalling market

forces. And so there is a lot of potential.

I would have to get back to you, and I will be happy

to do that, on who the worst offenders are.

I don’t have those in front of me, but I can get them

and get them to you. I will be happy to do that.

Your point is exactly what I was trying to get at

with the point that we should not be allowing a difference to be

made between trade and financial measures. This is exactly what

many European countries are trying to do so they can continue to

facilitate certain types of business, while putting some types of financial

pressures in place.

The $25–$30 million a month to Bushehr, or to Russia for

Bushehr, may well be tied to this. Because, according to released

press reports, what is happening is that Iran wants to pay in denominations

other than dollars. The contract calls for dollars. Iran

is having a hard time with dollars because of our sanctions. And

so there are a lot of trickle-down effects to this just through the

market.

We need to do a lot more diplomatically, and I think bilaterally

we will be more successful than leading into multilateral arenas to

convince the Europeans that not only is this type of investment in

Iran a poor security decision, it is a poor economic decision.

Again, Iran has no anti money-laundering regime, period. I

mean, how do you know the money you are investing for X is not

going to Y? You absolutely cannot. And as a fiduciary obligation,

they understand that language. They understand when you walk

into their offices, public and private sector alike, and use the term

reputational risk.

There will always be someone who wants to step into

the gap. But Under Secretary Levey’s comment in Dubai to that effect

was important. He said there may be some of you who will

want to take advantage, see a business opportunity there. Let me

be clear: You could be next. I think that is why it is so important

to have important sanctions to go along with this, so that people

who facilitate Iran’s economic activity understand that they could

be targeted. And I do think that they have a greater interest——

We are not going to get to that point. What we are

going to get to is the point where individual companies are going

to think long and hard. Do you want to do business with the

United States, or do you want to do business with Iran? Iran has

no anti-money-laundering controls. What do you tell your investors?

But long before we target the oil that they import, which I would

caution against simply because, in the best of all circumstances, we

will be able to focus on regime-hostile, people-friendly sanctions,

long before then—that is something that could have a great impact,

but long before then I think we could have a significant impact on

the level of foreign investment in Iran. Without foreign investment,

Iran cannot produce the oil that it charges so much money for.

Which is why, if I may——

You are trying to affect both. You are trying to affect

first those who are in the decision-making positions, which happens

to be the elite. And then you want to affect the people on the

street, who will have some impact on what those decision-makers

decide, as well.

One of the things that is going on right now is people are saying,

in some situations, we are not going to provide credits in the future.

Well, your comment is exactly why that is insufficient. Something

that is going to happen 5, 10, 15 years out is not going to

have an impact. But we need people to start taking these actions

now. I mean, you want to try and have actions where people will

feel the impact.

And for example, if those lines of credit are cut and business

dealings are cut now, and people lose their jobs, people can’t buy

oil at the extremely subsidized prices, we can put enough hurt on

Iranians on the street that it will make them realize there is some

discomfort without actually being hostile to them. Again, we don’t

want to change the calculus where right now Iranians themselves,

the average Iranian, is pro-American.

Well, I have to be careful. I am no longer a Treasury

official, and I don’t speak for——

I understand, sir. I would simply put it this way.

First of all, as I said, we want these actions to be graduated. We

want to be able to show the Iranians and the Europeans that we

are not simply out to punish, we are out to try and change behavior,

A.

B, this is largely a function of available intelligence. I was the

Deputy Chief of Treasury’s Intelligence shop, and so what people

are doing is working very closely with the rest of the intelligence

community to put together packages to fully identify what are the

nature of the specific activities all these various entities are engaged

in. And I think it is fair to say that neither Bank Saderat

nor Bank Sepah, these are not the only banks that people are looking

at.

I will just say that I echo Dr. Byman’s position completely.

They have provided some very useful information. And I

think that by meeting with them and getting that information, we

have sent the message that I think you are talking about to Iran

already.

I would be very, very, very wary and concerned of a reaching out

to a group like that. It undermines our position when we tell the

world they need to ban Hamas, ban Hezbollah, even though they

are not, Hamas in particular, targeting us today.

The State Department needs to verify every few years the groups

that are on the foreign terrorist organization list remain active.

And if they can’t do that, then this body will have reason to remove

them. But until that point, we may not like Iran, but if the MEK

has bombed and it has Iranian civilians, then I consider them the

terrorist group that we shouldn’t be hugging.

I agree. And as I said in my statement, I think that

a military option would unite the Iranian people against us. I think

that having the military option is still credible, however, in terms

of—not that I am saying, as I said in my statement, I think that

it is the absolute last resort. But you want to maintain an option,

whether it is to strike an IRGC facility or something else.

And I think that we have seen benefits of having carriers in the

region.

For that reason, and I think maybe some of my

former colleagues in government would disagree with me, that I included

in my testimony the comment on shipping and the insurance

industry for shipping. I think it is absolutely the case that

smart sanctions at targeted financial measures can cause enough

pain for the regime, and can follow up on the existing discontent

on the street, where people really are angry.

The money is being spent on a WMD program. Money is being

spent for Hezbollah, for example, whereas all of the economic promises

that Ahmadinejad and others have made are not being kept.

That is something that is a real force on the street.

And again, I go back to that World Bank Report. Unless the

country moves quickly to a faster path of growth with employment,

discontent and disenchantment could threaten its economic, social,

and political system. That statement was made in 2003. We did

nothing from 2003 until recently to try this. Now we are, and we

are already seeing dividends.

Again, I can get back to you with more specifics. But

the biggest offender, of course, is the oil sector and the gas sector.

Petrochemicals next, but oil and gas is almost everything we are

talking about, for all the obvious reasons.

Germany now is looking at a gas deal. I don’t think necessarily

because they are trying to be bad actors, but because, again, Russia.

They have learned the hard way that they cannot rely on gas

supplies from Russia.

I think that is a good example where diplomacy can be effective,

because there are other ways to facilitate their getting reliable gas

without having to go to Iran.