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 stateowned

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.

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 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.

Absolutely.

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——

I can’t say right now whether we will do that.

I don’t have anything to add to that, it sums it up

very nicely.

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 believe 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, 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.

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.

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.

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.

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.

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 elicit 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.

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.

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.

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.

You know, I think that there’s——

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——

Well, we’ve now designated 16 of their banks.

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 elicit

conduct, make it public, confront people with it so that they can take steps on their own.

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

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——

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.

I believe that’s a gas field, but you’re correct.

I don’t know, but I do know that it’s impermissible

to buy directly from Iran by any United States person.

You know, I don’t want to say—I feel like we have

a premise that we haven’t really—— Established yet.

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