

# U.S. STRATEGIC OBJECTIVES TOWARDS IRAN

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## HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS

UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

DECEMBER 1, 2011

Printed for the use of the Committee on Foreign Relations



Available via the World Wide Web: <http://www.gpo.gov/fdsys/>

U.S. GOVERNMENT PRINTING OFFICE

73-918 PDF

WASHINGTON : 2012

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THURSDAY, DECEMBER 1, 2011

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

The committee met, pursuant to notice, at 10 a.m., in room SD-419, Dirksen Senate Office Building, Hon. John F. Kerry (chairman of the committee) presiding.

Present: Senators Kerry, Menendez, Cardin, Casey, Webb, Shaheen, Coons, Udall, Lugar, Corker, Risch, Isakson, Barrasso, and Lee.

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

The CHAIRMAN. The hearing will come to order.

Thank you all for being with us this morning.

I am going to just have very, very brief remarks because we want to hear from the witnesses.

Obviously, I think everybody understands that the question of Iran's relationship with its neighbors and with the world is much on everybody's mind. There could not be a more critical challenge in terms of proliferation and questions of terrorism in the region, and I think every one of us are deeply, deeply concerned about how we might be able to change this current equation in a way that is rational and beneficial to all parties.

We have two very highly capable witnesses here this morning to help us examine this complicated situation, and, I hope, help us shed light on how we can positively influence Tehran's behavior and confront this question of nuclear weaponization. Wendy Sherman has appeared many times before the committee and today marks her first appearance as the Under Secretary of State for Political Affairs, and I am delighted to welcome her here in that capacity. And appearing with her is David Cohen, the Under Secretary for Terrorism and Financial Intelligence at the Treasury Department. They are both very competent, dedicated, and experienced public servants, and we are happy to have them here to answer our questions today.

Obviously, with the Quds Force allegedly plotting to kill the Saudi Ambassador to the United States right here in Washington, DC, and now with the world's nuclear watch dog agency, the IAEA, issuing a very detailed and careful report about Iran's activities relative to nuclear processing, these two developments highlight the breadth of the strategic challenge that we face.

So I am not going to say more. I want to learn here today and listen carefully and I look forward to the testimony of both of our witnesses.

Senator Lugar.

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

Senator LUGAR. Mr. Chairman, I join you in welcoming our distinguished witnesses. I am hopeful they will illuminate administration strategy toward Iran's nuclear program and other issues raised by Iranian activities in the Middle East.

Iran continues to be a direct threat to United States national security, the security of our close ally Israel, and other United States interests in the region. The October disruption of an alleged plot to assassinate the Saudi Ambassador to the United States implicated the Iranian Government. Just days ago, the regime appeared to be complicit in the attack on the British diplomatic mission in Tehran. Iran's material and financial support of Hezbollah and Hamas continues to undermine international efforts to promote peace and economic prosperity in the Middle East. And its lethal support and training for militants in Iraq and Afghanistan have threatened United States and coalition forces.

Iran's leaders have issued cynical statements of support for this year's democratic movements across the Middle East and North Africa, even as they suppress dissent at home. In 2½ years since the Iranian Government's deadly repression of protests after the disputed 2009 Presidential election, the human rights situation in Iran has not improved. The regime persists in its persecution of many political activists, lawyers, students, journalists, trade unionists, and filmmakers. Iranian citizens lack basic freedoms that we Americans hold dear, including freedom of expression, freedom of assembly, and the freedom to choose their government through transparent, fair elections. As we debate 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.

Against this backdrop, Iran continues advancing toward a nuclear weapons capability. The IAEA Board of Governors passed a near-unanimous resolution on November 18 calling on Iran to comply fully with its obligations under Security Council resolutions and IAEA requirements and urging Iran to intensify its dialogue with the agency to resolve outstanding questions. The move comes after the agency reported on November 8 that Iran continues to violate its obligations to suspend all enrichment-related and heavy water-related projects and expressed serious concern about the possible military dimensions of Iran's nuclear program.

On November 21, the United States strengthened bilateral sanctions against Iran—targeting entities that contribute to Iran's ability to develop its petroleum and petrochemical resources through the provision of goods and services; designating entities and individuals involved with Iran's proscribed nuclear procurement activities; and labeling Iranian financial institutions as primary money laundering concerns. These new sanctions build on a bilateral framework of existing measures in the Comprehensive

Iran Sanctions and Accountability and Divestment Act of 2010 and the Iran Sanctions Act. Additionally, the United Kingdom announced new restrictions that cut off all financial ties between British financial institutions and Iranian banks. Canada also imposed further sanctions, prohibiting financial transactions with Iran and expanding the list of prohibited goods for export. The European Union announced new measures that will ban European companies from doing business with an expanded list of firms and organizations and will subject an expanded list of individuals to asset freezes and visa bans.

Although these steps are significant, by themselves they are unlikely to be decisive in moving Iran toward accepting a verifiable end to its nuclear weapons program. Our task continues to be the achievement of an international consensus in favor of sanctions that would present the Iranian regime with the stark choice between continuing their nuclear weapons program and preserving the economic viability of their country. From decades of experience with sanctions policy, we know how difficult this might be to achieve. Sanctions are prone to circumvention and can create unintended consequences. We also know that some nations will not be full participants in a robust sanctions regime against Iran, and others may be obstacles.

But international will for a decisive sanctions strategy has strengthened as Iran's intransigence has continued. We also have seen indications of fissures within Iran's Government as it contends with high unemployment, inflation, and dismal prospects for economic growth. Popular upheaval against the repressive Syrian Government not only weakens Iranian influence in the region, it underscores for the Tehran regime the domestic risks it assumes by incurring the economic consequences that come with nuclear noncompliance.

The United States should be exploring every option to accelerate and intensify the economic pressure on the Iranian Government while working with allies to construct a more comprehensive approach to sanctions than has been achieved thus far. This should be a top priority of the administration and Congress.

As I have frequently advocated, we also should be devoting substantial assets to communicating directly with the Iranian people and supporting their unfettered access to the Internet and social media outlets. The Iranian regime blocks satellite broadcasts and Internet access in order to control and manipulate information coming into and out of Iran. U.S. satellite TV, radio, and Internet operations all offer important lifelines to beleaguered human rights activists and supporters of democratic reforms. Access to communications technology can be a powerful stimulus for change, as we have seen during the Arab Spring.

I look forward to hearing from our witnesses regarding the administration's plans for further isolating the regime in Tehran. What is being done to enhance international economic sanctions and does the administration have a strategy for overcoming obstacles posed by China, Russia, and other nations?

I thank the chairman.

The CHAIRMAN. I thank you, Senator Lugar, very much.

Secretary Sherman, if you would lead off, and then obviously Secretary Cohen. And we look forward to having a good dialogue with you. Thank you.

**STATEMENT OF HON. WENDY R. SHERMAN, UNDER SECRETARY OF STATE FOR POLITICAL AFFAIRS, U.S. DEPARTMENT OF STATE, WASHINGTON, DC**

Ms. SHERMAN. Thank you very much, Chairman Kerry, Ranking Member Lugar, distinguished members of the committee. Thank you very much for inviting me and my colleague, U.S. Treasury Under Secretary David Cohen, to discuss the administration's whole-of-government approach to the multiple threats posed by Iran, its nuclear ambitions, its support for international terrorism, its destabilizing activities in the region, and its human rights abuses at home.

Before we start, I must note that we have yet had another example this week of Iran's reckless, destabilizing disregard for international norms. The storming of the British Embassy was a dangerous affront to the international community, and the Government of Iran's continued disregard for its obligations to protect diplomats deepens its isolation from the international community. In this crisis, we stand with our close colleagues from the United Kingdom and are encouraged by so many others who are showing their support in so many ways.

Our overall policy regarding Iran is clear. First and foremost, we are determined to prevent Iran from acquiring nuclear weapons. Iran's illicit nuclear activity is one of the greatest global concerns we face, as both the chairman and the ranking member have said. Since this administration took office, we have built and led a global coalition to create the toughest, most comprehensive set of sanctions to date on the Iranian regime. President Ahmadinejad, himself, recently characterized our sanctions as "the heaviest economic onslaught on a nation in history."

Our multilateral phased policy of increasing pressure on Iran has been effective. In January 2009, Iran appeared internally united and regionally influential, while the international community was divided on how to address Iran's nuclear activities. Today, after 3 years of increasing international pressure by the Obama administration, the regime is regionally isolated and the international community is united in its determination to prevent a nuclear-armed Iran.

Just 10 days ago, this administration intensified that pressure on Iran in three ways: targeting the petrochemical industry, designating 11 more individuals and entities for facilitating Iran's proliferation activities, bringing the total to over 280 designations under Executive Order 13382, and identifying Iran as a jurisdiction of primary money laundering concern under section 311 of the U.S. PATRIOT Act.

These new actions augment the broad portfolio of tools already provided by the Congress. The list is long. We imposed the first sanctions ever under the Iran Sanctions Act, as amended by CISADA. Earlier this year, using INKSNA, the State Department sanctioned 16 foreign companies in May, including entities in China, Venezuela, and Belarus. We are vigilant with our human



rights Executive order and have already sanctioned 11 senior Iranian officials and three entities, including the Islamic Revolutionary Guard Corps, and Quds Forces.

All of these sanctions demand a whole-of-government approach, and the State Department works very closely with the Department of Treasury. We will elaborate certainly after our opening comments on our work together.

The key to this and all we have done over the last 3 years is that we are not alone in our policy responses and sanctions on Iran. Today, the European Union has met to formalize additional sanctions on roughly 180 individuals and entities linked to Iran's proliferation activities, and as you know, the U.K. closed its Embassy in Iran and kicked Iranian diplomats out of the U.K.

On November 21, when we announced our latest round of measures, the U.K. and Canada concurrently adopted similar sanctions to isolate Iran's financial sector. Three days earlier, on November 18, the IAEA Board of Governors passed a resolution cosponsored by all P5+1 countries, including Russia and China, urging Iran to come clean about the possible military dimensions of its nuclear program. The final vote was 32 to 2, overwhelming by any standard. On that same day, the United Nations General Assembly sent its own message by adopting Saudi Arabia's resolution condemning the assassination plot against its Ambassador to the United States. A clear majority supported that resolution, and more than one-fourth of all U.N. member states cosponsored it. Sanctions are always more effective when they are multilateral, and sanctions on Iran are no exception.

We are already looking forward to what comes next. Iran's greatest economic resource is clearly its oil exports. Sales of crude oil line the regime's pockets, sustain its human rights abuses, and feed its nuclear ambitions like no other sector of the Iranian economy. The Obama administration strongly supports increasing the pressure on Iran, and that includes properly designed and well-targeted sanctions against the Central Bank of Iran, appropriately timed as part of a carefully phased and sustainable policy toward bringing about Iranian compliance with its obligations.

Beyond the international community's concerns with Iran's nuclear program, we continue to expose Iran's egregious human rights situation which serves to deepen Iran's isolation from the world community. On November 21, for the 9th year in a row, the U.N. General Assembly's Human Rights Committee rebuked Iran for its serious human rights abuses by the largest margin ever. We welcome the U.N. Special Rapporteur for Human Rights for Iran highlighting the regime's systematic repression of its citizens' freedoms. We continue to collaborate with world leaders, religious leaders, and NGOs to address violations of religious freedom.

Though the door to engagement with the regime remains open, if they decide to engage seriously with us to resolve the serious concerns we have with its nuclear program, we are clear that we distinguish between how we deal with the inexcusable behavior of the Iranian regime and our broader interactions with the Iranian people. That is why we will be very soon launching Virtual Embassy Tehran. This Web site will provide Iranians with accurate information about our policy, visa, and U.S. educational opportuni-

ties. We also engage Iranians through social media, including a Farsi Facebook page and a Twitter account, and through our broadcasting tools, Voice of America Persian and Radio Farda. We are taking measures to prevent Iran from jamming satellite signals and to approve software licenses that facilitate the free flow of information. These actions make clear our sincere desire to engage the Iranian people and further expand the internal debates among the Iranian leadership.

This engagement I described with the Iranian people, alongside unbending pressure of the Iranian leadership to comply with its obligations, forms the core of U.S. policy toward Iran, and I look forward to discussing this in greater detail through your questions. Thank you.

[The prepared statement of Ms. Sherman follows:]

PREPARED STATEMENT OF HON. WENDY R. SHERMAN

Chairman Kerry, Ranking Member Lugar, distinguished members of the committee, thank you for inviting me here today to discuss the administration's approach to the multiple threats posed by Iran—by its nuclear ambitions, its support for international terrorism, its destabilizing activities in the region, and its human rights abuses at home. I am delighted to be joined by Under Secretary David Cohen.

American policy regarding Iran is clear: First and foremost, we are determined to prevent Iran from acquiring nuclear weapons. Iran's illicit nuclear activity is one of the greatest global concerns we face. Since this administration took office, we have built and led a global coalition to create the toughest, most comprehensive set of sanctions to date on the Iranian regime. President Ahmadinejad himself recently characterized our sanctions as "the heaviest economic onslaught on a nation in history."

Our policy leverages the power of multilateral action and of likeminded countries to pressure Iran to comply with its international obligations, coupled with an offer to engage diplomatically in the P5+1 context if Iran is serious about negotiating and addressing our and the world's concerns about its nuclear program.

Our policy has been effective: in January 2009, Iran appeared internally united and regionally influential, while the international community was divided on how to address Iran's nuclear activities. Today, after 3 years of increasing international pressure, the regime is regionally isolated, and the international community is united in its determination to prevent a nuclear-armed Iran. This reversal is due in part to the measures taken by the United States and our allies to exact steep costs on Iran and its efforts to acquire nuclear weapons. By refusing our offer to engage, Iran has demonstrated that it is responsible for our current impasse, and we have mobilized broad support to hold Tehran accountable for its deceptive behavior.

Just 10 days ago, we intensified the pressure on Iran in three ways: The President signed an Executive order targeting the development of Iran's petroleum resources and maintenance or expansion of its petrochemical industry. Second, State and Treasury designated 11 individuals and entities for facilitating Iran's proliferation activities, including four entities identified by State as key nodes in Iranian missile and nuclear procurement networks. This action brings the total to over 280 designations under Executive Order 13382. Finally, the administration identified Iran as a jurisdiction of primary money laundering concern under section 311 of the USA PATRIOT Act. This finding makes clear that doing business with any part of the Iranian financial sector, including Iran's Central Bank, private Iranian banks, and subsidiaries operating outside Iran, risks doing business with a financial system that shelters money launderers and terrorists.

These new actions augment the broad portfolio of tools already provided by the Congress. Using the new authority provided by the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, the Department of State imposed the first sanctions ever under the Iran Sanctions Act, as amended, and has designated 10 firms for investing in Iran's energy sector or providing refined petroleum to Iran since 2010. Under the Iran, North Korea, and Syria Nonproliferation Act (INKSNA), the State Department sanctioned 16 foreign companies in May, including entities in China, Venezuela, and Belarus. We will continue our vigilance on the regime's serious human rights abuses, and have already sanctioned 11 senior Iranian officials and three entities, including the Islamic Revolutionary Guard Corps, under

Executive Order 13553, which was issued in 2010. All of these sanctions demand a whole-of-government approach and the Department of State works closely with the Department of the Treasury. My colleague, Under Secretary Cohen, and I can elaborate further on our work together.

The key to this and all we have done over the last 2½ years is that we are not alone. The same day that we announced our measures, the U.K. and Canada adopted similar sanctions to isolate Iran's financial sector. Today, the European Union will meet to formalize additional sanctions on roughly 200 individuals linked to Iran's proliferation activities. On November 18, the International Atomic Energy Agency Board of Governors responded to the latest Director General's report by passing a resolution urging Iran to come clean about the possible military dimensions of its nuclear program. The United States rallied the P5+1 members to cosponsor the resolution, which was adopted overwhelmingly and sent the message that Tehran's pursuit of nuclear weapons is unacceptable. On that same day, the U.N. General Assembly sent its own message by adopting Saudi Arabia's resolution condemning the assassination plot against its Ambassador to the United States. Cosponsored by more than a fourth of all U.N. Member States, the resolution condemned attacks against diplomats and called on Iran to comply with its international obligations. As we learned from cases around the world, sanctions are most effective when they are multilateral, and that is what we have seen with Iran as well.

All of this is taking place in the context of global transition. Europe is concerned about its economic situation and the vision of a united continent. Among the P5+1, Russia has parliamentary elections in December and Presidential elections in March, with Prime Minister Putin expected to return to the Presidential office. France has Presidential elections later in the spring. China is looking inward as it manages its own succession politics. Meanwhile, governments in the region continue to have grave concerns about Iran's nuclear intentions: not only Israel, but also Saudi Arabia and other Gulf States watch with intensity what Iran does and what we do in response. These factors pull in often divergent directions regarding our approach to Iran, but we continue to coordinate robust actions with our partners to prevent Iran from acquiring nuclear weapons.

It is clear that, as a result of the measures we have already taken in lock step with the international community, the Iranian regime feels isolated and vulnerable, not emboldened. This is true, not just in the case of our European allies but in Iran's own backyard. Iran has failed to co-opt the Arab uprisings, despite its efforts to take advantage of them, and alienated itself by supporting Bashar al-Assad's brutal repression of Syrian citizens. While we, the Arab League, Turkey, the EU, and others support the legitimate demands of the Syrian people, Iran occupies a lonely and indefensible position as Assad's ally. The burning of Iranian flags in the streets confirms that Syrians know Iran is not on their side. We will continue to support Syrians' desire for a government that reflects their aspirations, not Iran's. Once Assad finally does go, Iran will be alone in the region, more isolated than ever—a fact that cannot have escaped either regime's leadership. Iran also hopes to project its negative influence into Iraq after our withdrawal. However, Prime Minister Maliki said he will not tolerate violence by militant groups, including those backed by Iran, and we will continue to work to strengthen Iraqi security forces' capabilities.

Beyond the international community's concerns with Iran's nuclear program, we continue to expose Iran's egregious human rights situation, which serves to deepen Iran's isolation from the world community. On November 21, for the ninth year in a row, the U.N. General Assembly's human rights committee rebuked Iran for its serious human rights abuses, by the largest margin ever. We welcome the U.N. Special Rapporteur for Human Rights for Iran highlighting the regime's systematic repression of its citizens' freedoms. We continue to collaborate with world leaders, religious groups, and NGOs to address violations of religious freedom.

We assist those Iranians who want to hold their government accountable by offering training, media access, and exchange programs. We will be opening Virtual Embassy Tehran to provide Iranians with accurate information about our policy, visas, and U.S. educational opportunities. We also engage Iranians through social media, including a Farsi Facebook page and a Twitter account, and through our broadcasting tools, Voice of America Persian and Radio Farda. We are taking measures to prevent Iran from jamming satellite signals, and to approve software licenses that facilitate the free flow of information. These actions make clear our sincere desire to engage the Iranian people and further expand the internal debates among the Iranian leadership.

We share the Congress' concern about Iranian behavior and we will work with you. Working with allies to strengthen implementation of existing sanctions and to

expand sanctions to exploit new regime vulnerabilities, and maintaining P5+1 consensus offers our best way forward to pressure Iran. We want to work with you to ensure we have the means and the flexibility to accomplish this while avoiding unforeseen consequences and sustaining the unprecedented multilateral coalition we have assembled in opposition to Iran's nuclear ambitions. Within that framework, we welcome your ideas to help us continue to increase the pressure for a change in Iranian behavior.

Thank you, and I look forward to your questions.

The CHAIRMAN. Thank you, Madam Secretary.  
Secretary Cohen.

**STATEMENT OF HON. DAVID S. COHEN, UNDER SECRETARY  
FOR TERRORISM AND FINANCIAL INTELLIGENCE, U.S. DE-  
PARTMENT OF THE TREASURY, WASHINGTON, DC**

Mr. COHEN. Chairman Kerry, Ranking Member Lugar, and distinguished members of the committee, thank you for the opportunity to appear before you today, along with my friend and colleague, Under Secretary Sherman, to discuss the Treasury Department's contribution to the Obama administration's integrated strategy to address the threat posed by Iran's nuclear activity and its extensive support for terrorism.

As recent events have made clear, we are at a critical crossroad in our effort to bring consequential pressure to bear on Iran. The IAEA's recent stark report about Iran's nuclear weapons-related activities, the foiled plot by the IRGC Quds Force to assassinate the Saudi Arabian Ambassador to the United States, and the attack on the British Embassy in Tehran are only the most recent reminders of the grave and multifaceted threat we face from Iran.

It is more important than ever that we work together with the international community to increase the financial pressure on Iran, including through an effective, well-designed, and well-targeted strategy to further isolate the CBI, the Central Bank of Iran, an institution that has long been cut off from the United States.

Before turning specifically to potential action against the CBI, I want to take a moment to explain our recent action identifying Iran as a primary money laundering concern under section 311 of the USA PATRIOT Act. This action builds on the work we have been doing for several years to address the full spectrum of Iranian illicit conduct, including nuclear and missile proliferation, human rights abuses, misuse of the international financial system, and support for terrorist groups worldwide. A critical element in these efforts has been the imposition of sanctions on approximately two dozen Iranian Government-owned banks for facilitating Iranian illicit conduct. But the depth and breadth of Iranian financial institutions' involvement in illicit activities extends beyond this group of designated banks.

And so on November 21, we took the virtually unprecedented step of identifying the entire Iranian financial sector, including the Iranian Central Bank, as posing a risk to the global financial system. This action under section 311 also provides new information about the role of Iran's Central Bank in facilitating illicit conduct and sanctions evasion by supporting Iran's designated banks. By presenting an unambiguous public record of the broad scope of Iran's illicit conduct across all of Iran's financial system, we are sending a clear message to the world's banks: any financial

institution that transacts with any Iranian bank, including the Central Bank of Iran, runs a grave risk of facilitating Iran's illicit activities.

The United States is not acting alone. The U.K. and Canada took similarly strong actions on November 21 to protect their respective financial sectors from the Iranian threat. The result is that Iran is now cut off entirely from three of the world's largest financial sectors. And our efforts are paying off. Iran is now facing unprecedented levels of financial and commercial isolation. The number and quality of foreign banks willing to transact with designated Iranian financial institutions has dropped precipitously over the last year. Iran has been increasingly unable to attract foreign investment, especially in its oil fields, leading to a projected loss of \$14 billion a year in oil revenues through 2016.

Iran's economy today is struggling more than at any time since the 1979 revolution. One powerful illustration of this is found in the chart appended to my written testimony which shows the steady erosion in the market value of the rial, an erosion that Iran's Central Bank has been unable to halt. Recently President Ahmadinejad was forced to admit the impact of sanctions. Observing that the West imposed the most extensive sanctions ever, he lamented that, "every day our banking and trade activities and our agreements are being monitored and blocked."

While the impact of our efforts has never been clearer, we are resolved to build and sustain as much pressure as necessary to bring Iran to meet its international obligations. To that end, we are keenly focused on applying additional pressure on the Central Bank of Iran. We welcomed French President Sarkozy's call last week for a multilateral asset freeze on the CBI, as we recognize that coordinated and focused action against the CBI could have a particularly powerful impact on Iran's access to the international financial system and its ability to access the hard currency it earns from oil sales. And we welcome the opportunity to continue to work with Congress on a workable and effective approach to targeting the CBI.

We share the same goal. We must act in a way that has the greatest impact on Iran's bottom line. As we have learned from our sanctions efforts to date, the key to achieving this goal is to bring together an international coalition to work in concert to reduce exposure to the CBI and to Iranian oil exports. Now more than ever, it is imperative that we act in a way that does not threaten to fracture the international coalition of nations committed to the dual track approach, does not inadvertently redound to Iran's economic benefit, and brings serious and lasting pressure to bear on Iran, including through coordinated action on the CBI.

Finally, it is important to remember that acting against the CBI is not the only avenue available to us to bring pressure to bear on Iran. We have at our disposal a number of tools, including CISADA, to enhance the financial and economic pressure on Iran, and we are eager to work with Congress to develop new tools to apply additional pressure. Put simply, if Iran continues to choose its path of defiance, we will continue to develop new and innovative ways to impose new and ever-more costly sanctions on Iran.

I look forward to continuing to work with the Congress on this vitally important national security issue. Thank you.  
 [The prepared statement of Mr. Cohen follows:]

PREPARED STATEMENT OF HON. DAVID S. COHEN

INTRODUCTION

Chairman Kerry, Ranking Member Lugar, and distinguished members of the committee, thank you for the opportunity to appear before you today, along with my friend and colleague Under Secretary Sherman, to discuss the Department of the Treasury's contribution to the Obama administration's integrated strategy to address the threat posed by Iran's nuclear activities and its extensive support for terrorism.

I will focus my remarks today on our Iran sanctions strategy, with particular emphasis on the Treasury Department's most recent action to expose the extensive illicit finance threat that the entire Iranian financial sector—including Iran's Central Bank—poses to the international financial system. I will also discuss the fact that our implementation of the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (CISADA) and other financial sanctions are having on Iran, as well as our plans to increase the cost of Iran's intransigence until Iran agrees to curtail its pursuit of nuclear weapons. As I will explain, we are at a critical crossroad today in our effort to bring consequential pressure to bear on Iran. The options that we are now considering, including additional sanctions against the CBI, require that we work together to ensure that we deliver strong and well-targeted pressure on Iran.

IRAN SANCTIONS STRATEGY

The Treasury Department's increasingly powerful and disruptive sanctions are embedded in the dual-track strategy that the United States and our allies are pursuing to address Iran's continued failure to meet its international obligations regarding its nuclear program. As Under Secretary Sherman describes in her testimony, the Obama administration has presented Iran with a genuine opportunity for dialogue, creating a clear choice for Tehran. Iran's leadership can choose to meet Iran's international obligations, allowing Iran to deepen its economic and political integration with the world and achieve greater security and prosperity for the Iranian people. Or, Tehran can continue to flout its responsibilities and face even greater pressure and isolation. Unfortunately, Iran has steadfastly refused to respond meaningfully to the administration's offer of engagement and has continued to pursue technologies and equipment that could only be applied to a nuclear weapons program. Just last month, the International Atomic Energy Agency (IAEA) issued a stark report laying out in detail Iran's past and present nuclear weapons-related activities. Shortly thereafter, the IAEA's Board of Governors adopted a resolution expressing its "deep and increasing concern" about unresolved questions regarding Iran's nuclear program, including its possible military dimensions.

Our broad-based pressure strategy is aimed at persuading Iran to change its course and to make clear to Iran the consequences of its continued intransigent behavior. Among the most important elements of this strategy are targeted financial measures designed to disrupt Iran's illicit activity and to protect the international financial system from Iran's abuse. We have focused our efforts on exposing Iranian entities' illicit and deceptive activities, an approach that has garnered support among foreign governments and led them to take similar actions, enhancing substantially the impact of our actions. Because these actions have highlighted the pervasive nature of Iran's illicit and deceptive conduct and the reputational risks associated with Iran-related business, the private sector around the world has taken notice and has often taken voluntary steps beyond their strict legal obligations, further amplifying government actions.

Our ability to implement this pressure strategy was strengthened considerably last year when President Obama signed CISADA into law. CISADA has helped us make the case to foreign governments and foreign financial institutions that neither the Islamic Revolutionary Guard Corps (IRGC) nor Iranian banks designated for their involvement in support for proliferation and terrorism should be allowed to have access to the international financial system. The results have been dramatic: our implementation of CISADA has resulted in a massive disruption of designated Iranian banks' access to the international financial system, impeding their ability to facilitate Iran's illicit activities and creating unprecedented financial and commercial isolation for Iran.

## IMPLEMENTING THE PRESSURE STRATEGY

In implementing the pressure strategy, Treasury has focused on developing sanctions actions that expose the Iranian Government's involvement in a broad range of illicit conduct, including nuclear and missile proliferation, support for terrorism, human rights abuses, and deceptive financial conduct and evasion of international sanctions. Our actions in recent months illustrate that such illicit conduct is indeed pervasive in multiple Iranian Government sectors—including Iran's Government-owned banks, its government-operated transportation infrastructure, and the IRGC, a branch of Iran's military. Examples of recent actions targeting Iranian illicit conduct include:

- **Abuse of the Global Financial System.** Treasury actions targeting Iranian banks are intended to prevent those banks from using the international financial system to facilitate Iran's proliferation activity or terrorism support, or from assisting other banks or entities in evading U.S. or international sanctions. We continued these efforts in May by designating Iran's Bank of Industry and Mine (BIM) under E.O. 13382 for providing financial services for other designated Iranian banks. BIM is the 22nd Iranian-state owned financial institution to be designated by Treasury in the last 5 years.
- **Use of Transportation Infrastructure to Facilitate Illicit Conduct.** Our actions against key elements of Iran's transportation infrastructure are aimed at impeding Iran's use of ships, airlines, and ports for its proliferation-related or terrorism support activities. This year, we designated Tidewater Middle East Co. (Tidewater), an IRGC-owned port operating company that manages the main container terminal at Bandar Abbas and has operations at six other Iranian ports. We imposed sanctions against Iran Air, the Iranian national airline carrier and its largest airline, because it has been used by the IRGC and Iran's Ministry of Defense for Armed Forces Logistics (MODAF) to transport military-related equipment. We also designated the second-largest airline in Iran, Iranian commercial airline Mahan Air, for providing financial, material, and technological support to the IRGC-Qods Force. We sanctioned 46 companies and individuals affiliated with Iran's national maritime carrier, the Islamic Republic of Iran Shipping Lines, which is subject to U.S. and international sanctions, and three individuals who each play a key role in aiding IRISL's sanctions evasion activities worldwide.
- **Human Rights Abuses.** As the Iranian regime's abuse of its citizens' human rights has continued, Treasury, working with State, has imposed sanctions against 11 senior Iranian officials and three Iranian entities—the IRGC, the Basij Resistance Force, and Iran's Law Enforcement Forces (LEF)—including the IRGC's commander, the LEF chief, and Iran's Intelligence Minister. Under an authority that targets those responsible for or complicit in human rights abuses in Syria, Treasury designated the LEF for supporting the Syrian General Intelligence Directorate in its brutal suppression of the Syrian people. Treasury also designated LEF's Chief and Deputy Chief, and two senior IRGC-Qods Force officers, including IRGC-QF Commander Qasem Soleimani for supporting the brutal suppression of the Syrian people orchestrated by the Syrian General Intelligence Directorate.
- **Support for Terrorism.** We designated six members of an al-Qaeda facilitation network operating in Iran under an agreement with the Iranian Government, thereby degrading this network's ability to function while exposing Iran's continued support for terrorism worldwide. Treasury also sanctioned five individuals, including four senior IRGC-QF officers—among them the previously designated IRGC-QF Commander Soleimani—connected to a plot to assassinate the Saudi Arabian Ambassador to the United States, Adel al-Jubeir and carry out follow-on attacks against other countries' interests inside the United States and in another country.
- **Proliferation-related Activities:** On November 21, the State Department and Treasury designated 10 entities and one individual for their links to the Atomic Energy Organization of Iran (AEOI), the main Iranian organization responsible for research and development activities in the field of nuclear technology, including Iran's centrifuge enrichment program and experimental laser enrichment of uranium program.

## EXPOSING THE IRANIAN FINANCIAL SECTOR AS AN ILLICIT FINANCE RISK

The depth and breadth of Iranian financial institutions' illicit activities—from direct support for proliferation transactions, to assisting known proliferators' sanctions evasion efforts, to operating without appropriate regulatory controls—means that any financial institution that transacts with any Iranian bank runs a grave

risk of facilitating Iran's illicit activities. Recognizing this pervasive risk to the U.S. and international financial systems, Treasury took regulatory action on November 21 to identify the entire Iranian financial sector—including not only already designated banks and their branches operating outside of Iran, but also nondesignated banks, their foreign affiliates, and the Central Bank of Iran (CBI)—for posing an illicit finance risk to the global financial system. We did so by identifying Iran as a jurisdiction of “primary money laundering concern” pursuant to section 311 of the USA PATRIOT Act.

The term “primary money laundering concern” covers multiple forms of illicit finance of greatest concern, such as terrorist financing and WMD proliferation financing. Indeed, the section 311 finding against Iran sets out an unambiguous public record of the broad scope of Iran's illicit conduct. In particular, the finding describes Iran's activities as a state sponsor of terrorism, its longstanding provision of financing and support to Hezbollah, Hamas, and other terrorist organizations, and more recent Iranian cooperation with al-Qaeda. The finding explains the role that the IRGC and the IRGC-Qods Force, in particular, play in facilitating Iran's support for terrorism. The Qods Force involvement in terrorism support has been highlighted most recently in the public allegations that the Qods Force was involved in an Iranian plot to assassinate the Saudi Ambassador to the United States. The finding also explains Iran's use of its banks, such as Bank Saderat, to provide terrorist financing, and describes its lack of sufficient laws to combat terrorist financing.

In addition, the finding makes a full case with respect to Iranian financial sector involvement in the financing of WMD proliferation, providing a detailed accounting of the many banks in Iran that engage in such activity. The finding explains the deceptive financial practices that Iranian banks use to disguise illicit conduct, and explains the role that exchange houses and front companies play in this deception, and Iran's involvement in the stripping of identifying information off of international wire transfers, putting the foreign banks that handle such transfers at risk for involvement in illicit conduct.

The section 311 finding also provides new information about the role of Iran's Central Bank in facilitating illicit conduct and sanctions evasion. Since section 311 was enacted in 2001, Treasury has applied it on a few occasions to other jurisdictions that pose substantial money laundering threats. But in each prior instance where special measures were proposed, Treasury explicitly exempted central banks from the reach of the so-called “jurisdiction 311” in order to allow the central bank to perform those duties that central banks customarily execute.

Not so this time, and for good reason. Iran presents a unique case. As the November 21 finding explains, the Central Bank of Iran is actively facilitating the evasion of international sanctions by supporting Iran's designated banks. For example, the CBI assisted designated Iranian banks, including Bank Saderat, Bank Mellat, the Export Development Bank of Iran, and Bank Melli, by transferring billions of dollars to them through a variety of payment schemes designed to deceive large international banks and take advantage of smaller, perhaps less sophisticated intermediaries. Similarly, the CBI also provided financial support directly to the U.S., EU-, and UNSC-designated engineering arm of the IRGC, Khatam al-Anbiya, which has been involved in Iran's proliferation activities and has been recruited to develop Iran's key energy resources.

This regulatory action reinforces U.S. and international sanctions already in place against Iran and provides greater certainty that the U.S. financial system is protected from Iranian illicit activity. While U.S. financial institutions already are generally prohibited from engaging in both direct and indirect transfers with Iranian financial institutions, Treasury's Financial Crimes Enforcement Network (FinCEN) issued a proposed rule alongside the 311 finding that would require U.S. financial institutions to implement additional due diligence measures in order to prevent any improper indirect access by Iranian banking institutions to U.S. correspondent accounts. Although the section 311 action will have a regulatory impact for U.S. banks, we also expect that it will have a broader chilling effect on foreign banks' willingness to do business with Iran, given the risks that are detailed in the finding.

The U.S. is by no means alone in its assessment of the risks posed by the Iranian financial system. The U.K. and Canada also took similar strong actions on November 21 to protect their respective financial sectors from the Iranian threat. Highlighting that “the Iranian regime's actions pose a significant threat to the U.K.'s national security and the international community,” the U.K. announced that it had imposed new financial restrictions against Iran by cutting off Iran's banking sector from access to the U.K. All U.K. credit and financial institutions are now generally required to cease business relationships and transactions with all Iranian banks, including the Central Bank of Iran, and their branches and subsidiaries. For its part,



Canada imposed new restrictions under its Special Economic Measures Act in response to the IAEA's report, prohibiting financial transactions with Iran, sanctioning additional individuals and entities, and expanding the list of prohibited goods.

U.S., U.K. and Canadian concerns about the risks posed by the Iranian financial system are only further reinforced by recent reports of a massive embezzlement scandal in Iran. The Government of Iran has accused a network of Iranian state-owned and private banks of forging documents and issuing fictitious and fraudulent loans with an estimated value of approximately \$2.6 billion to politically connected individuals for the purchase of stakes in state-owned companies. The scandal has thrown into sharp relief the Iranian Government's abiding weakness in the supervision of its financial sector and echoes the extensive fraud and corruption that exists in many sectors of the Iranian economy. While the regime has tried to distance itself from the scandal as much as possible, the Minister of Economy and Finance, Shamseddin Hosseini, who narrowly survived an impeachment vote by the Iranian Parliament, has publicly conceded that "we need to have a multilevel oversight system so institutions can control the loans they disburse," acknowledging that had such safeguards been in place, "such a huge fraud could not have happened in the banking system."<sup>1</sup> The scandal, implicating the highest levels of the Iranian Government, including the Deputy Governor of the CBI, reinforces persistent doubts about the integrity of Iran's financial sector.

#### THE IMPACT OF SANCTIONS ON IRAN'S FINANCIAL SECTOR

During testimony before the Senate Banking Committee in October, I reported that Iran's financial isolation, and the economic impact of that isolation, have continued to grow. Today, I can report that the trend continues to accelerate.

Due to a combination of factors—including UNSCR 1929, financial sanctions imposed by the U.S., EU, and other like-minded countries, and foreign banks' interest in avoiding CISADA actions or the reputational risk of doing business with Iran—the number and quality of foreign banks willing to transact with designated Iranian financial institutions has dropped precipitously over the last year. Today, Iran's largest state-owned banks—each of which has been sanctioned by the U.S., the EU, and several of our allies—are largely unable to access the international financial system. Iran's shrinking access to financial services and trade finance has made it more difficult for Iran to attract foreign investment, pay for imports, and receive payment for exports. This has exacerbated persistent macroeconomic weakness due to the Iranian Government's mismanagement of its economy.

One good illustration of the economic pressure resulting from this financial squeeze is Iran's recent difficulty in defending the value of its currency, the rial. For nearly a decade, the CBI has supported a single, official exchange rate for the rial, using hard currency earned through oil sales to stabilize it. Since the adoption of UNSCR 1929 and various U.N. member states' actions to implement the resolution, however, the CBI has struggled to maintain stability in Iran's currency markets. Sanctions have increased the cost and difficulty of accessing adequate foreign exchange, weakening the CBI's ability to respond adequately to pressures in currency markets, particularly as accelerating inflation has exerted unusual pressure on the rial exchange rate. This has produced a multiple-tier currency market in Iran—including an official exchange rate and an even more expensive market rate.

In September 2010, the spread between the official and the market exchange rate widened dramatically. While the rial made a moderate recovery during the fall of 2010, it rapidly began to lose value again in January 2011. To close this gap, the CBI devaluated the rial by 11 percent in June 2011. The CBI's policy response, however, failed to stabilize the market, and the rial plunged in value against the dollar and the euro over the past several weeks.

Today, the spread between the official and open market rates hovers above 20 percent, one of the highest levels in recent history, fueling serious inflation, high unemployment, and domestic discontent. (A chart depicting the increasing spread between the official and market rate is appended to my testimony.) Because of the rial's decline in value, ordinary Iranians are urgently seeking out foreign currency, such as dollars or Euros, for safety, yet they are having trouble accessing hard currency, and when they can, they have to pay the unofficial market rate. At the same time, senior government officials and preferred businesses, including IRGC-owned and controlled operations, are able to access foreign exchange at the official rate, essentially engaging in profitable arbitrage on the back of the average Iranian. Cen-

<sup>1</sup>"Heads of Three Government Branches Recount Positions on Bank Corruption Case," Tehran Donya-ye Eqtesad Online, November 9, 2011.

tral Bank Governor Bahmani has conceded that the CBI has limited ability to respond to volatility in currency markets and blamed U.S. and international sanctions, noting that “Iran is now facing international restrictions and this has to be taken into consideration.”<sup>2</sup> Iran’s ability to respond to macroeconomic challenges will continue to be hampered by sanctions, at great cost to Iran’s long-term economic growth.

There is little doubt that our sanctions strategy has markedly reduced Iran’s access to the international financial system and, consequently, has contributed to a noticeable weakening of the Iranian economy. In a recent speech to the Iranian Parliament, President Ahmadinejad finally admitted the strong impact that sanctions are having on Iran’s economy. He noted that “the West imposed the most extensive . . . sanctions ever” and that “this is the heaviest economic onslaught on a nation in history.” He went on to acknowledge that “every day, all our banking and trade activities and our agreements are being monitored and blocked.”<sup>3</sup> This significant admission is a clear sign that U.S. and international sanctions are having a strong impact on the Iranian economy and the Iranian regime.

#### THE CONTINUING THREAT AND THE WAY FORWARD

In light of the mounting evidence of the impact of sanctions, and in light of Iran’s continued refusal to engage meaningfully and substantively with the international community, we are committed to applying greater financial and economic pressure on Iran. Let me be clear: We are firmly devoted to significantly intensifying the pressure on Iran, and doing so in a way that delivers swift, focused and powerful pressure on the Iranian leadership to further sharpen their choice between isolation and engagement.

As we explore opportunities to increase pressure on Iran, we are keenly focused— as is the Congress—on applying additional sanctions on the Central Bank of Iran. So we welcome French President Sarkozy’s suggestion last week for a multilateral asset freeze on the CBI, as we recognize that coordinated and focused action against the CBI could have a particularly powerful impact on Iran’s access to the international financial system and its ability to access the hard currency it earns from oil sales. And we welcome the opportunity to continue to work with Congress on an effective, well-designed and well-targeted sanction against the CBI. As we prepare these steps, it is imperative that we act in a way that does not threaten to fracture the international coalition of nations committed to the dual-track approach, does not inadvertently redound to Iran’s economic benefit, and brings real and meaningful pressure to bear on Iran.

It is also important to remember that delivering potent pressure on Iran is not wholly dependent on how we address the Central Bank. Put simply, a designation of the CBI is not the only step, nor would it be the last step, available to bring consequential pressure to bear on Iran. For example, as more and more countries and foreign banks refuse to deal with designated Iranian banks, we remain keenly focused on the possibility that nondesignated Iranian financial institutions may become involved in proliferation activity or terrorist financing. When we see Iranian banks stepping in to pick up business for designated banks, or beginning to process proliferation transactions, we will swiftly impose new sanctions, as was the case recently with Bank of Industry and Mine.

We will continue our intensive efforts to implement CISADA, which, as I noted, have been enormously successful in driving down to almost nil the international activity of designated Iranian banks. As we learn of activities that may trigger CISADA sanctions, we will continue to either obtain immediate resolution or impose CISADA sanctions.

We will stay ahead of efforts by Iran to develop workarounds to its financial isolation. This means working with our partners around the world to identify the ways— both overt and deceptive—in which Iran seeks to establish new financial footholds, and take action to stop them.

We will relentlessly pursue IRISL ships, front companies, agents and managers, exposing and sanctioning them, and driving IRISL out of operation. And, as evidenced by the Tidewater designation in June, we will aggressively expose the IRGC’s expanding role in the Iranian economy and work with our partners in Europe and elsewhere to apply sanctions on IRGC-controlled companies.

<sup>2</sup>“Heads of Three Government Branches Recount Positions on Bank Corruption Case,” Tehran Donya-ye Eqtesad Online, November 9, 2011.

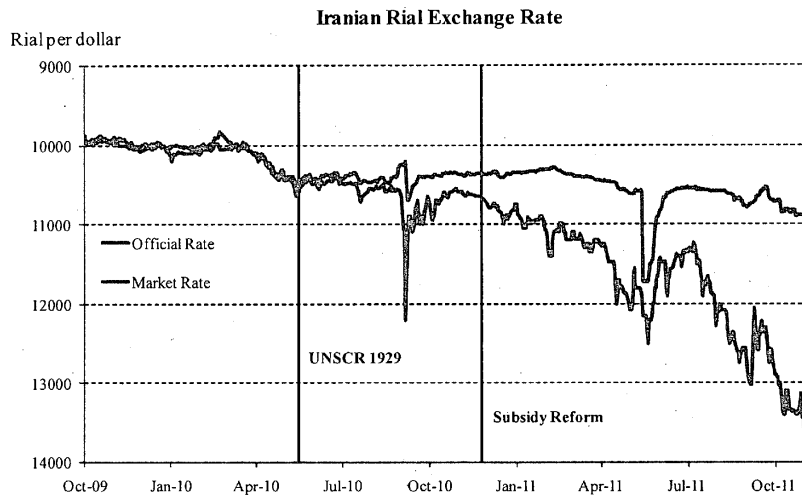
<sup>3</sup>“Ahmadinejad Stresses System Unity at Minister’s Impeachment Hearing,” Tehran Voice of the Islamic Republic of Iran, November 1, 2011.

## CONCLUSION

Although we are making progress to identify Iran's illicit behavior and pressure Iran to comply with its international obligations, there is, of course, significant work still before us. The recent IAEA report, which exposes Iran's activities relevant to the development of a nuclear explosive device, coupled with the recently exposed plot by which Iran's IRGC-QF planned to assassinate the Saudi Ambassador to the United States, only underscores the importance of not only maintaining, but qualitatively enhancing, the pressure on Iran.

As Secretary Geithner has said, "the policies that Iran is pursuing are unacceptable—and until Iran's leadership agrees to abandon this dangerous course, we will continue to use tough and innovative means to impose severe economic and financial consequences on Iran's leadership." We want to work with Congress to broaden and strengthen CISADA and other Treasury authorities and to take careful, focused steps to address the illicit conduct of the CBI.

I look forward to continuing our work with this committee as Treasury continues to pursue this enormously important strategic objective.

APPENDIX: IRANIAN RIAL EXCHANGE RATE

The CHAIRMAN. Thank you very much, Mr. Secretary.

Let me begin by asking you, if I may. I know you are both aware, obviously, of the Menendez-Kirk amendment to the defense authorization bill on the floor now. And this would seek to impose sanctions against entities, including other central banks, that trade with the Central Bank of Iran. I know what your position is, and I have a letter here from Secretary Geithner to Chairman Levin expressing the opposition of the administration, but I think it would be helpful to the members of the committee if you could discuss in some detail what the problems are with that amendment and how it does or does not supplement what you are trying to do and why you think there is a better approach, if you do.

Mr. COHEN. Yes, Mr. Chairman. Why do I not begin addressing that question?

I think at the outset it is important to emphasize that we completely share the goal that animates the Kirk-Menendez amendment and are completely committed to delivering real and

sustained pressure on Iran to bring them to understand the choice that is before them.

The concern that we have with this amendment is that we think it risks two things that we want to avoid. One is it risks fracturing the international coalition that has been built up over the last several years to bring pressure to bear on Iran. Especially today in the aftermath of what has occurred in Tehran over the last several days, in the aftermath of the IAEA report, and in the growing sense of urgency internationally with respect to Iran's nuclear program, I think we have an opportunity work cooperatively and collaboratively with our international partners to bring additional pressure to bear on Iran.

The amendment, however, would focus the most powerful sanction that we have: the termination of access to the United States on the largest financial institutions and the central banks in some of our closest partners. And I think it is our sense that we are more likely to achieve the cooperation and the coordinated action to bring pressure to bear on the CBI and on Iran more broadly if we approach this issue through an effort to coordinate action voluntarily against the CBI and against Iran rather than through the threat of coercion that is contained in the amendment.

The CHAIRMAN. Can you just flesh out a little bit sort of why that is so threatening perhaps to some of our friends? What does it wind up doing to them?

Mr. COHEN. Yes. The way this amendment would operate, Mr. Chairman, is that it would say to foreign financial institutions—and in this instance we are talking about the largest financial institutions in our closest partners, as well as central banks in our closest partners. It would say to them that if they continue to process oil transactions with the Central Bank of Iran, their access to the United States can be terminated. It is a very, very powerful threat. It is a threat to the commercial banks to essentially end their ability to transact in the dollar and their ability really to function as major international financial institutions. That threat being focused on our closest allies, as I said, risks a dynamic with those governments and with these banks that I think is as likely to push them away and to impede the ability to bring together a coordinated effort against Iran as to generate that.

The CHAIRMAN. Well, I suppose a proponent of it might say, well, that is because they are not serious about putting pressure on Iran.

Mr. COHEN. Mr. Chairman, I think what we have seen is just the opposite. I mean, we are talking about countries like Japan, countries like South Korea, many of our partners in Europe. These countries, over the last several years, have demonstrated a willingness to work us, to work with us very closely to bring real and sustained pressure on Iran. And I think we are seeing in the EU just today, as Under Secretary Sherman noted, additional steps being taken to bring pressure to bear on Iran. And it is our judgment that the best way to proceed is to continue to work with our partners to develop the means and the mechanisms to bring that pressure to bear, including pressure directly on the Central Bank of Iran and on Iran's ability to sell its oil and to earn revenue from its oil sales.

I think the way to accomplish that is, in part, to pursue the suggestion of President Sarkozy to bring multilateral freeze on the CBI's assets and as well to work with our partners who have already shown a willingness to consider reducing their imports of Iranian oil and to do that in an orderly and coordinated fashion. That, we think, is better calculated to achieve the ultimate objective here which is to reduce Iran's access to the very important source of revenue for its economy, its oil revenue.

The CHAIRMAN. So what you are really saying is this is a very blunt instrument which risks adverse reaction as opposed to a calculated, carefully orchestrated effort that is currently underway to actually accomplish the very same end. Is that correct?

Mr. COHEN. I think that is exactly right.

The CHAIRMAN. Secretary Sherman, I think you wanted to add to that. You might add also how perhaps even this amendment, which we all understand its motivation is legitimate and we all agree with, may have the unintended consequence, I believe, of even enriching Iran and providing money for the very program that we want to stop. Is that not accurate?

Ms. SHERMAN. Right, absolutely. In fact, that is where I was going to start, Mr. Chairman, which is the irony of this amendment—and as you say, we all agree with the impulse, the sentiment, the objective, which is to really go at the jugular of Iran's economy. Indeed, analysis that we have done—although there are many analytics to this and no one knows for sure, but there is absolutely a risk that, in fact, the price of oil would go up, which would mean that Iran would, in fact, have more money to fuel its nuclear ambitions, not less.

And our real objective here is to cut off the economic means that Iran has for its nuclear program, and in fact, the sanctions that have been imposed, the toughest regime ever in the history of our country and in the world, quite frankly, has meant that it is not only—those sanctions not only act as a deterrence, but probably more importantly in the short run, they act as a way to slow Iran's progress so that it is harder for Iran to finance its program. It is harder for Iran to get the technology it needs, and indeed, in a speech that National Security Advisor Tom Donilon just gave a few days ago, he noted in 2007 the head of Iran's atomic energy organization boasted that Iran would have 50,000 centrifuges installed within 4 years. We are now nearing the end of 2011, and the IAEA reports that Iran has installed 8,000 centrifuges with perhaps 6,000 operating. So Iran's ambition to really be much further in its nuclear program has been undermined by the sanctions that have been imposed in a multilateral fashion in a targeted and careful way.

As you mentioned, Mr. Chairman, I have had the honor of being in this position now for 2 months. In those 2 months, I have met with every political director of the P5+1. I have been to Russia, China, Tokyo, Seoul, Brussels, and a variety of other places. In every one of those meetings, the first priority is Iran, and the response has been amazing. Every day people are willing to take another action, and the multilateral phased approach that the Under Secretary so well articulated, is crucial to maintaining that

multilateral framework. And we know that sanctions are the most powerful when they are multilateralized.

The CHAIRMAN. Well, thank you, Madam Secretary.

I am going to place this letter from Secretary Geithner to Chairman Levin written today or dated today into the record.

[The letter referred to follows:]

SECRETARY OF THE TREASURY,  
DEPARTMENT OF THE TREASURY,  
Washington, DC, December 1, 2011.

Hon. CARL LEVIN,  
*Chairman, Committee on Armed Services,  
U.S. Senate, Washington, DC.*

DEAR CHAIRMAN LEVIN: I am writing to address amendment 1414 to S. 1867, the National Defense Authorization Act for Fiscal Year 2012, regarding the imposition of sanctions on foreign financial institutions that conduct business with the Central Bank of Iran (CBI).

The Obama Administration's determination to prevent Iran from acquiring nuclear weapons is unwavering. We are resolved to build and sustain as much pressure as necessary to bring Iran to meet its international obligations and address the international community's grave concerns with its nuclear program. I know that you and your colleagues in the Senate share this commitment.

We understand that this amendment was offered in this spirit. However, I am writing to express the Administration's strong opposition to this amendment because, in its current form, it threatens to undermine the effective, carefully phased, and sustainable approach we have undertaken to build strong international pressure against Iran. In addition, the amendment would potentially yield a net economic benefit to the Iranian regime.

We have steadily increased the pressure on Iran by tightening sanctions, closing loopholes, and encouraging other countries to do the same. Congress has been absolutely critical in providing some of the tools that we have used to accomplish that goal, and we are seeing genuine results. The collaborative approach the U.S. has taken with our international partners has led many to impose sanctions on Iran that were not even contemplated three years ago, including on Iran's energy sector.

Iran's greatest economic resource is its oil exports. Sales of crude oil line the regime's pockets, sustain its human rights abuses, and feed its nuclear ambitions like no other sector of the Iranian economy. We are committed to doing as much as possible to reduce Iran's oil revenue while concurrently working to stabilize global oil markets. Today, the United States does not permit the import of Iranian crude. Other countries have already begun to reduce their consumption of Iranian crude and the Administration is working hard to discourage anyone from taking advantage of the responsible policies of these countries. Our closest allies are seriously considering curtailing their own crude purchases altogether in the near future and we are doing everything possible to encourage them to make the right decision.

However, as currently conceived, this amendment threatens severe sanctions against any commercial bank or central bank if they engage in certain transactions with the CBI. This could negatively affect many of our closest allies and largest trading partners. Rather than motivating these countries to join us in increasing pressure on Iran, they are more likely to resent our actions and resist following our lead—a consequence that would serve the Iranians more than it harms them. Further, there is a substantial likelihood that this amendment, particularly if passed into law at this time and in its current form, could have the opposite effect from what is intended and increase the Iranian regime's revenue, literally fueling their suspect nuclear ambitions. The Administration is prepared at your convenience to share the details of our analysis on this point, in a classified briefing.

The Obama Administration strongly supports increasing the pressure on Iran significantly, including through properly designed and well-targeted sanctions against the CBI. The Administration has several legislative proposals to both enhance and expand the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA) and to strike at the CBI that we would like to discuss with you and your colleagues. We intend to work with our partners to achieve the objectives of this amendment, but in a fashion that we believe will have a greater and more sustainable impact on Iran. We ask that you continue to work with us on ways to improve this amendment and to consider other, more immediate and more effective steps

that we can take to accomplish our shared goals while we work with our partners to bring about the effects this amendment is intended to achieve.

Sincerely,

TIMOTHY F. GEITHNER.

The CHAIRMAN. And I would just call the attention of our colleagues to the most relevant paragraphs in which the Secretary says, "as currently conceived, this amendment threatens severe sanctions against any commercial bank or central entity if they engage in certain transactions. Rather than motivating these countries to join us in increasing pressure on Iran, they are more likely to resent our actions and resist following our lead, a consequence that would serve the Iranians more than it harms them. Further, there is a substantial likelihood that this amendment, particularly if passed into law at this time and in its current form, could have the opposite effect from what is intended and increase the Iranian regime's revenue, literally fueling their suspect nuclear ambitions."

And then it goes on to describe that it does have an approach expanding Iran's actions and actually focusing on the CBI working with our partners to achieve the objectives of the amendment, but in a fashion that, to quote the Secretary, "we believe will have a greater and more sustainable impact on Iran."

So I think it is important for members to take note of this as we think about what will occur potentially on the floor.

Senator Lugar.

Senator LUGAR. Thank you very much, Mr. Chairman.

It seems to me that in thinking through the action with regard to Iran, we have not mentioned what frequently is in the press. That is the thought that Israel might, in fact, decide to attack Iran and simply attempt to take out elements of the regime's nuclear program. On several occasions, the United States has given the advice that this would be particularly difficult to do in light of reports that most of Iran's nuclear infrastructure is underground or otherwise difficult to reach. Nevertheless, this matter continues to be argued in Israeli politics and cannot be ignored.

Some would say that if the infrastructure is indeed difficult to destroy, it would be preferable for the United States to prosecute the attack because we are likely to be more efficient and more effective.

What we are really talking about here is that because of the nuclear threat and this particular kind of regime, the potential for war, the potential for actual physical attack and retaliation by the Iranians is very sizable. As you have made clear, this is not merely an academic exercise.

Let me be very serious about this. We had a very good lecture this morning by Karim Sadjapour from the Carnegie Endowment for International Peace. You are no doubt familiar with him as he is a regular lecturer on these affairs. His focus, first of all, was on the Voice of America and its activities in Iran. Now, I would say Karim was critical of the Voice of America's activities, not in the sense that we are not spending money, but rather that the effectiveness of our programming is being hampered by a bureaucracy that he believes is rendering VOA less effective than it should be.

I am not a critic of the program. I would just say we believe that it should operate as effectively as possible. This imperative is made

clear when one considers that at least two-thirds of the Iranian population is below 30 years of age. The potential for improvement of our programs is there as, according to some analysts, the British programs are drawing a better audience than ours. Thus, I would just ask you to take a strong look at these programs because they are still an avenue to at least two-thirds of the population.

On the sanctions business, it would appear to me that although there are risks in alienating our allies and others, the Central Bank focus really is a deadly problem for Iran if executed completely.

In addition, we ought to thoroughly think through the possibility of decreasing Iran's oil exports. Now, at this point, the Chinese, who were thoroughly uncooperative with regard to the banking sanctions and would be outraged if their oil imports from Iran were disrupted, are a real factor. But they are not taking this very seriously now anyway. Given that we are going to have to either contend with diplomacy with the Chinese or potential warfare with the Iranians, I would prefer that we visit with the Saudis and give them the opportunity to export to the Chinese in greater measure. This could eliminate a great source of funds for the regime, as over 50 percent of its income is coming right now from oil exports. To the extent that you really hit the Central Bank and stop the exports, you really do make a very big difference in terms of the ability of that government to function, quite apart from the ability of the people to tolerate it.

Again and again, people are saying that the Arab Spring came to Egypt largely because of elderly people out in the hustings, not in Tahrir Square, but the people out in the hustings who were starving and were not getting the subsidies from the government because the price of food was going up. That is occurring in Iran too and can be accelerated very substantially.

So I just ask you for your comments on these editorial opinions because I think we all feel very strongly about this and are all attempting to act as wisely as possible.

Ms. SHERMAN. Thank you very much, Senator Lugar. Let me make a few comments on the military option you mentioned, communications capabilities, ways to reach the Iranian people, and a comment again on CBI, and then turn it to Under Secretary Cohen.

We agree with you. We think that the broadcasting possibilities, the Twitter possibilities, the social media is quite crucial to reaching the Iranian people. And, in fact, our Voice of America Persian and Radio Farda reaches as many as 20 million Iranians per week, and Web sites receive an estimated 60,000 visits per day. I take your point that we should do everything we can to increase our capabilities and we are working very hard to do that.

On Facebook, we have 37,000 fans. We obviously want to increase that decidedly. Twitter, 8,000 fans. YouTube, 270,000 views. In May, the Secretary announced the extension of visa validity for Iranian students in humanities-related fields, and I think if I remember correctly, the percentage of Iranian students has increased 20 percent in the last year. In October, the Secretary gave interviews on BBC's Persian service and on VOA's Persian satirical news show, which is wildly popular. You are quite right. The BBC's Persian is incredibly well penetrating. We work very closely with



the BBC. This is, again, part of our multilateral effort to work with others. They have some capabilities in part because they have been present, at least until now, in Tehran which gives them capabilities that we do not.

I do have those numbers. According to the International Institute of International Education, 5,626 Iranians studied at U.S. universities in 2010, an increase of 895 students since 2009, and we want to increase that for all the reasons you well understand.

So I take your point, and we think this is important. It is why we are starting Virtual Embassy Iran, and we will be launching that shortly. And we also, as I think you know, use technologies worldwide to help people ensure that they have access to the Internet and can get past satellite jamming. Some of that I would be glad to have someone brief you about further in a classified setting, but it is quite crucial.

Second, on your concern raised about military action, clearly that is nobody's preferred course of action, but the President has said and has repeatedly said that all options remain on the table in the situation that we are facing because we do not want to be in a situation—anyone in the world—and there is very strong international coalition on this to be in a position where Iran acquires nuclear weapons.

At the same time, we think the dual-track approach that we are taking, which is pressure and engagement, though Iran has yet to take that hand toward engagement because we expect there to be serious conversation about their weapons program without preconditions and they are not quite ready to do that—so we will intensify and increase the pressure decidedly on a regular basis.

On CBI, I take your point that if one has to make a choice between war and the risks with CBI, that is a very tough and compelling calculation. We do not think we have to go there today. What we think we need to do is have targeted efforts regarding CBI that can be multilateralized. As Under Secretary Cohen mentioned, French President Sarkozy's suggestion of asset freezes on CBI is one thing that we are all looking at and talking with our colleagues about around the world. You are quite right that we need to be pushing parties around the world tough, harder to take action.

That was really much of what I was doing in China, and China has agreed and publicly so today to finally accept Special Envoy Bob Einhorn to come to China and to assist them in better applying the sanctions regime to what they are doing. They have slowed down their actions. They have not backfilled, but indeed, they need to take further action and we would agree with you absolutely in that regard.

Let me turn, if I may, to Under Secretary Cohen—

The CHAIRMAN. I think we are going to have to take that answer and thank you.

Ms. SHERMAN. We will come back, I am sure.

The CHAIRMAN. I am sure we will.

Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman.

You know, Mr. Secretary, I have to be honest with you. I am extremely disappointed. You all did not like the original amendment

offered, and at the request of the administration, we engaged in a good faith effort to try to create an amendment that would have the maximum effect on Iran's economy with minimum disruption to the oil market of the United States. That original amendment had no waivers whatsoever. Maybe we should have allowed that to stand. That is the vote we would be having.

At your request, we engaged in an effort to come to a bipartisan agreement that I think is fair and balanced. And now you come here and vitiate that very agreement. So that says to me in the future that when you come to me and ask me to engage in a good faith effort—you should have said we want no amendment, not that you did not care for that amendment.

Now, having said that, let me just say everything that you say in your testimony undermines the credibility of your opposition to this amendment. The clock is ticking. The published reports say we have about a year. Now, when are we going to start our sanctions regime robustly? Six months before the clock has been achieved before they get a nuclear weapon?

Now, this amendment was crafted in such a way that it gives the President two significant pieces of discretion, No. 1, to determine that there is sufficient supply in the oil market that it would not create a disruption. And if he finds that is not the case, then the actions would not go into effect. And second, notwithstanding that he might find that, yes, there is enough oil in the market that would not create a disruption, that in fact he has a second opportunity in a national security waiver.

So I find it pretty amazing that you all come here and say what you have said in response to the chairman. And let me just say I looked at the Treasury Secretary's letter. Nowhere does he talk about economic disruption to us, very interestingly. I think he would have made that case if in fact there was any such disruption. He actually makes two statements here that I think are pretty redeeming of our amendment. He says, No. 1, Congress has been absolutely critical in providing some of the tools that we have used to accomplish the goal of tightening sanctions.

But for Congress, you would not have had the sanctions, and I have never seen this or any other administration come before the Congress and say, please, give me a sanctions regime. You have rebuffed it every step of the way even though it is the sanctions law that we have given you that has allowed you to achieve some limited progress.

Second, he says the sales—referring to Iran—the sales of crude oil line the regime's pockets, sustain its human rights abuses, and feeds its nuclear ambitions like no other sector of the Iranian economy. Well, then, if that is the fuel that allows Iran to march to nuclear weapons, then you need to cut off the fuel. And that is exactly what we are focused on doing.

I find it amazing that the Europeans are considering doing some of this. France, in particular, has been advocating such a measure in international reports earlier this month after it was revealed that Iran is moving closer to building its own nuclear weapon. The European nations are discussing imposing their own embargo. So we basically say to financial institutions, do you want to deal with

a \$300 billion economy or do you want to deal with a \$14 trillion economy? I think that choice is pretty easy for them.

So I find it pretty outrageous that while the clock is ticking and you ask us to engage in a more reasoned effort, then we produce such an effort in a bipartisan basis, you come here and say what you say, which really undermines your relationship with me for the future because you are not going to tell me that, please engage with us in an effort to find a more refined solution, and then when we do that, say you do not care for it. It would have been more honest to say we do not want any amendment whatsoever.

Now, the fact is that several major energy traders continue to make prohibited sales of refined petroleum to Iran, and yet our response has been to sanction the front companies like the Royal Ouster Group rather than the major figures behind the sales. You have been reluctant to sanction Chinese companies for energy sanctions when there is ample evidence that they are violating our laws and there is precedent for us sanctioning Chinese companies for nuclear and weapons proliferation concerns. So even though we have given you the tools, you have not shown us the robust effort when the clock is ticking to use that which we have given you.

So that is why 80 Members of the Senate—at a time in which it is very difficult to find bipartisan agreement—have joined in our Iran, North Korea, Syria Sanctions Act, because they understand that just as the Iranians move to circumvent the sanctions regime that we have already imposed and to find ways to achieve loopholes, we must remain one step ahead of them and close those loopholes and, at the end of the day, be able to ensure that our sanctions regime is effective.

Now, had you all embraced that effort, maybe we would not be where we are today. If you had used the sanctions regime you already have and been more robust instead of taking the shell groups, gotten to the heart of it, we would not be where we are today. And if the Europeans are considering an embargo, we should not be leading from behind. We should be leading forward.

I think the amendment that we will hopefully vote upon today is reasoned. It is balanced. It gives the President discretion to determine both the oil markets and whether there are sufficient supplies. And look, Libya is coming back on track. We certainly see Iraq producing more. The Saudis have a great ability to produce more. So I find it disconcerting, to say the least.

And I do not really have any questions for you. I just wanted to set the record straight here after you vitiated my amendment.

Thank you, Mr. Chairman.

The CHAIRMAN. I do not think they vitiated it. I think they vilified it.

Let me just ask you this question. Is there a way, Madam Secretary, to address—in the letter, I noticed that it said in “its current form.” And you have a number of times said “in its current form.” Therefore, both to afford you an opportunity to respond but also just to try to deal with what is on the table here, is there in fact a way? Is it a no amendment situation, or is it this amendment in its current form and there is some way, in fact, to address what your concern is?

Ms. SHERMAN. Let me, if I may, defer to Under Secretary Cohen in a second.

I think there is a way to target CBI, and David will talk about some of those in a moment. What I think is crucial is that we do it in a way that is multilateralized. And the one point I would say, Senator Menendez, from our perspective at the State Department is that it is true that the Europeans are talking about this. And we are working diplomatically around the world both David and myself to encourage everyone to make the right decision to do what the United States has already done. Today we have no interactions with CBI. And we would hope others would do that as well and make the right decision in a way that works economically for them and ensures that Iran does not get more revenue because the price of oil spikes.

And I appreciate that you have tried to address those issues in the amendment, but if I may, let me defer to my colleague at Treasury.

Mr. COHEN. Thank you.

Let me first address the concern about how we have been working with you and your staff with respect to the amendments. I think we very much appreciate the opportunity to work with you on this issue. We wholeheartedly share the objective of bringing real pressure to bear on the CBI. What we were doing working with you and with your staff was trying to devise an approach that is best calculated to bring that pressure to bear directly on the CBI while avoiding potential adverse consequences to our international diplomatic efforts, as well as to the economic situation in Iran in particular.

If there was a misunderstanding with respect to whether we were supportive of the amendment as it was modified, I apologize for that. We had tried to be clear that we wanted to work with you, work with your staff to modify the amendment in a way to improve it, but I think we tried to be clear throughout that our judgment is that the best course to pursue at this time is not to apply a mechanism that puts at risk the largest financial institutions, the central banks of our closest allies, that the course that we should be pursuing to bring real and significant pressure on the CBI and to do exactly what you, Senator Menendez, highlighted, which is to attack Iran's ability to get access to the revenue from its oil sales, is to work collaboratively and cooperatively with our partners on an approach to reduce their importation of Iranian oil, a step that the United States has already taken.

We now import no oil from Iran. We now have no relationship with the Central Bank of Iran. What we want to do is to work with our international partners in an effort to have them get to that same point but in an orderly, cooperative, collaborative fashion. That is our sense of the best way to proceed here.

Just to reiterate, we completely share the objective here of addressing the CBI and the CBI's ability to operate in the international financial system. The issue is how do we go about this in a way that is best calculated to achieve the objective that we are looking to achieve while minimizing the potential for adverse collateral consequences.

The CHAIRMAN. So, bottom line, you are really saying that it is not curable. You just oppose the amendment.

Mr. COHEN. Mr. Chairman, our position is that the right course is to not adopt this amendment. We recognize—

The CHAIRMAN. But then it is disingenuous to say “in its current form” with all due respect.

Mr. COHEN. If I could continue. We also recognize that there is substantial support for this amendment in the Senate, and if it is to be adopted, we do think that there are some important changes that should be incorporated to ensure that it achieves the objective that we are all looking to achieve. So our preferred course is for this amendment to not be included in the Defense Authorization Act. If it is included, we do want to continue to work with Senator Menendez and the Senate as a whole to bring in a few additional changes that we think are critically important to ensure that it operates in a way that is as designed.

The CHAIRMAN. Senator Corker, thanks for your indulgence.

Senator CORKER. No problem. I understand that we have the amendment on the floor and I understand additional time is worthy to talk about that.

Senator Menendez referred to published reports of Iran having the ability to have a weapon in a year. Is that a timeline that you all believe is worth at least internalizing?

Ms. SHERMAN. Senator, there is great debate.

Senator CORKER. And I do not want a long answer.

Ms. SHERMAN. Yes. No, I will not give you one.

There is great debate about the timeframe, and the timeframes are at what point they have a breakout capability, at what point they will have a weapon. And all of those timeframes are seen differently analytically.

Senator CORKER. Is it worth thinking about the published reports as being generally where things are?

Ms. SHERMAN. Published reports are one data point. There are others who would disagree. I think what our objective is is to—every country in the world ostensibly has breakout capability and the capability of getting a nuclear weapon. Our objective with Iran is for them not to have them and to lengthen the period of time for as long as possible that it will take them to get there.

Senator CORKER. We understand that.

Ms. SHERMAN. Everything we do every day takes any timeframe you have seen in a published report and makes it longer. Anything we can do to degrade their program will make that timeline longer, and that is crucial.

Senator CORKER. So for what it is worth, I respect the work that you all have been doing. I have been to several hearings where you all presented both publicly and privately what you are doing, and I understand how you do not want Congress to end up with a blunt object that does not work for you. At the same time—and I think it has been pretty fascinating actually to see the effects that you have had in some areas of their economy.

But it does not look like to me the lines are going to cross, or at least at the right point. It does not look to me like the sanctions, even though there has been some successes, are going to achieve their end prior to the time that Iran actually has a nuclear

weapon. And I think that is what has gotten much of Congress concerned. And so I think you generally are thinking the published reports are not way off. I do not think you are going to get there personally. I do not think you are going to get there. And so I share Senator Menendez's concerns.

You know, we have worked with you also on other proposals. I have to say that Treasury, generally speaking, has stiff-armed on numbers of fronts, and it seems to me that a responsible approach to today's amendment would have been to have laid out what it was you wanted to pass. And I am not a cosponsor yet, but I am pretty irate that Senator Menendez has worked with you all this time. I know they have made changes. We have been meeting with his staff, with Kirk's staff, with others. Why have you not offered what ought to be put in place before today's vote? That seems highly irresponsible on your part.

Mr. COHEN. Senator Corker, we have continued to engage with Senator Menendez.

Senator CORKER. I do not want engagement. Why have you not laid out—why does Secretary Geithner not lay out what it is he would like to see happen?

Mr. COHEN. I think Secretary Geithner's letter, with all respect, does lay out what we think should happen with this amendment, which is that—

Senator CORKER. That it be defeated.

Mr. COHEN. Yes, that it not be adopted.

That being said, there are additional amendments to the amendment that we have provided to Senator Menendez and his staff, and so we are eager to continue to work with Senator Menendez and the Senate as a whole, if this is going to proceed, to have it proceed in a fashion that is more workable.

If I could just comment on one other of your remarks on the timelines. I think both Under Secretary Sherman and I are trying to convey that we recognize both the urgency, whether it is a 1-year timeline or whatever it is, that there is a significant urgency on the pressure track and if you are thinking about the lines crossing, we agree—the administration agrees—that our line needs to accelerate, and we are intent on doing is bringing additional pressure to bear, consequential pressure to bear on Iran in very short order.

The question that I think we are addressing is how best to achieve that, and our concern with the amendment is that we think that may not be the best way to proceed. It is not that we are coming before the committee and saying everything is fine, leave us alone, let us continue on. What we are saying is we recognize that we are at a point in time where the right course is to intensify the sanctions, and we want to do that and we want to do that in a way that is best calculated to work. And we just think that the way to do that is to work cooperatively with our international partners in a fashion that has, I think, borne substantial fruit over the last several years and we think can work going forward.

Senator CORKER. Let me ask you this. Would it make sense for Menendez and Kirk to give you 60 days to make that happen? If it does not, this goes into effect.

Mr. COHEN. I think we are interested in continuing to figure out how to give us the space to work and we can continue to work—

Senator CORKER. And I appreciate the fact that you are working with allies and friends. It does send a signal that we really are willing to work on sanctions on everything but that that matters, and that is petroleum exports. But I understand that you want to work with them, with our friends, in a way that makes most sense. And I appreciate the executive branch wanting some flexibility. I do think there have been ways probably to make this amendment work.

But, Ms. Sherman, you made a comment that every political candidate has made probably for 8 years, and that is all options ought to be on the table. And it is what every candidate on both sides of the aisle running for any office other than city council has said for years. And yet, I guess I would ask the question, are we making plans with our friends toward military action, not doing it, but are we making those kinds of plans that are known and send signals to Iran that if these sanctions do not work, we really are prepared to use that option? Is that taking place at present?

Ms. SHERMAN. I would say briefly two things, Senator.

One, the President of the United States has said publicly on several occasions that all options are on the table, and I—

Senator CORKER. Like I said, every candidate has said that.

Ms. SHERMAN. But from Iran's point of view, when the President of the United States says that, whoever the President of the United States is, whatever party, it is a serious and fundamental statement.

Senator CORKER. George Bush said that. George Bush probably before him said that.

Ms. SHERMAN. But Iran understands and they read the newspapers and see what is happening. They understand it is a serious possibility, and we have reason to understand that they believe that.

And second, in terms of plans and planning, my experience—I am sure yours as well—is that the Department of Defense plans for virtually every hypothetical situation there is in the world.

Senator CORKER. Thank you, Mr. Chairman. Thank you all for your work, and thank you, Senator Menendez, for focusing on this issue.

The CHAIRMAN. Thanks, Senator Corker.

Senator Cardin.

Senator CARDIN. Thank you, Mr. Chairman.

Let me thank both of our witnesses.

There may be some disagreement on the timeline as to when Iran will have a nuclear capacity for a weapon, but there is no disagreement on the timeline on the vote on the Menendez-Kirk amendment. That is going to take place momentarily, certainly within the next 24 hours. So I would just urge you with the sense of urgency as it relates not just to this amendment but to this issue.

Now, we have all talked about Iran, and let me put it in context. Iran is an extremely dangerous country. They are supporting terrorism, and we have known what cost that has been to the American people. They are abusing their own people. They are sup-

porting Syria's efforts on the abuse of the people of Syria. And the list goes on and on.

As you pointed out, Secretary Cohen, the international referee on nuclear nonproliferation has judged that Iran is proceeding with a nuclear weapon. They point out that what they are doing would be inconsistent with anything other than a nuclear weapon. So we know that we are on a glide path of an extremely dangerous situation, which brings us to timing issues.

I want to just underscore what Senator Corker said. I think on both sides of the aisle we appreciate the leadership of the Obama administration in reaching out to the international community and getting more international support for sanctions than we have had in the past. That is extremely important. But it starts with U.S. leadership. We have seen over and over again that without the United States stepping forward, the international community is slow, in many cases will not act at all.

So dealing with the Central Bank of Iran, your own reports show that they are money laundering. They are assisting the proliferation of nuclear weapons, and they are assisting terrorism. We have cut off relations with the Central Bank of Iran. It is a clear signal to the international community that we are very serious about drying up the financial capacity of Iran. That is the only way we believe that sanctions will effectively change course of Iran on its nuclear ambitions for a nuclear weapon.

That brings me again to the timing issue. If we do not move forward rapidly, then I am not sure it can be effective. And what I do not understand, and maybe you can help clarify for me, the Menendez amendment gives you 2 months before any action takes place. You have another 3 months after that to cool off issues, and then after the 5 months, you have the waiver authority. So it seems to me it speaks volumes as to ratifying the policy that you have already stated. The Central Bank of Iran is money laundering, it is proliferating, and it is supporting terrorism. We had nothing to do with it and we want the international community to work with us to cut off the Central Bank of Iran. This amendment gives you the tools to work with the international community to be selective as to what national banks should be sanctioned. You could be selective.

So I am not exactly sure the resistance to the passage of the amendment, and maybe you can help clarify this for me because all the horrible things you have said I have heard before. Oil supply. We know about that issue. We have heard that before. But it seems to me this gives us the power to work with the international community to provide the type of unity necessary showing that America is very serious about cutting off the financial capacity of the Government of Iran.

Where am I wrong on the 5 months you have? That gives you a lot of time for your diplomacy. I know diplomacy can take time. Five months is a long time, particularly when we are looking at a glide path for Iran that if action does not take place within the next several months on changing their course of action, it may be too late.

Mr. COHEN. Senator Cardin, I think the concern is that in the course of that effort, whether it is the 60 days or the 5 months,



before there are aspects of the provision that would kick in, we are operating in an environment where we are going to our closest allies with a stick rather than with an effort to——

Senator CARDIN. The stick requires the President to make certain findings before it can be used.

Mr. COHEN. It does. But I think the concern is that from the perspective of the financial institutions involved, the perspective of the governments involved, there cannot be any confidence from their standpoint that a waiver will be invoked or that a determination will be made to obviate the——

Senator CARDIN. But is our objective not to get them not to deal with the Central Bank of Iran?

Mr. COHEN. It absolutely is. And we just have a disagreement in the tactics to achieve that.

Senator CARDIN. But if country A, our close ally, wants to work with us and block the Central Bank of Iran but country B, our ally, does not, is it not helpful for country A to know that there is a reward and punishment issue involved to adhering to the sanctions? Does it not help our allies to know that we want all of our allies to cut off the financing of Iran through its Central Bank in order to be able to avoid a nuclear Iran?

Mr. COHEN. It will be helpful. At the risk of repeating myself, the judgments of the administration—and not just Secretary Geithner, but the administration broadly—is that the best way to work with our four allies on this is not by threatening our most severe sanction against their largest financial institutions, but to work with them and to build on the international consensus that already exists and to take these steps.

Senator CARDIN. I understand your point, and I think it represents a traditional difference of view between the executive and legislative branches, and I think the legislative branch will speak today.

The CHAIRMAN. Thank you very much.

Senator Risch.

Senator RISCH. Thank you, Mr. Chairman.

First of all, let me say that the views expressed here by Senator Menendez, Senator Cardin, Senator Corker are all views that are very representative of the consensus of the legislative branch of Government right now. I have no doubt and I do not think any Member of this Congress has any doubt that the goals and objectives of the executive branch are exactly the same as the goals and objectives of the legislative branch.

However, we got a real problem in what I would call an enthusiasm gap or an urgency gap—sense of urgency gap between how the legislative branch views this and how the executive branch views this. And this frustration that you are seeing here today I think is the result of that gap that exists between us, and that needs to be resolved and we believe it needs to be resolved urgently.

I would think—and I think many of my fellow Senators believe—that after the IAEA report, your sense of urgency should have risen to our sense of urgency. And we are not seeing that. We hear the words. We hear the talk, but we have wanted action for some time

and it just has not happened. And so the result of that is what you see in front of you.

So I would strongly suggest that rather than coming up here with a strategy on how you are going to try to torpedo this amendment, you figure out how you are going to make this amendment work because this amendment is going to pass. And it is not going to pass by a close vote; it is going to pass by a very large vote. I think those of us who serve here in the Senate hope that it will send the signal that we want to see sent.

Look, this issue is not a trade issue that we are arguing over. It is not some dispute we have on borders or something. When it comes to the issues in the world today, this issue ranks right up at the top. The United States cannot be wrong on this. The world cannot be wrong on this. We cannot make a mistake on this.

Unfortunately, I think most of us agree with what Senator Corker said when he said, well, you know, you are trying to do this through sanctions, and to quote Senator Corker, I think he said "I do not think you are going to get there." And I have to tell you that I believe that is the consensus view of the Senate up here also. Again, that is why you are seeing what you are seeing in the form of this amendment.

So I guess what I would tell you is you probably need to go out of here and figure out how you are going to make this work and how you are going to raise to the level of urgency that we have and that you have seen here today.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Risch.

Senator Webb.

Senator WEBB. Thank you, Mr. Chairman.

And Secretary Cohen and Secretary Sherman, I apologize for arriving here late. I am on the Armed Services Committee and we've got a markup on the floor. But, I was able to watch a good portion of your testimony while we were considering amendments in my office.

I want to ask you a couple questions. Again, I apologize if I may have missed them already being discussed while I was doing these other things and getting over here.

First of all, I am not a great fan of sanctions in general, and I believe if the circumstances require that they take place, that they should be clearly targeted. They should have somewhat of—I cannot say a guarantee but somewhat of a certainty that they would be effective and also that they would be widely supported in the international community. Listening to your testimony, I can hear—I think—a very sincere concern about the possibility that you may end up doing more harm than good if certain types of sanctions are put into place here.

I have not decided how I am going to vote on this amendment. I am still thinking this through.

But, I would like to ask you three questions in the time that I have here. The first is—and again, I apologize if you have already stated this, but could you compare the sanctions that would be put in place under this amendment with the sanctions that the United Kingdom put in place earlier?

Mr. COHEN. The sanctions that the United Kingdom put in place last week essentially brought the U.K. into line with where the United States has been for many years. We, years ago, cut off the Iranian financial sector from the United States. The U.K., over the past several years, has taken actions against particular institutions. What they did a week ago Monday was to cut off the entire Iranian financial sector. So they are now in line with where we are. The Canadians as well are in line with where we are and where we have been for some time.

Senator WEBB. Thank you.

With respect to your concern—and this is a concern also being expressed in a letter from the Secretary of the Treasury that our closest allies would curtail purchases altogether in the future or would cease to cooperate. Do you see a predictable outcome among these countries that you are discussing if this amendment were to pass?

Mr. COHEN. Well, Senator, I think what we and what Secretary Geithner was driving at is that we see and we are working with our partners to have them reduce their reliance on imports from Iran, as the United States has done. We import no oil from Iran. We are seeing that our partners recognize, in part because of the actions that we have taken and the information that we have put out into the public domain, the danger involved in purchasing Iranian oil and having those revenues flow to the CBI which uses those revenues to fuel Iran's dangerous activities. And so what we are doing and have been doing and want to continue to do is to work with our partners to draw down, if possible, entirely cease importation of Iranian oil.

Senator WEBB. You are saying in your testimony that the potential effect of the amendment is to reduce that level of cooperation?

Mr. COHEN. I think there is a danger that it will result in less cooperation because of the reaction to the threat that is being visited on their financial institutions.

Ms. SHERMAN. If I might, Senator, add a couple of things to that.

There are very close allies of ours who have very complex commercial relationships with Iran, not in the arenas in which we have already imposed sanctions, but in everyday things, selling television sets or just household goods. And our reading of the effort by Senator Menendez and Senator Kirk and by so many Senators to achieve the same objective that we achieve, which is to cut off the lifeblood of Iran's economy so that they pull back from their nuclear weapons program, in fact will see our taking such an action as a blunt instrument that takes away their capabilities of dealing with their financial life.

Senator WEBB. And obviously at this point we would not characterize China as one of our closest allies here or in other places. As these other policies have been put into place, China has very noticeably not cooperated. They are becoming Iran's most active trading partner. They are still trading oil. What is their reaction to this? What would you think would be their reaction to this sort of a process like the new legislation or even existing policy? What are they doing?

Ms. SHERMAN. Well, let me speak to the broad relationship with China in regards to Iran and defer to Under Secretary Cohen on the specific CBI reaction.

We take what China is doing quite seriously. I just returned from Beijing and a great deal of the meetings that I held were exactly on this point. As a result of that, they have finally agreed that Special Envoy Bob Einhorn can go to China, sit down, and help them to better enforce the sanctions regime that is in place. They have, in fact, slowed down their actions. They have not, to the best of our knowledge, backfilled from others who have pulled out. We have, indeed, in INKSNA sanctioned a Chinese individual and five Chinese firms are under INKSNA sanctions. There are other Chinese companies that are currently under investigation. And I was quite candid with China about each of those cases and the action that we would expect or otherwise—

Senator WEBB. I apologize for interrupting you. I have got about 7 seconds, and I do not want to take my colleague's time.

Secretary Cohen, do you see China's economic activity with respect to Iran decreasing if this goes forward?

Mr. COHEN. Senator, I cannot pretend to predict how China would react to this. I think it is quite possible that the Chinese, if this amendment were adopted, would take the risk essentially that we would cut off their financial institutions from the United States. But I am just not in a position to predict exactly how the Chinese will react for many reasons that Under Secretary Sherman described. The relationship between China and Iran is a very complicated one, one that we have been working on—

Senator WEBB. To this point—the bottom line—they have not reduced their economic participation as we have put policies into place? I am a minute over so a short answer is better.

Mr. COHEN. I will answer it very briefly. I think the Chinese have essentially remained at the same level of economic engagement with Iran, give or take, over the last several years.

Senator WEBB. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Webb.

Senator Isakson.

Senator ISAKSON. Thank you, Mr. Chairman.

Under Secretary Sherman, there have been expressions by the administration of concern about the consequences on oil prices with the passage of this amendment. I have heard the testimony today about concerns of what it might do to other countries that have banking relationships with Iran that are friends of ours. Are we also measuring what the consequences of an Iranian nuclear test might do to world stability and to oil prices or what a nuclear incident in the Strait of Hormuz might do? Are we calculating that?

I know the concern I have, and I really only speak for myself. But I think I am speaking for the people of Georgia. It seems like the sand in the hourglass is running out. We do not know exactly when but there is no question that Ahmadinejad and the Iranians, if given the opportunity and with the material, probably would use fissionable material in some nefarious way against Israel or against somebody in the Middle East. That is a calculation that must be in my mind paramount in terms of how we deal with Iran, which is why I think it is so important that we send the legislative

message from the Congress of the United States that time is running out on Iran as well. And I would like for you to respond to that, if you would.

Ms. SHERMAN. Senator, as you have said, as others have said this morning and as I want to reiterate, we absolutely share the sense of urgency of the Congress. We were not surprised by the Amano report which said that up until 2003, there was a structured program in Iran to develop nuclear weapons and since then, there clearly have been ongoing activities. And there are possible military dimensions because there are activities, for which there is no plausible explanation except military use, and certainly Iran has not offered us a plausible explanation. We were not surprised because we were one of the 10 countries that supplied information to Director General Amano to produce that report. So we quite understandably know what is happening in Iran, where it is headed.

We have successfully, through this multilateral and phased and cooperative sanctions approach that has been helped with tools that Congress has given to us, as well as Executive orders and our IEPA authority, have indeed slowed down Iran's capability, have extended that timeline not only from enrichment, from their hoping to have 50,000 centrifuges to only having 6,000 or 7,000 centrifuges. We have slowed down their program. We have degraded their program. We have not ended it, and we have not ended our sense of urgency. So we quite agree with you.

And I think that is why, when the Amano report came out—and that was virtually a unanimous vote at the IAEA Board of Governors, and that did not happen by accident. That happened by a concerted diplomatic effort to make that occur. We took action, along with the U.K. and Canada, to add additional sectors, additional sanctions to our arsenal to try to deal with Iran's nuclear program.

So we are completely where the Congress is in terms of the sense of urgency. As Secretary Cohen said earlier, what we are talking about today is tactics of getting there. In that, we have some disagreements and we should continue this debate. And as Secretary Cohen said, we are well aware of the strong support for this amendment today, and we understand the impulse for that amendment because we share the objective. We just think there is a better way to go about it.

Senator ISAKSON. Thank you.

Under Secretary Cohen, as I understand it, Treasury in 311 findings had some pretty astounding revelations about the Central Bank of Iran, A, in terms of them funding other banks that are sanctioned by the United States, and B—what is their name—the IRGC construction firm that is under sanction. What do those findings alone tell us about why we have not sanctioned the Central Bank yet? Because those are clear findings of the Treasury of what I think are clear violations of our sanctions already.

Mr. COHEN. Well, Senator, we in our 311 finding broadly described the Iranian financial system's involvement in Iranian illicit activity and specifically included information about the Central Bank of Iran's deceptive practices that you identified.

We are using the foundation of that finding with our partners as a way to further highlight the risk of doing business with Iran, any

of the financial institutions in Iran and with the Central Bank of Iran in particular. It has allowed us to have in one place the comprehensive presentation of the risks involved in doing business with Iran, including the Central Bank.

The question of how we then take the next step is something that is left for us to continue to work on and work on with the Congress and work on within the administration. The findings in the 311 do not predetermine any particular action, but we have at our disposal a range of possible next steps with respect to Iran. And I think this gets back to the comment that Under Secretary Sherman said. What we are looking to do is to bring to bear on Iran and on the Central Bank of Iran, but more generally on Iran overall, substantial additional pressure. And if the right step is to bring a sanction onto the Central Bank of Iran, we are prepared to take that step.

We think that, as we sit here today, the right thing to do is to proceed with a multilateral effort to isolate the Central Bank of Iran, to work with our partners to reduce their import of Iranian oil, and to take an action to freeze the assets of the Central Bank of Iran. That would be, in essence, the steps that we would want to pursue with respect to the CBI with a real sense of urgency with a notion that the clock is ticking and we have got to ramp up our efforts here. But that is where we are looking to proceed.

Senator ISAKSON. I respect the fact that both of you have a very difficult job and that diplomacy under any circumstances is tough, particularly when you are dealing with a dishonest broker like the Iranians have been. But I think Menendez-Kirk does reflect the sentiment of the majority of the people of Georgia and, I would suspect, the United States, and I think urgency is something all of must consider in dealing with the Central Bank and with the nation of Iran.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Isakson.

Senator Shaheen, I do not think it is an award, but I think you get special recognition for greatest price paid trying to get to a meeting of the Foreign Relations Committee.

Senator SHAHEEN. Thank you, Mr. Chairman. I hope you will acknowledge that in the future when I have legislation pending before this committee.

The CHAIRMAN. Absolutely. We owe you.

Senator SHAHEEN. You should have seen the other guy.

[Laughter.]

Let me begin first by thanking both of you for the efforts that you all have been making to address Iran's move toward achieving a nuclear weapon.

I do want to, though, share the sentiment that has already been expressed by my colleagues on this committee, that I believe Menendez-Kirk amendment is going to pass. And so I would hope that if there are suggestions that the administration has about things you would like to see different in that amendment, that you would share those with us because I do think, as you have heard, we are going to act on this within the next 24 hours, and so it would be helpful to know what else you might like to see happen.

Having said that, I wonder. Both Senator Menendez and Senator Webb raised the criticism that the administration is not doing enough with the sanctions that have already been designated and particularly with respect to some of the Chinese companies. You responded to that briefly, Under Secretary Sherman, but is there more you can tell us about whether the administration has in your opinion been doing enough with the sanctions you already have or what else could be done?

Ms. SHERMAN. Thank you very much, Senator, and thank you for the suggestion of bringing to Senator Kirk and Senator Menendez any additional suggestions we might have in the short period of time that is left, and we will certainly take that back and consider that.

As I said, we understand the concern about China. It was the focus of a trip that I made last week to impress upon China the reality and the prompt action that was required on their behalf regarding a number of situations, my request for Special Envoy Bob Einhorn to finally be welcomed to China to help them, in fact, follow through on the sanctions regime and the obligations, which we have not talked enough about here, under the U.N. Security Council resolutions. There are five resolutions that have passed, four which have legally binding requirements. And so this is not just a United States request. This is a U.N. Security Council obligation of states around the world.

We have sanctioned 280 individuals and entities over the last few years. We, of course, think we should do more and better. In fact, when the QDDR was written at Secretary Clinton's request, one of the things that came out of that was to, in fact, increase our enforcement capabilities, to increase the number of FTE, to organize the State Department in a better way to, in fact, enforce sanctions. That process is underway. We are trying to not have it constrained by the budget, constraints that we all now face.

But, yes, we think we should do more. We have accelerated that progress, and we expect to be accelerating it even further in response to everyone has said here, which is this is an urgent problem.

Senator SHAHEEN. Thank you.

There is an interesting opinion piece in today's European edition of the Wall Street Journal, which I assume both of you might have seen, that highlights the involvement of the Revolutionary Guard in not just the nuclear and missile program, but in so many other economic areas in the country. And the article quotes you, Mr. Cohen, from your October testimony to Congress that the Revolutionary Guard has expanded its reach into so many critical sectors of the economy. Can you talk about how difficult it is to draw a line between the reach of the Guard and how that affects our ability to address through sanctions to bring pressure on Iran? And then also, if you would, talk about how we are working with our European allies to address the IRGC's move into legitimate businesses.

Mr. COHEN. I am happy to, Senator, because I think the IRGC has been one of our key targets for sanctions over the last several years. It is recognized in Security Council resolutions. It is recognized by the EU and certainly recognized in our sanctions as a

target that is very deserving of sanctions. The IRGC is involved in the most dangerous activities in Iran, and as it continues to expand into the Iranian economy to the detriment of the average Iranian citizen, frankly it provides us with additional ways to apply pressure on the Iranian regime.

So earlier this year, for instance, we applied sanctions on an entity called Tidewater Middle East Company which is a port operator at seven of the ports in Iran, including the largest container terminal at the Bandar Abbas port. The IRGC had come in and taken over ownership of that entity several years ago. We have applied sanctions to Tidewater. It is now the law of the United States that any foreign financial institution that engages in a transaction with Tidewater risks having its access to the United States terminated.

We are continuing to press our allies in Europe to add Tidewater to the list of sanctioned entities in Europe as well because Europe has taken a number of steps to sanction IRGC-related entities including, I think most importantly, an entity called Khatam al-Anbiya, which is a major construction firm in Iran that has been subject to sanctions.

Senator SHAHEEN. And have we been successful at persuading them on Tidewater?

Mr. COHEN. To be candid, Senator, I am waiting to see if it is included in the list of 180 new sanctioned entities that the EU has announced today. But if we are not successful today, I can assure you that we will continue to press the Europeans to add Tidewater to the list of sanctioned entities on the EU list.

But the IRGC—I see my time has expired. Just one final comment. The IRGC, as it continues to expand into the Iranian economy, as more and more average Iranian citizens are moved out of the economy and the government and its most dangerous entities expand their economic reach, we will continue to take action and to designate those entities and work with our partners to do the same.

Senator SHAHEEN. Thank you.

The CHAIRMAN. Senator Coons.

Senator COONS. Thank you, Chairman Kerry, and thank you for holding this hearing.

I am simply going to renew comments I know you have heard from literally every single member, I believe, of this panel so far about how rapidly Iran is making progress toward the acquisition of a nuclear weapon, about how gravely the people I represent are concerned about this, and about a real lack of clarity about the communication with Senator Menendez about an amendment, of which I am a cosponsor and for which I intend to vote today in the absence of some better clarification or understanding of why the timing and the waiver provisions are insufficient. It is rare that I do not—I take very seriously the letter of the Secretary and your input and respect your efforts.

But I think August 9 a letter went to the President from 92 Senators urging prompt engagement and action on sanctioning the Central Bank of Iran, urging more progress toward exactly the sort of multilateral effective sanctions regime that we have been discussing at great length here. And I think what you are hearing,



just speaking for myself, is a steadily increasing level of grave concern bordering on alarm.

Since August, the IAEA report has come out, allegations of an assassination plot against a Saudi diplomat, the assault on the British Embassy. There is no doubt in my mind that Iran is the most dangerous nation in the world at this point and that this situation, as it steadily moves in a bad direction, is going to push us toward some tough decisions. The ranking minority member started by asking you about planning for a potential military action. I wonder what we are doing to prepare the American people for the possibility of necessary action by either our close ally Israel or the United States.

And I think the level of engagement you are hearing from this panel simply reflects that, a concern that 6 months on—that letter was in August. It is December—you are pushing back very hard on an amendment by Senator Menendez that, by its structure, gives months more for diplomacy. I think the Iranians by their actions have finally made abundantly clear to the international community what they are doing and their intentions. And the statements certainly of Ahmadinejad are appalling, gravely concerning, and a clear source of concern, legitimate concern, by the people of Israel, the United States, and all of our allies.

So I hope you take this very seriously, and in the absence of any clear input from you on what is insufficient about the Menendez amendment, I intend to vote for it today. So there is not a lot of time for back-channel communication. This is an active issue, and I mean that both between our branches and between the United States and Iran.

I am eager to hear from you anything more that would give me some confidence that the Chinese, who are still the worst actors in this field, with whom we have so many other problems in intellectual property, in currency manipulation, and ongoing—we are in a full-on trade war in my view with the Chinese. We just need to manage it as appropriately as we can in the interest of the people of the United States.

One of the things I had hoped to hear today was that we are making real progress with them in engaging them in an effective multilateral sanctions regime that is bearing down on the Iranians, and I was encouraged to hear that they are accepting Special Envoy Einhorn. But under CISADA, I do not see that we have aggressively and effectively sanctioned Chinese actors in this area, and given the hourglass that has been referred to by Senator Menendez and others, I am really concerned that we are not being aggressive enough in this field.

Please, if you would, Under Secretary Sherman.

Senator MENENDEZ. Would my colleagues, before the Secretary answers, give me 30 seconds before I have to leave to respond to something?

Senator COONS. Certainly.

Senator MENENDEZ. Two things. No. 1 is the Secretary mentioned that there are many nations that have complicated relationships with Iran. But our section E specifically only focuses on sale or purchase of petroleum and petroleum products. So it is not going after all of those other complicated relationships.

And No. 2 and pursuant to your question and your concern, which I appreciate your support of the amendment, is that, you know, the Chinese have already taken the risk. Under the existing sanctions regime, the Chinese have not moved. So the answer to that question is pretty clear.

And I thank the gentleman for giving me some time.

Senator COONS. Thank you, Senator.

Under Secretary.

Ms. SHERMAN. Thank you. I thank both of you, Senators.

On China, I would reiterate what I said earlier, which is I agree. We want more action out of China. They have taken some action to slow down their activity, not to backfill from others who have pulled out of the Iranian oil sector in particular. We have sanctioned one individual and five or six entities in China. We have others that we are looking at that was the subject of some of my discussion with them last week. So I would agree with you. They should take more action.

I will say this, that they have stuck with the international coalition. They did cosponsor the resolution at the IAEA. They did vote in the U.N. General Assembly for the resolution condemning the actions on the Saudi Ambassador. It is important to have them inside the tent as opposed to outside the tent, but there is no doubt in any of our minds that they need to take far more action than they have. And we are quite aggressively engaged with them. This was the subject of some of the President's discussions in Honolulu, and in Bali just 2 weeks ago, Secretary Clinton's with Counselor Dai, so at every level, with Vice President Biden's with Xi Jinping, who is set to be the next leader of China. So we share the focus, the urgency, the attention and the obligation that China has under the U.N. Security Council resolutions to, in fact, follow through. So we share that and I take your message that we need to pursue it even more urgently than we already are.

Again, on the Kirk-Menendez, we appreciate, as Under Secretary Cohen said initially, that this will pass. We obviously would appreciate more discretion than even exists in the current draft of the amendment. We think tactically that it may both increase the price of oil, which will give Iran a windfall. That is not the objective, I know, of the legislation, but may in fact have that effect.

And second, we are concerned—and may even create that windfall during this 5-month period of extensions that exist in the legislation because of the anticipation of the markets.

So I think no one knows exactly what will happen, but there is most definitely a risk that Iran could get a windfall from this, let alone complicate our relations with very close friends and allies.

Senator COONS. Thank you.

Seeing that I have run out of time, I will submit some additional questions for the record. I just urge the Under Secretary to use his great skills to convey effectively to the markets things that might avoid that sudden spike. I think the reality is that Members of the Senate are concerned that we send a clear and strong message about our determination to prevent Iran from making any further progress in acquiring potential weapons.

Thank you.

The CHAIRMAN. Thank you, Senator Coons.

Senator Casey.

Senator CASEY. Thank you, Mr. Chairman.

Under Secretary Sherman, Under Secretary Cohen, we are grateful for your testimony and your public service.

I think what you are hearing in this discussion today is a real concern about a sense of urgency or what some would assert, a lack thereof. Like a lot of us, we get the chance to travel in places like the Middle East. When I was there last in the summer of 2010, Senator Shaheen was on the trip as well. We had a visit to about seven countries in 9 days, if my math is right. And at that time, months before the Arab Spring and at a time when there was a real consensus about the threat posed by Iranian regime, whether you were in Israel or Saudi Arabia, whether you were in Egypt or some other place, a real sense of not just consensus but real worry. That was the summer of 2010.

If anything, it has become not only more apparent but I think more urgent. And I think it is finally more apparent to people across our own country because of the assassination plot, because of what the IAEA reported recently.

I do not want to walk through all of it, but I mean, the language is pretty compelling when the IAEA says they have credible information that Iran has carried out activities “relevant to the development of a nuclear explosive device.” And then, of course, they outline it further.

So there is a sense of urgency here or there is, I think, a greater sense of urgency that a lot of people feel in our country, and perception is very important in these situations, as you know. But there does not seem to be an administration policy or set of actions that is commensurate with that sense of urgency.

Look, I am a cosponsor of what Senator Menendez and Senator Kirk are trying to do, and I have long labored in this vineyard. But when we read letters that talk—like the one from Secretary Geithner—continue to work with, negatively affect many of our closest allies, likely to have allies resent our actions or resist following our lead—and we all want to have collaboration. We all want to have a steady effort here. But this is a move way beyond where we were in 2010.

Let us assume for a second that there was no nuclear threat, if we could magically remove that threat. Just the impact this Central Bank has on being the banker for a lot of bad guys in that region, Hamas, Hezbollah, so many bad guys that they provide resources for—that is another reason for the sense of urgency. So I think that is what you are hearing here.

And I guess my question is very simple. If not this, what should we do right now in the next month or 2, and if not this now, how long will the strategy that you want to put in place or continue—how long will that take?

Mr. COHEN. Senator, on the sense of urgency, I can assure you that on my own behalf and on behalf of the entire administration, there is not an issue that focuses the attention of the administration more than the threat of Iran and as it is laid out in the IAEA report. We feel that sense of urgency every day.

I have just returned, just yesterday morning, from a short trip to Israel and the UAE which is the most recent of my journeys both

to consult with our allies who are working on this issue and to learn about their perspective on the threat and to bring that back and to feed that into our process.

We are working on this issue every day and have taken steps to bring to bear more financial, commercial, and diplomatic isolation on Iran today than it has ever seen before. It is, I think, fair to say that we have applied a substantial degree of pressure on Iran, and at the same time, we recognize that there is more to do. And so the steps that we are prepared to take in the short term, assuming the Kirk-Menendez amendment is not adopted, which I recognize may not be a valid assumption—we are committed to taking action against the CBI to freeze its assets, to work with our allies to have them take a similar action and to work with our allies to encourage them to take the steps that they have already indicated a willingness to consider, which is to ramp down their involvement with the CBI and their purchases of Iranian oil. That will constrict Iran's access to the hard currency and to the revenue that it needs to fuel the activities that you address, Senator. That is the course that we want to proceed on while, at the same time, continuing to apply the sanctions that we have across a range of areas.

The new Executive order from just 10 days ago on the petrochemical sector and on the production of oil in Iran is a very significant new step that goes after anyone providing goods or services to either of those industries. The petrochemical industry is the second most important source of export revenue to Iran. The petroleum industry is the first. Those sanctions directly target Iran's ability to continue to develop both of those sectors.

So we have been pursuing and are intent on continuing to pursue a range of significant and powerful sanctions on Iran.

The issue—you know, I think we have been discussing it this morning. The issue is how best to achieve that while minimizing the potential of an adverse consequence of this backfiring. And as Under Secretary Sherman alluded to and as Secretary Geithner notes, we have real concern that the amendment, as it is currently drafted, even with the phase-in and even with the potential for waivers, has the potential to actually increase revenues to Iran, and that is obviously something that we all want assiduously to avoid.

Senator CASEY. I know I am out of time. Under Secretary Sherman, I do not know if you have anything you want to add.

Ms. SHERMAN. The only thing I would add that we have not discussed here this morning is that the international environment is changing on a daily basis and probably one of the most significant things that will happen sometime in the near future is a change in Syria. Iran has really only two allies left: Syria and Hezbollah. And when, indeed, Bashir al-Assad steps aside, which he most undoubtedly will do—it is just a matter of when, not if—Iran will lose one of its last proxies in the world. And it will further focus the attention of the international community on what has to occur here and create some different political circumstances that I think will help us to further isolate Iran and to make it pay a price for its illicit activities.

Senator CASEY. Thank you.

The CHAIRMAN. Senator Casey, thank you.

Let me just say I think we in the Congress have a difference of opinion about a particular step, but I want to assure my friend and colleague that on the issue of urgency, I can attest that I cannot think of any issue that is concentrating the minds of the administration more than this right now or at any other time. Yesterday I was at the White House in a meeting about this particular topic. I know that the Secretary of State and the State Department are as focused on it as can be. I do not think anybody has any illusions about the timeframe or the urgency. There may be some differences about timing on a particular step or a particular methodology, but I would not view this amendment or the discussion this morning as somehow some great departure. And I think it is important for everybody, particularly outside of here, to understand that. There is a universal understanding amongst our allies also. This is the topic of conversation right now, and I think everybody needs to be aware of that.

Senator Udall.

Senator UDALL. Thank you, Chairman Kerry, and thank you for holding this hearing at this very appropriate time.

And I appreciate you all being here and your service to the country.

Under Secretary Cohen, I do not know if you can answer this, but I thought publicly I wanted to at least try to explore it a little bit with you. It has been reported that A.Q. Khan's designs and plans have been widely copied by the Iranians. Do you know if Pakistan or elements of Khan's black market network are currently supporting Iran's program? And then what tools do we have to deal with black market nuclear materials? The whole discussion here has been about our allies and working with our allies, but we have some other very dangerous situations to deal with here.

And Secretary Sherman, if you want to start, please go ahead.

Mr. COHEN. So I do want to be mindful of the setting in how I respond.

Senator UDALL. Yes.

Mr. COHEN. So let me just say this. We are focused very carefully on who is supplying material to Iran and in particular to Iran's nuclear program. We have, obviously, a range of sanctions already in place against entities in Iran, as well as entities outside Iran that have been supportive of their nuclear proliferation activities, and we continue to track very closely the individuals and entities involved in supplying Iran's nuclear program, the material for its program.

So I do not want to get into any greater specificity on that in this setting. You know, we are happy to brief you in a different setting with additional information. But we spend an enormous amount of time trying to understand who it is that is supplying Iran and then taking action to try and isolate them from the international economic and the commercial and financial systems so that they are not able to do so.

Ms. SHERMAN. I would only add, Senator—and would be glad to go into further detail in a classified setting—that A.Q. Khan's tentacles throughout the world have been much discussed, much absorbed, and much tracked, and that the State Department and the entire administration pays close attention to sort of the trading

routes of nuclear materials. One of the great experts in this regard is the ranking member of this committee who probably understands the trade of materials and technology as well as any of us do.

I would note as well we do this not only for Iran, but North Korea and other would-be nuclear powers, and Secretary Clinton, in her meetings in Burma in efforts to not only encourage the democratic trends that are taking place, but also is being very quite clear with the leadership in Burma that ties to North Korea and potential shipments need to stop. So the tracking of these routes that might increase nuclear proliferation are something that is quite well attended to.

Senator UDALL. Thank you for that answer, and we may have an opportunity to explore this in other settings.

But the amendment that has been discussed here today is targeting the sale of Iranian oil. And I had a couple of questions, and I am just going to throw them all out and have you try to answer them.

In light of the widely reported pullout of major energy firms from Iran's energy sector, what is your assessment of the Iranian oil and gas industry at this point? If that sector is declining, how will world energy prices be affected going forward? Who is purchasing Iranian oil? Who are the big purchasers? What are the percentages there? Are those numbers going up or down. For example, with the Chinese, how major of a purchaser are they, and from what you have described, Secretary Sherman, is that going down? And then is there any indication that Iran cannot sell any of its oil on the world oil market?

Ms. SHERMAN. Thank you. The data on all of this fluctuates, and in this setting, I can discuss open-source reports.

Iran is still doing relatively well because the price of oil is quite high, and that actually has been the nature of a lot of our discussions and concerns about the Kirk-Menendez amendment, which is that it may increase the price of oil which would only accrue to the benefit of Iran.

In terms of monthly deliveries of refined petroleum to Iran, which is quite crucial to their economy, whether they are lower today than they have been in the past, although month-to-month numbers fluctuate, it is our view that they are significantly lower than before CISADA was passed and that in fact CISADA has had an impact. And furthermore, the price for these products is reportedly higher, that is, the refined petroleum coming in. As most people know on this committee, but the public may not know, although Iran has a lot of oil, it does not have the capacity to refine that oil for its domestic use. So it has to send out the oil, get it refined elsewhere, and have it come back in. And the prices for that refined oil has increased 10 to 25 percent since CISADA.

So again, the sanctions that we have are biting. Yes, Iran is deploying some deceptive practices to circumvent these sanctions, but we are, I think, working very hard to stay ahead of those tactics.

Mr. COHEN. And Senator, just to respond to your question about who is purchasing Iranian oil today, there are purchasers in the EU, Greece, Italy, the Netherlands. Outside of the EU, China is obviously a big purchaser, as is Japan, South Korea, India, Turkey;

Sri Lanka, I think, gets all of its oil from Iran. But those are the major purchasers of Iranian oil today.

Senator UDALL. Do you have any sense on percentages? I mean, is China the biggest purchaser? Do they purchase 50 percent of—

Mr. COHEN. Excuse me. I am sorry.

Senator UDALL. Yes. Go ahead.

Mr. COHEN. China purchases about 20 percent of Iranian output. Why don't I give to you—these are unclassified figures. I can give you a chart that sets out exactly how much each of these countries imports from Iran and what percentage it makes up of their imports.

Senator UDALL. And is your sense because of our activities, the things that you have been describing—are any of those going down at this point? Or which countries would be impacted or taking action or doing something that is putting a crunch on the Iranian situation?

Mr. COHEN. Senator, I think what we are looking to do is to work with our closest allies, particularly in the EU, in Asia, in India potentially to try and have them reduce their importation of Iranian oil. I think we have not seen to date that occur, but I do think we see the potential for a coordinated effort to bring that about.

Senator UDALL. Thank you very much.

Sorry, Mr. Chairman, for going over a little bit.

The CHAIRMAN. No, no. Thanks a lot.

Senator UDALL. I appreciate you doing this today.

The CHAIRMAN. Thanks, Senator Udall. I appreciate your participation and everybody's.

I think, Under Secretaries, you can see from the broad presence here today and the number of questions the intensity of the concern and the focus here. And I know you knew that before you came. We are very, very appreciative of your presence here today. I think this hearing has helped to underscore, for the public certainly and for all interested parties, the deep concerns that exist right now, and hopefully in the next weeks and early months here, everybody will be able to come together in a sensible way to avoid the potential, very dangerous alternatives and options that are facing everybody in this.

Almost certainly we will have another hearing on broad policy aspects regarding this, I would say in early February, depending again on the return schedule and what happens in the next few days here. And we will sort of start to lay the plans for that.

We know you are focused on it, and as I said a moment ago, I am confident about the intensity of the efforts and the breadth of the options that are being considered here.

So thanks for contributing to this. We are very, very appreciative of your presence today and we look forward to continuing a good dialogue with you.

We stand adjourned. Thank you.

[Whereupon, at 12:10 p.m., the hearing was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

RESPONSES OF UNDER SECRETARY OF STATE WENDY SHERMAN TO QUESTIONS  
SUBMITTED BY SENATOR JOHN KERRY

*Question.* Some analyses indicate that not all of Iran's actions in Afghanistan and Iraq are contrary to U.S. interests. For example, the aid and reconstruction work Iran has done in both countries may complement U.S. efforts, and Iran has supported President Karzai of Afghanistan and Prime Minister Maliki in Iraq.

- What are the risks as the U.S. withdraws its troops—first from Iraq, later from Afghanistan—that Iran's presence in the region will expand?
- What areas of common interest do the United States and Iran share on other issues or with respect to other countries in the region?

*Answer.* Iraqis have repeatedly demonstrated their desire to develop a strong, independent state and their resistance to Iran's meddling. Prime Minister Maliki has said he will not tolerate violence by militant groups, including those backed by Iran, and Iraqi leaders confronted Iranian-backed militias operating in Iraq in 2008 and again this year after violence against our troops spiked in January. All significant Iraqi political groups, with the exception of the Sadrist bloc, support a long-term partnership with the United States, and we have made it clear to Iraq—and Iran—that we remain committed to being a strong and enduring partner to the Iraqis.

The Government of Iraq's recent decision to purchase F-16s demonstrates its commitment to build its external defense capabilities and maintain a lasting strategic relationship with us, a commitment we will reaffirm during Prime Minister Maliki's upcoming visit to the United States.

We are working with Middle East allies to encourage Iraq's reintegration into the region and bolster defenses against shared regional threats, such as those coming from Iran. Last, we are encouraged that Iraq is strengthening its relations with EU countries and key regional players like Turkey to diversify its foreign relations.

With regard to Afghanistan, we recognize the Afghan Government's need to build productive relationships with all its neighbors, including Iran, which hosts roughly 1 million registered Afghan refugees and maintains significant economic ties in western Afghanistan. Iran was a signatory to the Istanbul Declaration, which calls for supporting "stability and peace in Afghanistan, as well as respect for Afghanistan's sovereignty, unity, and territorial integrity" and "resolutely combating and eliminating terrorism in all its forms." Iran should share some of our interests in the region, such as reducing the production and trafficking of drugs from Afghanistan and preventing the return of radical groups like al-Qaeda and the Taliban. Unfortunately, most of its actions in the region have contributed to greater instability. Iran has interfered in both countries' internal politics, particularly in Iraq, and funneled lethal aid to terrorist groups in both Iraq and Afghanistan, as well as to Hezbollah and Hamas. It has provided material support to the Syrian regime, not only in opposition to our interests, but those of regional players like Turkey and Saudi Arabia.

We remain vigilant regarding Iran's motives and actions in the region, and we are committed to maintaining strong relationships with Iraq and Afghanistan.

*Question.* The State Department launched its virtual embassy in Iran this week.

- What does the United States Government hope to achieve through the Virtual Embassy? How does this measure fit into broader efforts to connect with the Iranian people?
- What steps is the United States Government taking to protect Iranians who access the Virtual Embassy Web site, given that their activities may well be closely monitored by the Government of Iran?

*Answer.* The Government of Iran is extremely adept at monitoring and filtering information, and we are launching Virtual Embassy Tehran as a cornerstone effort to bring down the government's "electronic curtain." The Web site's content is available in English and Persian and operates like any other U.S. Embassy Web site, which will allow us to engage directly with the people of Iran and provide accurate information on visas, U.S. educational opportunities, American culture and society, and U.S. policy on Iran and other issues.

Initiatives like Virtual Embassy Tehran are part of a broader strategy to promote mutual understanding, respect, and dialogue between the American and Iranian people. The Web site will complement our use of social media and traditional broadcasting tools. For example, we have a Farsi page on Facebook with over 45,000 fans



and a Twitter account with nearly 8,000 followers, as well as our more powerful broadcasting tools, VOA Persian and Radio Farda.

We are also working to help those who wish to bring down Iran's electronic curtain. While circumvention software is outlawed in Iran, we know that it is widely used by the Iranian people. It is not risk free, however, and we have urged all individuals operating in closed societies like Iran to use caution when utilizing these tools. The Department and USAID have also supported a range of digital safety training and awareness-raising efforts to educate activists around the world about the risks they face and how to protect themselves online. Such programs involve "train the trainers" approaches; online interactive trainings and outreach; and traditional, low-tech efforts to distribute high-tech knowledge.

