

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

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

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

Strategy to Hold Iran Accountable

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

The first front is governmental action, encompassing actions by the United Nations and concerned governments around the world. While we are working to encourage full implementation of the four UN Security Council sanctions resolutions containing binding legal measures, governments around the world are also considering what additional measures might be necessary to address the grave threat posed by Iran.

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

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

The impact of these actions on Iran has been significant, and is deepening as a result of Iran's own conduct. As international sanctions on Iran have increased, Iran's response has been to attempt to evade those sanctions. For example, sanctioned Iranian banks have, as a standard practice, concealed their identity by stripping their names from transactions so their involvement cannot be detected. In addition, when Iranian assets have been targeted in Europe by international sanctions programs, branches of Iranian

state-owned banks there have taken steps to disguise the ownership of assets on their books to protect those assets from future actions. Non-sanctioned banks also have stepped into the shoes of sanctioned banks in order to evade international sanctions. We have used this conduct to our advantage by exposing it and making it public, reinforcing the private sector's pre-existing fears about doing business with Iran. In this way, Iran's own evasion and deceptive conduct is increasing its isolation.

United Nations Security Council Resolution 1929

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

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

- First, paragraph 21 of the Resolution calls upon all member states to “prevent the provision of financial services, including insurance or re-insurance, or the transfer

to, through, or from their territory...of any financial or other assets...if they have information that provides reasonable grounds to believe that such services, assets or resources could contribute to Iran's proliferation-sensitive nuclear activities, or the development of nuclear weapon delivery systems." This provision is similar to one in UNSCR 1874 on North Korea, and it provides countries with the broadest possible mandate to restrict financial ties with Iran. As described above, there is a vast body of public information demonstrating that many of Iran's banks are deeply involved in facilitating its proliferation-sensitive activities and other forms of illicit conduct. Over the last several years, we have designated fifteen Iranian banks under Executive Order (E.O.) 13382 for facilitating Iran's nuclear proliferation activities, and one bank under E.O. 13224 for providing support to international terrorism. As we have done so, we have publicized the types of illicit activities in which these banks engage in order to make international financial institutions aware of Iran's illicit conduct, and permit them to take appropriate countermeasures against Iranian banks. Specifically, the designated banks have provided a broad range of financial services to Iran's nuclear and missile industries. Banks like Bank Melli have also provided financial services to the IRGC, and Bank Saderat has facilitated the transfer of millions of dollars to terrorist groups. In the course of undertaking these transactions, Bank Melli employed deceptive banking practices, like requesting that its name be removed from financial transactions to obscure its involvement from the international banking system. We revealed similar information when we revoked Iran's "U-turn" license in 2008. As a further example, Resolution 1929 highlights that Bank Mellat has facilitated hundreds of millions of dollars in transactions for Iranian nuclear, missile, and defense entities, and that Mellat owns First East Export Bank. This information, highlighting the risks associated with providing financial services to Iran, makes it nearly impossible for financial institutions and governments to assure themselves that transactions with Iran could not contribute to proliferation-sensitive activities.

- Second, paragraph 23 of the Resolution calls upon states to prohibit "in their territories the opening of new branches, subsidiaries, or representative offices of Iranian banks, and also [to] prohibit Iranian banks from establishing new joint ventures, taking an ownership interest in or establishing or maintaining correspondent relationships with banks in their jurisdiction [and] to prevent the provision of financial services if they have information that provides reasonable grounds to believe that these activities could contribute to Iran's proliferation-sensitive nuclear activities." Consistent with this, governments are to take steps to be certain that correspondent relationships with Iran cannot be used for illicit conduct. Given the information described above regarding Iranian banks' involvement in Iran's proliferation-sensitive activities, coupled with well-known information about Iranian banks' use of a range of deceptive conduct – such as concealing their identity by stripping their names from transactions—it is nearly impossible for governments to ensure that correspondent relationships with Iran are not abused for illicit purposes. As I just noted, we have revealed this deceptive conduct at numerous junctures in the past, and will continue to do so as

appropriate in the future. We expect the private sector will respond to this new provision, and the information we have revealed, by further reducing its exposure to Iranian banks worldwide.

- Third, paragraph 22 of the Resolution obliges “all states [to] require their nationals, persons subject to their jurisdiction and firms incorporated in their territory...to exercise vigilance when doing business with entities incorporated in Iran or subject to Iran’s jurisdiction, including those of the IRGC and [Iran’s national maritime carrier, the Islamic Republic of Iran Shipping Lines,] IRISL, and any individuals or entities acting on their behalf or at their direction, and entities owned or controlled by them, including through illicit means, if they have information that provides reasonable grounds to believe that such business could contribute to Iran’s proliferation-sensitive nuclear activities” or to violations of other Security Council resolutions. To aid countries in this endeavor, the resolution identifies three companies owned or controlled, or acting on behalf of IRISL—Irano Hind Shipping Company, IRISL Benelux NV, and South Shipping Line Iran. Significantly, the Resolution also identifies for sanctions Khatam al-Anbiya, an IRGC-owned company involved in major construction and engineering projects, as well as several of its subsidiaries. Khatam al-Anbiya subsidiaries were involved in the construction of Iran’s uranium enrichment site at Qom.
- UNSCR 1929 also seeks to avoid the violation or evasion of sanctions by IRISL, as well as Iran Air’s cargo division. Paragraph 14 of the new Resolution therefore expands the call on countries to “inspect all cargo to and from Iran, in their territory, including seaports and airports, if the [s]tate...has information that provides reasonable grounds to believe the cargo contains items the supply, sale, transfer, or export of which is prohibited” by UN resolutions. Since January 2009, IRISL has been publicly implicated in multiple shipments of arms-related material from Iran to Syria in violation of UN Security Council Resolution 1747.

Implementing and Building Upon the Resolution

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

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

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

We intend to continue to focus on the IRGC as an important part of our strategy to hold Iran accountable for its actions because of the central role that the organization plays in Iran's most reprehensible and illicit conduct. In addition to playing a key part in Iran's missile and nuclear programs and providing support for terrorism, the IRGC has been involved in the repression of internal dissent in Iran. It has also assumed control over broad areas of the Iranian economy, including through the use of no-bid contracts. The IRGC has gradually increased its influence over the energy, defense, and construction industries, and IRGC seeks to monopolize black-market trade of popular items. In so doing, it has deprived the Iranian people of valuable economic opportunities. The IRGC and its network of companies have no place in the world's legitimate financial system, and we will continue to work to prevent the IRGC and its companies from gaining access to it.

- **IRISL.** We also took action under 13382 to prevent IRISL from carrying out activities to evade sanctions. We publicly identified several IRISL front companies, including Hafiz Darya Shipping Company, Soroush Sarzamin Asatir Ship Management Company, Safiran Payam Darya Shipping Company and others, as well as more than 90 names of ships in its fleet. Since we designated

IRISL for sanctions in 2008, it has desperately attempted to evade those sanctions, setting up new front companies and renaming and even repainting ships to hide their true ownership. Despite its deceptive maneuvers, IRISL has had to struggle to obtain insurance and other services. Our actions last week further expose IRISL's deception and make it more difficult for IRISL to carry out its illegal activities. One way to determine if a ship is an IRISL ship is the International Maritime Organization ("IMO") registration number, which, like the VIN number on a car, is a unique identifier that cannot be reassigned to another ship, and remains with the ship through the life of the vessel. The Treasury Department published these numbers at the time of its original designation of IRISL in 2008.

- **Petroleum, Energy and Insurance Firms.** We also identified 22 petroleum, energy, and insurance companies that are owned and controlled by the government of Iran under the Iranian Transactions Regulations (ITR). Seventeen of these companies are outside of Iran, and many are not easily identifiable as belonging to the government. Americans have long been forbidden from doing business with Iranian entities, but increasingly companies around the world are deciding not to do business with the government of Iran because of its wide range of illicit conduct, and because, as President Obama said recently, it is a government that has brutally suppressed dissent and murdered the innocent. These identifications enable U.S. persons and others to recognize Iranian Government entities and protect themselves against the risks posed by doing business with them.

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

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

Conclusion

The adoption of UNSCR 1929 has enhanced a global effort to hold Iran accountable for its actions. The Resolution adds important tools – but it is up to the U.S. and its partners around the world to ensure that we use the tools available to us comprehensively, effectively, and collectively. We know that officials in Iran have been anxious about this new round of sanctions. If the Iranian Government holds true to form, it will scramble to identify “work-arounds” – hiding behind front companies, doctoring wire transfers,

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

Thank you for your attention. I welcome any questions you might have.