

**REAUTHORIZATION OF THE IRAN-LIBYA  
SANCTIONS ACT**

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**HEARING**  
BEFORE THE  
**COMMITTEE ON**  
**BANKING, HOUSING, AND URBAN AFFAIRS**  
**UNITED STATES SENATE**  
**ONE HUNDRED NINTH CONGRESS**  
SECOND SESSION  
ON  
REAUTHORIZATION OF THE IRAN-LIBYA SANCTIONS ACT IN RELATION  
TO THE SECURITY OF THE MIDDLE EAST REGION

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JUNE 22, 2006  
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## REAUTHORIZATION OF THE IRAN-LIBYA SANCTIONS ACT

THURSDAY, JUNE 22, 2006

U.S. SENATE,  
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,  
*Washington, DC.*

The Committee met at 3:41 p.m., in room SD-538, Dirksen Senate Office Building, Senator Richard C. Shelby (Chairman of the Committee) presiding.

### OPENING STATEMENT OF CHAIRMAN RICHARD C. SHELBY

Chairman SHELBY. The Committee will come to order.

One of this country's most pressing and potentially dangerous foreign policy challenges involves Iran's development of nuclear weapons and their means of delivery. A nuclear-capable Iran would fundamentally alter the situation in the Middle East. Furthermore, Iran's support for some of the most dangerous terrorist organizations in the world and its exploitation of those organizations to undermine efforts at peace and stability in the Middle East make it imperative that we continue to examine the role of economic sanctions in limiting the scope of its conduct.

Confronting the scourge of terrorism remains the central tenet of U.S. national security policy. Terrorist organizations from the Middle East to Southeast Asia, to say nothing of terrorist tactics employed by insurgents in our own hemisphere, continue to present serious challenges to us. It is in this context that the Committee today will hear from the administration on its views on reauthorization of the Iran-Libya Sanctions Act, or ILSA. That statute, passed in 1996 and renewed in 2001, targets foreign entities that seek to invest in the development of Iran's oil and natural gas industries, industries vital to Iran's well-being and by extension presumably vital to its ability to develop a nuclear weapons complex.

Since the Revolution of 1979, the Iranian regime has remained an implacable foe of U.S. interests in the Middle East. This blossoming of democracy we thought and hoped we saw with the 1997 election proved short-lived, as the ruling theocracy subverted genuine democratic reform at every turn. In fact, those early gains now appear to have been lost following last year's elections. There is open hostility toward the United States and toward the existence of the State of Israel, combined with their government's commitment to carrying out activities consistent with the development of nuclear weapons.

That has placed a premium on the effectiveness of sanctions programs targeting Iran, especially those sanctions intended to mini-

mize the financial assets available to develop weapons of mass destruction and the ballistic missile technology to effect their delivery.

There seems little question that ILSA has been effective in impeding Iran's ability to modernize its energy sector. Even though the test case for its application, the French company Total S.A.'s \$2 billion agreement with Iran for development of the South Pars gas field resulted in a Presidential waiver rather than imposition of sanctions. The \$11 billion in new contracts signed since then remain in limbo by virtue of foreign concerns regarding ILSA's potential application, concerns more recently supplemented by fear of additional sanctions or military action.

That Iran has nonetheless moved forward with activities consistent with the development of nuclear weapons is not a testament to ILSA's lack of effectiveness but rather to the vast increase in revenue resulting from the increase in oil prices over the past 2 years. In addition to the questions of whether and how to reauthorize the ILSA, the Committee is interested in hearing from today's witnesses on the importance of other economic sanctions regimes that target Iran.

In this regard, the Committee looks forward to hearing from the Treasury Department on implementation of Executive Order 13382 and the President's WMD Proliferation Initiative that imposes financial sanctions on foreign entities determined to be assisting in the development of nuclear, chemical, or biological arms and their means of delivery.

Development of an indigenous nuclear weapons capability is beyond the means of all but a few countries. Iran has received assistance in developing its nuclear complex. This raises the question about how the issuance of Executive Order 13382 affected this situation. The Committee is pleased to have with us today the Honorable Nicholas Burns, Under Secretary of State for Political Affairs and the Honorable Patrick O'Brien, Assistant Secretary of the Treasury for Terrorist Financing and Financial Crimes. The Department of State is the lead agency for implementation of ILSA; the Department of the Treasury, particularly its Office of Foreign Assets Control, is vested with the authority for administration and enforcement of U.S. economic sanctions.

Their appearance here today will help the Committee to better understand the role ILSA and other economic sanctions regimes have and continue to play in containing or impeding Iran's ability to conduct activities threatening to U.S. interests.

Senator Sarbanes.

#### **STATEMENT OF SENATOR PAUL SARBANES**

Senator SARBANES. Thank you very much, Mr. Chairman. I will be brief, because I think there may be a vote coming.

Chairman SHELBY. That is right.

Senator SARBANES. And I know you are anxious to move the hearing along.

I do want to join you in welcoming Under Secretary Burns and Assistant Secretary O'Brien to the Committee to discuss the reauthorization of the Iran-Libya Sanctions Act, known as ILSA. We reported out a version of the original legislation in 1996 from this

Committee and reauthorized the act in 2001, and now, we deal with the question of a further reauthorization, since that one expires later in the year. Of course, sanctions against Libya have been lifted in the view of the dramatic change in Libyan policy.

Trade with and investment in Iran have been banned by Executive Order since 1995. Iran is one of the small group of countries listed by the Department of State as state sponsors of terrorism, and as such, it is also ineligible for trade preferences, U.S. foreign assistance, and U.S. support through the World Bank or the IMF or multilateral financial institutions.

ILSA added to these measures. It required the President to impose at least two out of a menu of six sanctions on foreign companies that invest more than \$20 million a year in Iran's energy sector. I will not go through those sanctions. They are known to all of us, and they are contained in the current statute. The application of ILSA may be waived by the President, and the statute would cease to apply if Iran ends its efforts to acquire weapons of mass destruction and if it is removed from the U.S. list of state sponsors of terrorism under the legislation.

So there is a clear path for the nonapplication of this legislation. It seems to me a clear, reasonable path for any country wishing to play a responsible role in the international scene to follow. Regrettably, Iran's pursuit of a nuclear weapons program and its material support for terrorists present very serious threats to an international, peaceful order. ILSA is an important tool for bringing pressure to bear on the Iranian regime, and it is my sense of it that there is broad agreement in the Congress that the act should not be permitted to expire, and we look forward to testimony this afternoon from these witnesses, and Mr. Chairman, I have abbreviated the statement for the sake of efficiency here, but I do want to welcome the witnesses again.

Chairman SHELBY. Thank you, Senator Sarbanes. We will make your full statement part of the record.

Senator Allard.

#### **STATEMENT OF SENATOR WAYNE ALLARD**

Senator ALLARD. Thank you, Mr. Chairman, and thank you for holding this hearing. I would like to associate my remarks with both you, Mr. Chairman, and the Ranking Member, and, you know, I supported the extension of the Iran-Libya Sanctions Act, ILSA, and I am pleased to have this opportunity to get an update on how the act is working. Iran's actions have a direct effect on U.S. security, and the ILSA is one piece of our policy on Iran.

Our national security vis-a-vis Iran is more important now than ever. Congress enacted ILSA in response to their support for terrorism and pursuit of weapons of mass destruction. Yet, Iran's support for terror is still incredibly active. Likewise, Iran continues to aggressively pursue weapons of mass destruction, including nuclear weapons.

This hearing will be an important opportunity to examine not only the act but also its implementation. Even strong, potentially effective measures can be rendered ineffective if they are weakly implemented and monitored or enforced. I would like to hear about the effectiveness of ILSA as well as the manner in which it is being

carried out. I would like to thank the witnesses for being here today, and I look forward to their testimony.

Chairman SHELBY. Thank you.  
Senator Reed.

**STATEMENT OF SENATOR JACK REED**

Senator REED. Well, thank you very much, Mr. Chairman. I would request that my statement be part of the record.

Chairman SHELBY. Without objection, it will be made part of the record.

Senator REED. And welcome both Secretary O'Brien, Secretary Burns. Good to see you, Secretary Burns, again

**STATEMENT OF SENATOR CHUCK HAGEL**

Senator HAGEL. No statement. I look forward to our witnesses' testimony.

Thank you.  
Chairman SHELBY. Senator Menendez.

**STATEMENT OF SENATOR ROBERT MENENDEZ**

Senator MENENDEZ. Thank you, Mr. Chairman, and I will take a minute or two here. This is a very important issue, and I appreciate the Chair's indulgence.

You know, before I address the issue of Iran, I want to briefly discuss Libya. I know the application of the ILSA against Libya was terminated in September 2004, when Libya agreed or announced that it would dismantle its weapons program, but this action in no way in my mind absolves Libya's responsibility for the attack on Pan Am Flight 103, an attack that shocked the world, claimed the lives of 189 Americans, 38 who were from my home State of New Jersey.

The Libyan Government still owes \$2 million to these families, which it promised to pay as soon as it was removed from the state sponsor of terror list, an action the State Department announced on May 15. And even though this money can't start to replace the lives of those Americans who were murdered, I firmly believe that a promise made must be a promise kept, and we simply cannot let Libya off the hook until it lives up to its promises, and I hope the administration will understand that there are many of us on both the Senate and the House who hold this firm belief and expect the administration to act accordingly.

Let me briefly turn to Iran. We should be here to examine the flaws in the current sanctions framework and to make sure that as this Committee moves forward to craft new legislation that we close the gaps and tighten the current sanctions. It is not enough to simply renew our current sanctions against Iran in my mind. In my mind, it is not enough to simply renew our current sanctions, which let foreign subsidiaries of U.S. companies violate the spirit of U.S. law by investing in Iran's energy sector.

In my mind, it is not enough to simply renew our current sanctions against Iran and continue to allow U.S. pension funds to invest in foreign energy companies that invest in Iran without informing their investors. It is not enough to simply renew our current sanctions against Iran and continue to allow a Presidential

waiver that is so broad and does not include any real Congressional oversight, and it is not enough to simply renew our current sanctions that would allow the administration to continue to ignore certain investments in the Iranian energy industry so as to avoid either applying sanctions or waiving them. And finally, it is not enough to let the sanctions *status quo* continue at a time when Iran continues to taunt the international community and flaunt international standards.

There are some who say that the U.S. Congress should not act while we are in the midst of difficult negotiations with Iran in an attempt to stop the development of their nuclear weapons. I disagree. I say this is exactly the time for the United States to act and particularly for the Senate to act. With every day that passes, Iran continues its march toward nuclear weapons.

So, Mr. Chairman, in the interests of time, I would ask that the rest of my statement be entered into the record, but I look forward—

Chairman SHELBY. Without objection, so ordered.

Senator MENENDEZ. —to working with the Chair and the Ranking Democrat to have a vigorous reauthorization.

#### STATEMENT OF SENATOR CHARLES E. SCHUMER

Senator SCHUMER. Thank you, Mr. Chairman. I would ask unanimous consent my entire statement be put in the record.

Chairman SHELBY. Without objection, so ordered.

Senator SCHUMER. I know there is a time problem, and I want to thank you and Senator Sarbanes for holding this hearing on ILSA. It is a law in which I believe very strongly. In the 107th Congress, I introduced the initial legislation to reauthorize ILSA, because I believed it was an important tool in keeping up the pressure on Iran and Libya, countries who harbored and supported terrorists. It was an important law for us to extend then; it is an important law now.

Now, I am going to just skip over my testimony on Libya. They have improved their behavior, but I still have some concerns about compensation for family members of Pan Am Flight 103, and those are in my statement. I am going to skip over that. But let me put it like this: the Libyan Government has not lived up to all its commitments, and we have to do some things about that.

Now, as for Iran, I am very concerned about China's growing involvement in Iran's energy sector. The administration accused NORINCO of proliferating weapons technology and missile technology to Tehran, and according to the CIA, the Chinese are working on a zirconium production facility that will help Iran produce cladding for reactor fuel.

This is an end run around what we intended to do when we enacted ILSA. While we have targeted sanctions at NORINCO and other Chinese companies, we have got to be clear with China itself that we are not looking favorably upon its dealings with Iran. We have much to gain from our relationship with China, but as with their actions to manipulate the currency, we have to be watchful and apply constant pressure.

Similarly, there are reports that Russia has been providing Iran with nuclear and military assistance. The administration is sup-

posedly considering negotiating a nuclear cooperation agreement with Russia, something we have steadfastly refused to do unless Russia ends its nuclear cooperation with Iran. I hope the administration continues to demand that Russia end its cooperation with Iran before we enter such an agreement.

And as we reauthorize ILSA, we have to consider whether a few additional measures are necessary, and I am glad that we are having this hearing. Under current law, the administration has the ability to sign national interest waivers whenever it finds, quote, it is important to the national interest of the United States. You could drive a Mack truck through that loophole.

I believe that a stricter approach, examining whether a country is preventing the acquisition and development of weapons of mass destruction by Iran and other national security issues should be part of the waiver process. We should no longer limit our view to economic considerations in the post-9/11 world. National security must be at the forefront of our decisionmaking.

And finally, another issue we should consider is whether an investment violates ILSA. I am concerned that for some investments, no determination is ever made. The Department simply avoids the issue altogether. The implications of these investments are too important to let them quietly languish in the review process.

And finally, Mr. Chairman, I would note that given Iran's most recent behavior, we need a strong law that will clearly establish our view that investment in Iran's energy sector directly or indirectly aids Iran's larger objects and is contrary to what our country is trying to achieve in the Middle East: a peaceful region that no longer supports terrorism. ILSA is an important tool in our fight against terrorism, and I look forward to working with you, Mr. Chairman, and my colleagues on the Committee on the appropriate way to extend this law.

Chairman SHELBY. Thank you, Senator Schumer.

We have reached a point in the Senate when we have a few votes. Secretary Burns, Secretary O'Brien, I believe that I would like to hear your testimony. We have reviewed your testimony, and others here in the room probably would, so we will take about a 30-minute break—we hope we will be back in 30 minutes. We will recess the Committee until then.

Is that OK with you?

Mr. BURNS. Fine.

Mr. O'Brien. Certainly.

Chairman SHELBY. The Committee will be in recess until we get back from three votes, approximately 30 minutes maybe.

Senator SARBANES. Don't hold your breath.

[Recess.]

Chairman SHELBY. The Committee will come back to order. That was a typical 30-minute recess in the U.S. Senate. It runs more than 30. That is the way we keep up with it: 30 minutes equals an hour, maybe an hour and a half, maybe 2 hours; who knows? We do apologize to both of you, but that is the order of business.

Your written testimony will be made part of the record in its entirety, and you can proceed. We will start with you, Secretary Burns. Proceed as you wish. We think this is a very important issue.

**STATEMENT OF NICHOLAS BURNS,  
UNDER SECRETARY FOR POLITICAL AFFAIRS,  
DEPARTMENT OF STATE**

Mr. BURNS. Mr. Chairman, thank you. Mr. Chairman, I hope you can hear me; you can? Thank you very, very much. Don't worry about the delay. We understand the legislative process. I am glad to be here with Assistant Secretary O'Brien, and we are happy to answer your questions. My testimony is submitted for the record. I will not read it to you, but let me just make a few preliminary points, if I could, to establish the administration position.

First of all, I would like to say in response to what you said, Mr. Chairman, and some of the other Members, there is no question that the challenge posed by Iran to American national interests is profound. It is a very important one, and I can tell you that both President Bush and Secretary of State Rice treat it as one of our top national security concerns. Iran is seeking a nuclear weapons capability, which is unacceptable to the United States, and our policy, as Secretary Rice said on May 31, is to deny them that ability to create a nuclear weapons capability. Iran is the leading state sponsor of terrorism in the Middle East and the central banker of terrorism, and Iran is pursuing policies in its own country that deny people basic rights.

Chairman SHELBY. Plus, they have got more money now with the price of oil.

Mr. BURNS. And they have a little bit of money to pursue these policies.

So Iran presents in three different areas direct challenges to our most vital interests in the Middle East region, and therefore, we are happy to be here to talk about this issue.

On the question of ILSA, the Iran-Libya Sanctions Act, we think the Congress acted wisely in 1996 to write this law and wisely in 2001 to reauthorize it for 5 years, and it is the position of our administration, that we would very much support the further reauthorization of ILSA now in 2006. Mr. Chairman, you called it, ILSA, a useful tool. That is exactly what Secretary Rice has said as well, because what it has done is it has shown a very bright spotlight on Iran, and it has made Iran the object of negative attention by the international community, and that is positive in our efforts to deny them what they want to have.

Chairman SHELBY. It is showing the truth of what they have been doing, isn't it?

Mr. BURNS. It has done that as well. It has very much done that as well.

I would just say this: in 1996, when Congress first developed this law, I think Congress was concerned, and I think the prior administration was concerned, about our allies' commitment to put pressure on Iran through the implementation of sanctions, bilateral sanctions and multilateral sanctions. This year, in 2006, we are dealing with a very different international environment, because those allies in Europe are now our partners in this international negotiating effort, which is designed to deny the Iranians what we had talked about, deny them nuclear weapons.

And as you know, since February of 2005, the President had determined that we should support those European negotiations.

Now, unfortunately, the Iranians walked out on the Europeans last August and September, and since then, the President has tried very hard to create a large international coalition of countries, including Russia and China, India, Brazil, Egypt, to rebuke Iran for what it is trying to do; to vote against them in the IAEA; to take the issue to the U.N. Security Council, and more recently, you saw Secretary Rice go to Vienna on June 1, and we established an agreement among the Permanent Five countries of the Security Council that we are going to offer Iran two paths. The first path is the prospect of negotiations, and Secretary Rice said that the United States might even be at the table at those negotiations for the first time in a quarter century should Iran agree to suspend its enrichment activities at its plant at Natanz.

The second path, if Iran refuses negotiations, would be a path of sanctions through the U.N. Security Council. And I think this is the most dramatic way that the international landscape has changed since ILSA was created in 1996. We want to keep the European allies with us in this effort to isolate and pressure the Iranian Government, and so, while we very strongly support the reauthorization of ILSA, and we certainly see the value of ILSA, we have not chosen to support some of the pieces of legislation in the House and in the Senate that would so significantly change ILSA and change its requirements together that it would, in the first place, limit the President's ability to conduct foreign policy under our Constitution, but I think more pertinently, it would focus the attention, some of those bills, it would focus the legislation on sanctions against our allies at a time when we are trying very hard to focus the spotlight on the Iranians and when we provided for a sanctions path through the U.N. Security Council that I think will have great promise should Iran turn away from negotiations.

So I wanted to make that point to you, because I think it responds to some of the preliminary points that the Members made. I also wanted to say, Mr. Chairman, that Libya, of course, is a special concern of our Government, and back in 1996, Libya was pursuing unacceptable policies in the realm of WMD proliferation but also in the realm of terrorism. And so, it was quite appropriate for the Congress to include Libya in that act. Libya, of course, has been implicated most pertinently—I know that Senator Schumer and Senator Menendez spoke to this—to the Lockerbie Pan Am 103 bombing in December 1988. Three State Department employees were among the 178 Americans killed in that, so we have enormous sympathy for the families of the deceased, and we have tried to support them, and in fact, I will be meeting with some of these families tomorrow morning. I had a conversation with them this morning to get a sense of some of their concerns.

As you know, we have come a long way with Libya, and on May 15, just last month, Secretary Rice announced our intention to resume diplomatic relations and to remove Libya from the state sponsors of terrorism list, and this is the latest decision in a very careful process that I know you were very much a part of that began in 1999 when Libya began to address our terrorism concerns, and then, in 2003, when Libya confirmed its renunciation of terrorism. And then, of course, in December 2003, Libya announced its decision to dismantle its WMD program.

So given that, we think that ILSA served a constructive purpose, but as the President had already determined in 2004 that Libya had met the requirements that we had laid down, we would hope that the Congress would now remove Libya from the ILSA legislation and just proceed with a reauthorization focused on Iran, which, of course, is our major concern on WMD, on nuclear weapons, and our major concern on terrorism.

So I do not want to read the rest of my testimony, but I just wanted to get those points out to give you a sense of our strong support for reauthorization, our concern about some of the House and Senate bills that we think would restrict our ability to be effective in limiting Iranian nuclear ambitions.

Chairman SHELBY. We saw that on the floor last week.

Mr. BURNS. Yes; and I think you know from our written testimony, I will be very happy to go into any aspect of the negotiations that are underway or the policies that we are pursuing.

Chairman SHELBY. You might remember Senator Sarbanes and I a couple of months ago were in Libya, and we had good meetings and worked with the State Department. We want to continue to work with you.

Mr. BURNS. We do as well, Mr. Chairman.

Chairman SHELBY. Secretary O'Brien.

**STATEMENT OF PATRICK O'BRIEN,  
ASSISTANT SECRETARY FOR TERRORIST FINANCE AND  
FINANCIAL CRIMES,  
DEPARTMENT OF THE TREASURY**

Mr. O'BRIEN. Thank you, Mr. Chairman. Also in the interests of time here, given the hour, I will also try to be brief.

As an opening remark, I would just say that the Treasury Department is lending its full support to the diplomatic efforts that are underway, and we are very committed to that process and lending whatever support that we can. You mentioned in your opening statements in particular the WMD authorities that are relatively new to the Treasury Department, so I thought maybe what I would focus my comments on would be on the new WMD authority.

In June 2005, the President issued Executive Order 13382, aimed at undercutting the firms involved in proliferation of WMD and their financial and logistical support networks. Since that time, six Iranian entities have been designated for their support of the proliferation of WMD and their missile delivery systems, including Iran's pursuit of nuclear weapons under the guise of a peaceful nuclear energy program.

A couple of the key designations that I would note: the Atomic Energy Organization of Iran, which reports directly to the Iranian President and is the main Iranian institute for the research and development activities in the field of nuclear technology and the Aerospace Industries Organization, which is a subsidiary of the Iranian Ministry of Defense, and Armed Forces Logistics, which is the overall manager and coordinator of Iran's missile program. AIO oversees all of Iran's missile industries.

In addition, just last week, OFAC designated four Chinese companies and one representative office in the United States that supplied Iran's military and Iranian proliferators with missile-related

and dual-use components. No reputable company or institution should be doing business with these entities.

I also wanted to mention the broad country sanctions that are in place and that are administered by OFAC. They have been enforcing this far-reaching set of sanctions against Iran since 1995. Pursuant to the Iranian Transactions Regulations, OFAC administers commercial and financial sanctions against Iran that prohibit U.S. persons from engaging in a wide variety of trade and financial transactions with Iran or the Government of Iran.

These regulations prohibit most trade in goods and services, including financial services, between the U.S. and Iran. The ITR even prohibit foreign persons in third persons from reexporting high-tech, U.S.-origin goods to Iran. The regulations prohibit any post-May 7, 1995, investments by U.S. persons in Iran, and U.S. persons are prohibited from facilitating transactions involving Iran by third-country persons. The effect of these sanctions has been the severe restriction on the ability of U.S. persons to engage in trade or financial services with Iran.

Perhaps as important as this governmental action is, the response that we are seeing from the international private sector, which you also mentioned in your statement, has been very important. As it witnesses first-hand the disturbing direction in which the Iranian regime seems to be headed, the financial sector has begun to reassess whether it is appropriate or prudent to do business with Iran. The words and signals coming out of Iran have led observers to worry about Iran as an investment arena and have prompted reputable members of the international financial community to curtail or cut ties with Iran altogether. For example, in the international banking community, UBS, Credit Suisse, and others, have announced that they are ceasing or curtailing their business with Iran. Press reports have indicated that in the energy sector, firms like Baker Hughes and Conoco-Phillips and others have suspended dealings with Iran.

In May, the Organization for Economic Cooperation and Development, the OECD, downgraded Iran's credit rating. For official credits, it now assesses Iran at the same level of risk as countries with active insurgencies, such as Colombia and Sri Lanka.

These are just the decisions that are being publicly reported. Reputable institutions around the world are also making quiet decisions to cut back or sever dealings with Iran, having decided that they do not want to do business with a state sponsor of terror and proliferator. We in the Government can help inform this process by identifying specific threats that private firms might otherwise be unable to detect and protect against.

We are in a critical moment with Iran now. The Treasury Department and all members of the U.S. Government are lending its full support to the State Department's work to bring about a successful outcome to the recent round of multilateral efforts. In the meantime, in cooperation with our interagency partners, we will continue to use our tools to dismantle networks that support terrorism and weapons proliferation wherever they may be. We will continue to do everything in our power to deny these networks access to the financial system.

Thank you. I would be happy to answer any questions that you may have.

Chairman SHELBY. Thank you, Mr. Secretary.

I will start with you, Secretary Burns. The one instance in which ILSA sanctions were to be imposed, as I understand it, the case of the French energy company Total S.A.'s agreement to develop a major Iranian gas field, the provisions were waived. I understand that the waiver was issued by the previous administration, but I would like to hear from you, if we could, on the Bush administration's position on actually imposing sanctions under ILSA.

Is ILSA, Mr. Secretary, a largely symbolic threat that will not actually be used? It was not used then. And there are reports out there that China and Iran are negotiating or were negotiating a \$100 billion deal that would involve Chinese development of an Iranian oil field. And of course, that makes this question, I think, very relevant.

Mr. BURNS. Thank you, Mr. Chairman. We support the reauthorization of ILSA, because we think it is an effective part of the diplomatic arsenal.

Chairman SHELBY. But it has got to have teeth, hasn't it?

Mr. BURNS. What?

Chairman SHELBY. It has got to have teeth, teeth.

Mr. BURNS. Well, certainly, any legislation worth its salt has to have teeth. I agree with you on that.

Chairman SHELBY. Right.

Mr. BURNS. And we support reauthorization, because ILSA has been part of the diplomatic arsenal, economic arsenal, that we have got to focus the attention of the world on Iran. I think the primary benefit of ILSA over the past decade has been just that. It has created an environment where Iran has been put under a spotlight and made to answer questions, and it has had a deterrent effect in some respects.

Let me give you one specific example: if you look at a map of the Middle East, you see over the last decade this extraordinary construction of gas and oil pipelines, from the Caspian and Black Seas to the major markets in Western Europe, and you will notice that the great majority of those pipelines are not traveling through Iran. Baku-Ceyhan, which is the most prominent, which received very strong support from President Clinton and President Bush, does not travel through Iran, and ILSA has played a part in creating that kind of climate where countries and companies have to fear the potential consequences should they get the attention of our Government.

Chairman SHELBY. In preparing a conference on doing business with Iran, the Law Society in London included in its announcement the following: Do you have trade relations with Iran? Have you maximized them to their potential?

The list of corporations attending the event included dozens of prominent financial and energy companies that we are familiar with, including HSBC Bank, BP Oil, Royal Bank of Canada, Standard Bank PLC, the Deutsche Bank, and United Insurance Brokers. Also listed among the attendees, the Embassy of Iran. I do not think we should be under any illusion regarding the respect for

U.S. sanctions policy with regard to Iran outside the immediate context of that country's nuclear weapons program.

I am also aware of recent press reports indicating increased reservations on the part of some banks and energy companies that do business with Iran, which you alluded to. Mr. Secretary, is there a point out there, though, where the old adage that the business of business is business may take a back seat to larger considerations involving a regime like Iran that poses a clear danger to U.S. interests and allies in the Middle East? Do you understand what I—

Mr. BURNS. Yes, I do, Mr. Chairman.

I would just answer very briefly and say that our administration believes that it continues to be in our interests to maintain U.S. sanctions on Iran that have largely been in place since the late 1970s. This is the right policy for the United States. Now, the newest element of our policy is to construct this choice that Iran now has to make. If they want to have peaceful relations, a negotiated settlement, and some day far into the future a normal economic relationship with most of the rest of the world, they are going to have to go down the path of negotiations.

Should they refuse that, then, we have agreed, and this is with Secretary Rice's agreement with Russia, China, Germany, France, and Britain, all those countries have agreed that if Iran refuses to negotiate, we will go to New York, to the Security Council, and we will entertain the possibility of sanctions against Iran.

So we believe that sanctions can be an effective instrument in international politics but most effective when you have a wide variety of countries practicing them.

Chairman SHELBY. Sure.

Mr. BURNS. Not just the United States in isolation but the great trading nations of the world.

Chairman SHELBY. But the bottom line is, they have got to mean something, haven't they?

Mr. BURNS. They do. Well, they have to mean something, and they have to be universally applied.

Chairman SHELBY. First of all, in an abstract sense, they have to mean something. Otherwise, it is mainly symbolic.

I am not saying this is. I am asking you the question: they do have to mean something, sanctions do, as a rule, do they not? Otherwise, they will be ignored.

Mr. BURNS. Yes, I think that the credibility of the current diplomatic effort that we have underway hinges on our ability to go down that second path should we must. And we are ready to do that if Iran rejects the negotiating path.

Chairman SHELBY. Secretary Burns, the issue of pipeline construction has been interpreted by some as a gray area when considering whether ILSA provisions should be applied, whether they should be applied. The Iran-Turkey natural gas pipeline has already proven problematic, and India and Pakistan are both involved in pipeline discussions with Iran. Could you describe just for the Banking Committee here today the Department's approach, the State Department's approach to pipeline construction projects within the context of ILSA enforcement?

Mr. BURNS. I would be happy to do that, Mr. Chairman.

We have had numerous conversations with the Governments of India and Pakistan just in recent months, and our advice to both governments has been you should resist and refuse to enter into any such long-term agreement with the Government of Iran, because we say Iran is not a reliable supplier of energy. Iran could possibly fall under international sanctions in the very near future if it refuses to stop its nuclear projects and nuclear activities, and it is interesting that these well advertised plans for a pipeline have not materialized.

And it is our impression that India and Pakistan are hesitating on whether or not they should go forward. What we have advised is that they look toward Kazakhstan and Turkmenistan for long-term oil and gas contracts, not to Iran itself. So it is an active part of our diplomacy to dissuade these countries from doing this.

Chairman SHELBY. Secretary O'Brien, I will direct this first part of this question to you. The Department of the Treasury sanctioned four Chinese companies for aiding Iran's ballistic missile programs. One of the Chinese companies in particular, China Great Wall Industry Corporation, has been a repeat offender and, in fact, appears with disturbing regularity when the issue of militarily sensitive technology transfers are discussed.

Would you provide the Committee your view on whether U.S. sanctions regimes need to be strengthened in order to provide a better deterrent? Is the Chinese drive to secure energy supplies too powerful to be stopped through sanctions that already exist in the U.S. law, and is there a potential for U.S. dual-use technology to be diverted to Iran, which we are all concerned about, in violation of Iranian Transactions Regulations in the course of Chinese transactions such as those involving the recent sanctions announcement?

I recognize that Commerce has jurisdiction of dual-use technologies, but does State have any insight here? Does the Chinese export of fiber-optic technology to Iran involve any U.S. technology? Secretary O'Brien, I will ask you first and then call on Secretary Burns.

Mr. O'BRIEN. Thank you, and I will focus on the aspect of—  
Chairman SHELBY. Right.

Mr. O'BRIEN. —the financial and logistical support networks for this kind of proliferation.

And I think, actually, your exchange just previously about the need for multilateral action is reinforced by your question. Under the U.N. Security Council Resolution 1540, all nations agreed that it is important to address the financial aspects of proliferation. The G-8 has also discussed this and committed to track, identify, and freeze the assets of weapons proliferators.

The United States has played a leading role in actually developing a tool to do that, and that is the E.O. that I mentioned in my statement, E.O. 13382, which really applies the same kind of financial sanctions to weapons proliferators as we have in the terrorism context, which are internationally known.

So can the United States by itself end the activities of proliferators that are determined, you know? No; we can do our part. I think part of what we are doing in conjunction with the State Department is encouraging other nations to look at the com-

mitments that they have made in various international arenas on the proliferation front and begin to appreciate and address the financial component of proliferation. So I think multilateralizing this kind of tool will be a very important step to increasing our effectiveness.

Chairman SHELBY. Secretary Burns, do you agree with that?

Mr. BURNS. I certainly do agree with what the Assistant Secretary has said, Mr. Chairman. With respect to the last part of your question, the United States conducts a very limited amount of legitimate commerce—of various types—with Iran. Since the beginning of 2004, 85 licenses have been approved for U.S. trade with Iran, 2 rejected, and 50 returned without action for various reasons. These figures do not include agricultural and medical projects, which are handled under a separate authority. Of those approvals, a small percentage pertained to fiber-optic technology, so some legitimate transfers are being done, although obviously those are carefully reviewed. As to other sourcings of American fiber-optic technology to Iran, some smuggling has happened in the past and likely will be tried again, but we have no hard numbers on the exact volume. Additionally, we have no record of fiber-optic technology licensed to China being diverted from China to Iran.

Optical fiber communication cables are normally controlled for export to China under ECCN 5A001.c.1 and c.2 for national security reasons. A license exception to civil end users (CIV) under section 740.5 of the EAR is permitted for exports to China. The technology to produce these cables, in turn, is also controlled for national security reasons under ECCN 5E001, and no license exceptions are applicable for its export. We would have to refer you to the Department of Commerce, Bureau of Industry and Security for the data on how many export licenses were approved for these items as well as for its production technology to China.

For sensitive missile-related exports, according to the FY99 National Defense Authorization Act, prior to the transfer to China of dual-use items that are controlled for missile technology reasons, such as fiber-optic gyros, the President must certify to Congress that the export will not be detrimental to the U.S. space launch industry and will not measurably improve China's missile or space launch capabilities. Accordingly, requests to export dual-use missile technology are subject to special scrutiny. These measures help mitigate the risk that missile-related items licensed from the United States will be diverted to programs of concern.

With respect to the earlier part of your question, I would note that E.O. 13382 was signed in order to augment existing non-proliferation sanctions by allowing the United States to freeze the U.S. assets of designated proliferators and their supporters, and to prohibit U.S. persons from engaging in transactions with them. Treasury's June 13 action was the first such designation of Chinese entities under E.O. 13382. This designation effectively levies additional restrictions on China Great Wall Industry Corporation that were not imposed under previous sanctions.

Chairman SHELBY. For the record; that will be good.

Mr. BURNS. For the record.

Chairman SHELBY. I think it is very important. Pipelines are central to all of this energy.

Secretary Burns, the House bill's provisions on sanctions—if I may, in your opening statement, Mr. Secretary, you addressed problems the Department of State finds in the legislation passed by the House. In addition to those issues specified in your statement, were there other provisions to which the Department objects? Does the provision targeting the foreign subsidiaries of U.S. corporations present any problems? Would such a provision continue to be problematic if implemented prospectively and not retroactively? And do the parameters for imposition of sanctions reflected in that legislation fit within your comfort zone? Can you discuss that openly here?

Mr. BURNS. I would be happy to.

First of all, Mr. Chairman, I want to say we share with the sponsors of the House and Senate bills, with which we disagree, we share with them a concern strategically of what we ought to do, which is isolate and pressure Iran and stop it from developing nuclear weapons. So there is no argument there.

We have a tactical difference in two respects. In general, we are at a point in our diplomacy now where we want to turn the attention of the United States and the instruments at our disposal toward the Iranians and not toward our allies, because we do not want to weaken that international coalition that we have created.

Chairman SHELBY. How do you do that? That is kind of a tight-rope, is it not?

Mr. BURNS. Well, it is difficult, and you certainly want the Europeans to be focusing their attention on Iran, not their attention on the United States and a piece of legislation here in Congress. So in general, that is the major objection that the administration has had for many months to the two bills that are under question, H.R. 282 and S. 333. Specifically, there are a couple of provisions that I put into my testimony that we believe would restrict the President's ability to pursue a policy that would be effective and that would give him the flexibility that he might require in this very fluid environment where we are on the verge possibly, possibly, of a negotiation with Iran on the future of its nuclear weapons program, and I think I have detailed those in my testimony.

Chairman SHELBY. You have.

Secretary O'Brien, Iranian support for terrorism; you know a lot about this. As you have said, and we know, Iran is the world's leading state sponsor of terrorism. Secretary Burns touched on this in his opening statement. But could you provide the Committee, for the record here, the Department's current assessment, the Treasury Department's current assessment of Iranian financial support for terrorist organizations?

Recent press reports indicate, and your statement confirms, that foreign banks, including some that were assessed large fines for their failure to comply with U.S. anti-money laundering laws, are lowering their profiles in Iran. Are European countries whose banks do business, and a lot of them do, with Iran reassessing those relationships beyond the crisis atmosphere that surrounds the nuclear weapons issue?

In other words, is there any sense of reputational risk for banks doing business with Iran that extends beyond the current crisis? You know, we worked with you a lot on the financing of terrorism

on this Committee. Senator Sarbanes and I believe that is one of the important ways to fight terrorism, and you know that. Do you have some comments.

Mr. O'BRIEN. Absolutely, and we appreciate your support in that regard very much.

As a general matter, and I touched on this in my written statement as well, we do have grave concerns and would say that Iran is a leading—

Chairman SHELBY. They are the banker for a lot of the terrorism in the world, are they not?

Mr. O'BRIEN. Yes, and I think they pose a particularly difficult target to combat in that as a state sponsor, as a sovereign, they have vehicles and apparatus available to them that others do not. There are state-owned banks; there are parastatal companies that can help mask their activities in the financial sector in addition to the informal methods like hawala or cash couriers to move money.

So they are a particularly difficult target. I think we have focused very heavily on some of the organizations that they support: Hezbollah and Hamas and the Palestinian Islamic Jihad. We have taken substantial actions against the front companies and organizations, charities, or individuals that are working on behalf of those operational groups.

So I think they clearly are at the forefront of our mind and our concern with respect to terrorist financing, and your comment about European banks, as I touched on in my remarks, we are seeing an increased sensitivity to reputational risk. And I would not limit that only to the proliferation context. I think it is broader than that, and in effect, you know, Iran is isolating itself by its conduct, by its support for terror, by its support for proliferation, by the statements that its leadership is making.

So I think we do see an increased sensitivity to reputational risk, and we think that is a very positive development.

Chairman SHELBY. Thank you.

Senator Carper.

#### **STATEMENT OF SENATOR THOMAS CARPER**

Senator CARPER. Thanks, Mr. Chairman.

Chairman SHELBY. Excuse me. Senator Menendez was here first.

Senator CARPER. Please go ahead; no, go ahead.

Chairman SHELBY. No, he was here earlier, first.

Senator MENENDEZ. I am happy to yield—well, thank you, Mr. Chairman, very much. I appreciate in the beginning of your testimony, I understand you made some reference to my concerns about Libya, and I appreciate that.

We are going to be vigorously engaged in hoping to see that a promise made is a promise kept and that our administration and our Government helps these families achieve that, even though it will never fill the void in their lives and in their heart, but I believe it is critical. So we will be working with others, hopefully collaboratively with you, to get the results that we would like to see.

I do have a few questions about our reauthorization. Secretary Burns, is it not true that under current U.S. law, if a U.S. company invests, let us say, \$20 million over the course of 1 year in Iran's energy sector that the President must impose sanctions?

Mr. BURNS. Senator, thank you for the question. That is my reading of the ILSA legislation that was reauthorized in 2001. Now, the President retains the ability to ascertain whether or not to impose the sanctions, and of course, the President has waiver authority.

Senator MENENDEZ. Right.

Mr. BURNS. And one of the reasons that we support reauthorization is we think—I will not give you my whole testimony, but you were out of the room; we think this has been a very useful tool in the ability of our administration to focus a spotlight on the Iranians and to put some pressure on them. But the President does, and President Clinton and President Bush have had this authority.

Senator MENENDEZ. Let me ask you this: is it not true that under the current law, if a foreign subsidiary of that U.S. company, that very same U.S. company, invests the same \$20 million over the course of 1 year in Iran's energy sector that there be no consequences for that company?

Mr. BURNS. Senator, I am not a legal expert on the bill. I do not want to pass myself off as one. So I would be happy to take your question for the record and give you a written response.

Senator MENENDEZ. Well, we would love to get an answer, but I think the answer—

Chairman SHELBY. Would you do that for the complete record for the Committee plus the Senator?

Mr. BURNS. Yes, yes, sir. Nothing in the ILSA statute exempts subsidiaries of U.S. firms from the reach of the Act. ILSA applies to any person, including any subsidiary of a U.S. firm, who engages in the activities covered by the statute. The U.S. embargo on Iran prevents U.S. companies from making such investments.

Senator MENENDEZ. Thank you, Mr. Chairman. I would love to get an answer through the Chair, and let me just offer that the answer is yes, and that is the problem.

It seems to me that the very essence of our sanctions regime in this regard does not have the teeth that it needs, because it allows U.S. companies to do business in Iran through their foreign subsidiaries. And particularly if one thinks that—one's focus is that the essence of our sanctions program is to make sure that we achieve a goal that Iran cannot use money from its petroleum sector to fund its development of nuclear weapons program, then, we are undermining it by having this very large loophole available. And so, it seems to me that we need to close that loophole in a reauthorization.

The other concern that I have is that under existing law, American companies by and large are not allowed to do business in Iran, and non-U.S. companies face possible sanctions if they invest over \$20 million in Iran's energy sector. And the rationale is again rather simple: petroleum production gives Iran the cash to pursue production of weapons of mass destruction, and they need massive foreign investment to keep oil producing.

Those non-U.S. companies that have invested in Iran's energy sector are liable to American sanctions under ILSA. Yet many American pension plans and mutual funds continue to invest large amounts in these very same companies. Several State and municipal pension plans have actually begun to take steps to end their

investments in such companies, so that in essence, they are not fueling Iran's ability.

Do you believe that a cessation of this type of investment would have a major impact on Iran's political leadership and in doing so pursuit of nuclear weapons, given the fragility of their economy?

Mr. BURNS. Senator, we share with you a very deep desire to stop Iran's nuclear weapons program. Now, we have to calculate the best way to do that, and our sense is that you have on one hand American sanctions in place for the last 26-and-a-half years on the Iranian Government that have not had a decisive impact on Iran's ability to proceed to develop its economy and its nuclear industry.

We think it is far preferable to try to get a great number of countries involved in sanctions. And so, we have offered the Iranians a choice: negotiations to deconstruct their nuclear program, and if they do not accept that, then, of course, an alternative path that would lead to the U.N. Security Council and what we hope would be a sanctions regime. We think that would be far more effective.

And one of the reasons why we support the reauthorization of ILSA is because we think ILSA is an instrument in that policy. We do not support some of the other bills that have been put forward in the House and Senate, because we think that they would tie the President's hands so much that we could not carry out this policy of trying to offer these two choices to Iran and would perhaps make it even impossible for him to lead a coalition down that second path, toward sanctions.

Senator MENENDEZ. Well, Mr. Secretary, if I may, just as a final comment, Mr. Chairman, you know, I do agree with you: the problem is that in the beginning of your answer here, the problem is that we have not used ILSA as forcefully. I have seen the testimony of both Secretary Rice; I read yours, and the reality is that we have not used ILSA under its existing wherewithal, and as a matter of fact, in a way that I think has been helpful. We have not had the will; that is why I think you have an accurate statement, that it has not been as powerful as it could be.

If you look at a CRS report, they say, and I quote, that while some believe ILSA did slow Iran's energy development initially, its deterrent effect weakened as foreign companies began to perceive that ILSA sanctions would not likely be imposed, and that same report includes a list of 11 foreign companies which have apparently invested over \$20 million in Iran's energy sector.

So, yes, I mean, if you have a tool, and you leave it in the shed, it is never going to produce any fruit. If you have the wherewithal to use the law, and you do not enforce it, it is never going to be of value, and that is the very essence of what I think is happening here, and that is why I, for one, believe that we need to make sure that there is a strengthened ILSA renewal so that we can actually guarantee.

You know, we have not stopped Iran's march yet. I find it interesting that we have a set of circumstances where what the administration pursues today, the administration originally criticized the 1994 framework agreement that the Clinton administration conducted with North Korea; very critical of it, but the very essence of that same framework is what they are pursuing in Iran.

I have real concerns here. We still have a chance to make a difference as it relates to Iran's achievement of any nuclear weaponry. We are already past that with North Korea, but we do have an opportunity here. And I believe that this is a tool, Mr. Chairman, that can be vigorously used, and I appreciate the Chair's beginning to hold hearings and hopefully a markup in the not too distant future.

Chairman SHELBY. Thank you, Senator Menendez.

Senator Carper had to go, but he asked that we keep the record open. He has a number of questions to both Secretaries, and we would get those to you.

We appreciate your patience today; appreciate your contribution, and more than that, we appreciate your waiting on us.

Mr. BURNS. Mr. Chairman.

Chairman SHELBY. Secretary Burns.

Mr. BURNS. Would you indulge me just for a moment?

Chairman SHELBY. Absolutely.

Mr. BURNS. And very briefly.

I just wanted to respond to the Senator. I think he has given us a very thoughtful presentation of his views, and I just wanted to say I think we all agree on the strategy. Everybody agrees we have got to stop the Iranians from developing a nuclear weapons program. The major problem we have with a so-called strengthening of ILSA as opposed to a straight reauthorization of S. 333 or H.R. 282 is that it would allow Iran to divide us from our European allies.

Right now, you have got a situation where Iran is trying to escape the pressure of the Security Council. It fears the unity of the Security Council. And what President Bush and Secretary Rice have achieved is the unity of the Security Council. Some of the provisions in both of those bills would actually point ILSA directly at the allies. It would make them the issue rather than Iran. I told the Chairman before that we feel that one of the great benefits of ILSA over the last decade, it has made Iran the issue.

But some of the provisions here to which we object—it is in my testimony—would actually make France the issue or Britain the issue or Germany the issue, and we think we will be far more effective in stopping Iran if we maintain that unity and if the President and future Presidents have the flexibility that they ought to have to pursue a rational policy. So I just want to give you the benefit of that thought. I think you gave us a very thoughtful presentation.

Senator MENENDEZ. Mr. Chairman, very briefly.

Chairman SHELBY. Senator Menendez.

Senator MENENDEZ. I appreciate the Chair's indulgence.

I appreciate what you have to say, Mr. Secretary, but even when we focus on U.S. companies, on U.S. foreign subsidiaries and on U.S. pension plans, it does not hurt any foreign country.

Chairman SHELBY. We appreciate your appearance here today. The Committee is adjourned.

[Whereupon, at 5:55 p.m., the hearing adjourned.]

[Prepared statements for the record follow:]

**PREPARED STATEMENT OF SENATOR CHARLES E. SCHUMER**

Thank you Mr. Chairman, and Senator Sarbanes, for holding this hearing on ILSA, a law in which I believe very strongly. In the 107th Congress, I introduced the initial legislation to reauthorize ILSA because I believed it was a very important tool in keeping up the pressure on both Iran and Libya—countries who harbored and supported terrorists. It was an important law for us to extend then and it is now.

In the past 5 years, Libya has improved its behavior—although I have some concerns about compensation for family members of Pan Am 103 which I will address in a moment. But as we consider reauthorizing ILSA, I believe we must look at ways to strengthen it, possibly by expanding it to other types of investment or trade activity, so hopefully we can help bring about the same result in Iran.

Iran is a state sponsor of terrorism and President Ahmadinejad has steered Iran further and further down an extremist path since assuming office saying Israel should be “wiped off the map . . .” And they have not yet shown that they’re willing to deal with the international community in good faith with respect to nuclear weapons.

Until we see dramatic change in Iran’s behavior, we must keep up the pressure through the threat of sanctions authorized by ILSA. It’s clear that Iran is not going to seriously heed the world’s call to be more responsible unless they are truly diplomatically and economically isolated.

I’d like to address Libya for just a moment. As we know, Libya agreed to pay compensation in the amount of \$10 million to each family. Libya admitted responsibility for this vicious attack which killed 189 Americans . . . some of whom were my constituents and neighbors. Unfortunately, Libya has only fulfilled 80 percent of its obligation to these American families. I don’t believe 80 percent is good enough and I know many of my colleagues agree.

I was disturbed to learn of reports that a State Department spokesperson suggested that the Department is not a party to this settlement and will not get involved in further compensation issues. But clearly there are steps this Administration can take to pressure Libya to do the right thing here. For example, the State Department and this Administration can refuse to accept the credentials of Libyan diplomats even before Libya has fully compensated the Pan Am 103 families. I have joined a resolution, led by Senator Lautenberg, urging the Administration to do just that.

It’s simply unacceptable that State Department is not supporting these American victims of terrorism in their quest for justice and instead siding with Libya. So although a reauthorization of ILSA would not apply to Libya, we must be vigilant and do all we can to ensure the families of Pan Am 103 are fully compensated.

Turning to ILSA—our original purpose was to curb growth and modernization of Iran’s energy sector and I note that it appears that it has worked, at least to some extent. In the 1970s, Iran was pumping an average of 6 million barrels a day; today it pumps approximately 4 million barrels a day. Measures like ILSA have clearly played a role in deterring foreign investment in Iran’s energy sector. We must keep ILSA in place to further discourage any foreign investment in Iran’s energy industry.

I am concerned, however, about China’s growing involvement in Iran’s energy sector. For example, the Administration has accused the Chinese company Norinco of proliferating weapons technology and missile components to Tehran. And according to the CIA, the Chinese are working on a zirconium production facility that will help Iran produce cladding for reactor fuel. This is a complete end-run around what we intended to do with ILSA.

While we have targeted sanctions at Norinco and other Chinese companies, we also must be clear with China itself that we will not look favorably upon its dealings with Iran. We have much to gain from our relationship with China, but as with their actions to manipulate their currency, we must be watchful and apply constant pressure. And I believe our discussions with China must specifically address their involvement in Iran.

Similarly, there are reports that Russia has been providing Iran with nuclear and military assistance. The Administration is supposedly considering negotiating a nuclear cooperation agreement with Russia, something we have steadfastly refused to do unless Russia ends its nuclear cooperation with Iran. I hope the Administration is prepared to demand that Russia end its nuclear cooperation with Iran before we enter such an agreement.

As we reauthorize ILSA I believe we must consider whether a few additional measures are necessary and that’s why I’m glad we’re having this hearing. Under

current law, the Administration has the ability to sign national interest waivers whenever it finds it is “important to the national interest of the United States.”

I believe a stricter approach, examining whether a country is preventing the acquisition and development of weapons of mass destruction by Iran and perhaps other national security issues should be part of the waiver process. We must no longer limit our view to economic considerations in this post 9/11 world—national security must always be at the forefront of our decisionmaking.

Another issue we should consider is whether we should set a timeline for determining whether an investment violates ILSA. I am concerned that, for some investments, no determination is ever made—that the Department simply avoids the issue altogether. The implications of these investments are far too important to let them quietly languish in the review process.

Finally, I’d note that given Iran’s most recent behavior, I believe we need a strong law that will clearly establish our view that investment in Iran’s energy sector, either directly or indirectly, aids Iran’s larger objectives and is contrary to what our country is trying to achieve in the Middle East—a peaceful region that no longer supports terrorism.

ILSA is an important tool in our fight against terrorism and I look forward to working with you Mr. Chairman and all of my colleagues on the committee on the appropriate way to extend this law.

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#### PREPARED STATEMENT OF SENATOR RICK SANTORUM

Mr. Chairman, thank you for scheduling this timely and important hearing on the Iran and Libya Sanctions Act (ILSA). As you are aware, this law will expire in early August 2006, so it is important for the Committee on Banking to gather insight on enforcement of the current law, find out how the law is meeting our foreign policy goals, and determine if modifications to the law are necessary.

As you know, I have taken a keen interest in making sure that the tools authorized by ILSA are effectively employed to deter investment in Iran’s energy sector. In addition, because of the nascent democratic movement taking hold within Iran, I have sought to provide greater financial and political assistance to the people of Iran to enable a peaceful democratic government inside Iran. Both goals are reflected in S. 333, the Iran Freedom and Support Act, a bill that has garnered 61 cosponsors.

In my opinion, the Senate missed a golden opportunity to not only improve upon current law but also to support the pro-democracy movement inside Iran when it failed to adopt Senate Amendment 4234 during consideration of the Fiscal Year 2007 National Defense Authorization Act last week. However, the issue of an atomic Iran is pressing enough and important enough for this body to reconsider its vote last week. I am confident that the Senate will realize that now is the time to authorize not only improvements in ILSA, but also help shape a viable U.S. foreign policy approach toward Iran.

Mr. Chairman, as you know, the Congress enacted ILSA because it concluded an Iran that with fewer oil revenues would allocate its limited resources toward intrinsic domestic needs rather than funding terror groups. Not wanting to tie the President’s hands, Congress permitted the use of a waiver if use of the waiver is important to the national interests of the United States. While most observers would contend that the law has been helpful in dissuading large scale investment in Iran, additional improvements are necessary so that the law can be strengthened. Put bluntly, some would say that the law lacks teeth. If that assessment is true, I believe that this committee can be helpful in adding teeth to ILSA.

Let me remind this committee that in 2001, when the Iran and Libya Sanctions Act of 1996 was nearing its expiration date, the Bush Administration requested a 2-year reauthorization of the law. Congress chose to disagree with the Administration and reauthorized the law for another 5 years. I ask members of this committee to remember that request for “flexibility” when recalling last week’s objections raised by the Department of State to my amendment.

I find it even more telling that foreign investments in Iran’s energy sector, investments made during the Clinton Administration, have not yet been acted upon. That is, the current administration has not made a determination on whether investments by foreign entities in Iran have triggered sanctions defined by the law. To date, the only action taken was the issuing of a waiver back in 1998 on the investment made by a consortium lead by TotalFinaElf, Gazprom, and Petronas to develop phases two and three of Iran’s South Pars gas field.

Unfortunately, major investments in Iran’s energy sector have continued despite the enactment of the ILSA legislation. Recent examples include GVA Consultants

of Sweden's Caspian Sea transit contract worth an estimated \$225 million (March 2001); ENI of Italy's Darkhovin field contract worth an estimated \$1 billion (June 2001); LG of South Korea's Phases 9 and 10 of the South Pars field worth an estimated \$1.6 billion (September 2002); and Inpex of Japan's Azadegan field contract worth approximately \$2 billion (February 2004). As best I can tell, these deals are still under review by the Administration.

While ILSA has probably discouraged whole-scale investment in Iran's energy sector, these recent investments are a result of calculated assessments by foreign companies and entities that they will not be sanctioned by the U.S. Government. One of the aspects of the amendment I offered to the Fiscal Year 2007 National Defense Authorization Act was a provision requiring the President to take action on transactions that were under review. I believe that this provision makes sense as the executive branch has been silent on ILSA for far too long.

Another area that deserves attention is the role played by private or government lenders, insurers, underwriters, and guarantors—entities that can help facilitate investments in Iran's energy sector. Finally, it is worth considering eliminating the sunset provision altogether given the behavior of the leaders of Iran's government.

In closing Mr. Chairman, I want to reaffirm my commitment to reauthorize ILSA and to provide adjustments and/or modifications that will strengthen the law and, perhaps, provide the teeth necessary to dissuade foreign investment in Iran's energy sector. I have said time and again that Iran is the most dire threat facing America today. It is high time that the Senate act on this threat.

I look forward to working with you on this matter in the near future.

#### PREPARED STATEMENT OF NICHOLAS BURNS

UNDER SECRETARY FOR POLITICAL AFFAIRS, DEPARTMENT OF STATE

JUNE 22, 2006

Thank you Chairman Shelby, Ranking Member Sarbanes, and distinguished Members of the Committee for this opportunity to discuss United States policy toward Iran, and in particular the reauthorization of the Iran and Libya Sanctions Act.

#### Iran

Acknowledging the grave challenge Iran and Libya posed to American interests, Congress enacted the Iran and Libya Sanctions Act (ILSA) in 1996. The effort was a good one and provided us, as Secretary Rice has said, "a useful tool" to combat both countries' dangerous behavior. In particular, the existence of this law has underlined the depth of our global concerns about the spread of weapons of mass destruction and support for terrorism, and has given the United States a platform to raise those concerns with our allies.

Over the past decade since the creation of ILSA, there has been a major shift in the international community's strategy for confronting Iran and Libya. In 1996, we were concerned about our allies' commitment to put pressure on Iran through the implementation of multilateral and bilateral sanctions.

In 2006, we are operating in a vastly different international environment. Our allies in Europe, the Middle East, and Asia are very much with us in seeking to isolate and pressure Iran to give up its nuclear weapons ambitions. Over the past 15 months, the U.S. has assembled a broad international coalition to deny Iran a nuclear weapons capability; to stop its sponsorship of terrorism in the region and around the world; to blunt Tehran's aggressive regional ambitions; and to extend support to the Iranian people who suffer under the regime's repression and economic misrule. President Bush and Secretary Rice have worked to create a united response of the world's major powers to blunt Iran's designs. I have traveled to Europe over a dozen times as the primary liaison with the EU-3 and Russia and China on this issue.

As a result of our efforts, we have achieved an unprecedented unity among the major powers of the world on how to address the Iranian regime's nuclear ambitions. President Bush and leaders of the European Union noted in a statement yesterday—after the U.S.-EU summit in Vienna—that over the past year U.S.-EU cooperation on Iran has reached a new and qualitatively positive level. We have worked closely with European allies, Japan, Australia, India, Russia, China, and other countries at every stage of the ongoing attempts to address the question of Iran's nuclear program. We have agreed on a set of far-reaching proposals as a basis to find a negotiating solution with Iran.

Back in 1996, Libya was pursuing policies that endangered the national security and foreign policy interests of the United States. It was sponsoring terrorism and

pursuing weapons of mass destruction. Libya was implicated in terrorist incidents, including the destruction of the Pan Am Flight 103 over Lockerbie, Scotland, in December 1988 in an incident in which 270 people, among them many Americans, perished. As with Iran, ILSA helped galvanize international pressure against Libya.

Ten years later, on May 15, Secretary Rice announced our intention to restore full diplomatic relations with Tripoli and remove Libya from the list of state sponsors of terrorism. This is the latest decision in a careful, step-by-step process begun in 1999 when Libya began to seriously address our terrorism concerns and surrendered the suspects in the Pan Am 103 bombing for trial. The United States and United Kingdom began direct talks with Libyan representatives in 2001 and in August 2003 Libya confirmed its renunciation of terrorism in a formal letter to the U.N. Security Council. Then, on December 19, 2003, Libya announced its historic decision to dismantle WMD programs and long-range ballistic missiles. Throughout this process, we have acknowledged progress by Libya while continuing our review at every stage.

### **ILSA**

From 1996 onwards, ILSA served its constructive purpose in our policies toward Iran and Libya. In 2006, 10 years later, we must look at the very different political context when assessing legislation and policy. As we move forward in confronting the challenges of Iran and Libya, the Administration supports legislation now before this committee, S. 2657, that would reauthorize the current ILSA statute for an additional 5 years.

At the same time, we support removing references to Libya from the law. The President in 2004 took action, under the provisions of the existing law, to terminate the application of ILSA to Libya, so the significance of removing references would be symbolic, rather than practical. For instance, it would demonstrate to Iran the potential benefits that could accrue over time if it chooses the path of cooperation and greater prosperity envisioned in the P-5+1 package offered to Iran on June 1.

As far as the Iran provisions in the legislation, I want to reemphasize our strong support for the bill now before the Committee. However, there is other legislation pending in both houses of Congress that directly affects ILSA. H.R. 282, which was recently passed by the House of Representatives, and S. 333, pending before the Senate Foreign Relations Committee, incorporate features that we regard as highly problematic.

We believe that some elements of those bills—in particular the provisions that freeze current restrictions, set specific deadlines for decisionmaking, that restrict certain waiver authorities, and (in H.R. 282) that call for divestment of assets and prohibitions on assistance—would narrow in many important ways the President's flexibility in the implementation of Iran sanctions and strain relations with close allies whose cooperation is crucial to our efforts to change Iran's behavior.

Despite the international consensus to prevent Iran from acquiring nuclear weapons, Iran is still working very hard to create divisions among the international community—including the P-5+1. We are concerned that the proposed amendments would take the focus of international attention away from Iran's misdeeds, where it now appropriately lies, and shift it to potential differences between the U.S. and its allies over ILSA provisions. Such an eventuality would play into Iran's hands and retard the progress that we hope to make diplomatically in stopping Iran's nuclear weapons programs. We have to consider how the "message" of the ILSA amendment proposals would be received by the audiences it would reach. In key European and Asian capitals, adoption of these proposals could lead to an extensive public debate over the "extraterritorial" reach of U.S. sanctions. It would be far better to keep the debate in those capitals centered firmly and squarely on Iranian misbehavior and conduct.

We should be doing everything possible to strengthen the unprecedented and expanding consensus we currently have in place. We would be deeply concerned about any move, such as enacting the problematic legislative provisions I have described, that would undercut and complicate this diplomacy.

In a practical sense too, the situation that ILSA addresses has changed markedly in recent years. Despite Iran's immense hydrocarbon resources and the thirst for energy that today's high oil prices reflect, foreign interest in investing in Iran's oil and gas sector appears to be slowing, not accelerating. Major business and financial publications have recently called attention to the perception of heightened political risk that is now associated with doing business with Iran. Some private banks have already decided to limit or cutoff their dealings with Iran altogether, including UBS and Credit Suisse. The OECD has recently downgraded Iran's credit rating for official credits, raising the costs and risks for those considering investing in Iran.

A number of factors have helped create this perception; but the most important are perhaps Iran's being found in noncompliance with its IAEA Safeguards Agreement, and the fact that an unprecedented international effort is underway to deal with this threat, including within the U.N. Security Council. There is also growing international concern over the Iranian regime's support for terrorism, its brutal repression of the rights of the Iranian people, and its aggressive foreign policies and actions that threaten our allies and friends in the region.

#### **Iran's Pursuit of Nuclear Weapons**

I would now like to outline in more detail steps the Administration is taking to deny Iran a nuclear weapons capability; stop its sponsorship of terrorism; blunt its aggressive regional ambitions; and extend support to the Iranian people who suffer under the regime's repression and economic misrule. Secretary Rice said on May 31 that the vital interests of the United States and our friends and allies in the region are at risk because of Iran's continued defiance of the international community, and that the United States will act accordingly to protect those common interests.

There is no doubt about Iran's determination to develop a nuclear weapons capability. For 18 years, Iranian leaders pursued a clandestine enrichment program and other undeclared nuclear activities that they hid from the world, in violation of their international commitments and obligations. The international community's serious concerns about Iran's nuclear program led the IAEA Board of Governors to adopt a resolution on February 4 that reported Iran to the U.N. Security Council, a decision not only supported by the United States and Europe, but also by Russia, China, Brazil, Egypt, India, and many others. In response, the U.N. Security Council adopted unanimously on March 29 a Presidential Statement calling on Iran to fully suspend all enrichment-related and reprocessing activities and cooperate fully with the IAEA's ongoing investigation. The world is still waiting for the Iranian government to take those steps.

To underscore the U.S. commitment to a diplomatic solution, the President authorized Secretary Rice on May 31 to announce that if Iran fully and verifiably suspends all of its enrichment-related and reprocessing activities, the United States will join the EU-3 (British, French, and German) negotiations with Iran to give diplomacy the greatest chance of success. This step would make possible the most significant negotiations involving the United States and Iran in over a quarter century.

On June 1, Secretary Rice agreed with our P-5+1 partners—France, Germany, Russia, China, and the United Kingdom—on a reasonable offer to the Iranian regime in the form of a package of positive and negative incentives to end its pursuit of nuclear weapons. On June 6, EU foreign policy chief Javier Solana conveyed to the Iranians the package on behalf of the P-5+1 countries. The P-5+1 is presenting a clear choice to the Iranian leadership—two paths that have vastly different consequences for the Iranian people. On one path, the Iranian regime would alter its present course by immediately resuming suspension of all enrichment-related and reprocessing activities, as well as full cooperation with the IAEA, and returning to implementation of the Additional Protocol. This path would lead to real benefits and longer-term security of the Iranian people, the region, and the world.

On the other path, the Iranian regime would maintain its pursuit of nuclear weapons in defiance of the international community and its international obligations. We and our international partners agree that this path will lead to greater international isolation and progressively stronger political and economic sanctions against Iran.

#### **Sponsor of Terrorism and Regional Ambitions**

A second critical U.S. and international concern is Iran's continuing role as a leading state sponsor of terrorism in the world and destabilizing role in Iraq, Afghanistan, Lebanon, and elsewhere. Iran provides money, weapons, and training to Hamas, Lebanese Hizballah, and Palestinian rejectionist groups—which undermines prospects for Israeli-Palestinian peace.

The groups Iran supports are some of the world's most deadly terrorist organizations, responsible for the killing of hundreds of innocents, including Americans. Hizballah caused more American deaths than any other terrorist organization until al-Qaida's attack on the United States in 2001.

We see continuing—and deeply troubling—indications of Iranian interference in Iraq, particularly its provision of weapons, training, and explosives-related components to militants who target Iraqis and Coalition forces in Iraq. We will continue to work closely with the new Iraqi government to address these and all issues related to Iraq's stability and security.

Iran also remains unwilling to render to countries of origin, bring to justice, or provide information on, senior al-Qaida members it detained in 2003. We call on the

Iranian regime to immediately turn over all al-Qaida related terrorists to appropriate jurisdictions, in accordance with its international obligations under U.N. Security Council Resolution 1267.

We have sanctioned Iran as a State Sponsor of Terrorism, and called for the regime to abide by the requirements of U.N. Security Council Resolution 1373 to deny safe haven to those who plan, support, or commit terrorist acts, and to affirmatively take steps to prevent terrorist acts by providing early warning to other states by exchange of information.

We also continue to urge other governments—including the European allies and Arab states of the Middle East—to press Iran on its support for and sponsorship of terrorism, and on its generally threatening behavior toward its neighbors. At the same time, we will continue to work with our friends and allies in the region to strengthen their defensive capacity, counterproliferation and counterterrorism efforts, and energy security capabilities.

### **State of Iranian Democracy and Human Rights**

As we work to end the threat posed by Iran's nuclear ambitions and sponsorship of terror, we are standing with the Iranian people in their aspirations for freedom. Iran is a vastly important nation and is home to one of the greatest civilizations of the world. Iran has a rich history, a vibrant culture, and has contributed much to civilization. Through the centuries, Iranians have achieved distinction in medicine, science, poetry, philosophy, and countless other fields.

Tragically, the hardliners in Iran have solidified their corrupt hold on the regime and its people—culminating in last June's flawed election of Mahmoud Ahmadinejad as its president. The regime's poor human rights record worsened throughout 2005 and has continued to deteriorate in the first half of 2006. Summary executions, disappearances, use of torture, and other degrading treatment remained a tragic reality. Juvenile offenders have been executed, and sentences of stoning continue to be handed down.

The regime has arrested and tortured pro-democracy protesters. Journalists and webloggers continue to be arrested and mistreated for publishing their views. In February the Iranian regime answered the pleas of Tehran bus drivers for better working conditions by sending paid thugs to beat them. Journalist and political activist Akbar Ganji spent nearly 6 years in prison for reporting on the murders of Iranian dissidents and for his advocacy of a secular Iranian republic. The Baha'i faith has been singled out for harsh treatment since before the Iranian revolution and lately has become subject to a new round of persecution, arrest, and harassment.

We oppose the regime's continued hostility toward its own people's efforts to have their voices heard. It is important that the ability of every person to criticize the government and contribute to the country's debates about the future be respected—regardless of where he or she lives. We are deeply saddened that this fundamental right is denied to the people of Iran. This is why the United States—in cooperation with the international community—is seeking to help Iranians to bring about peaceful democratic change, so the Iranian people can choose the government they want. They deserve no less.

We welcome Congress's partnership in this effort. For FY06—including the supplemental budget—Congress authorized \$76.1 million to support the cause of freedom and human rights in Iran. This includes \$30 million for democracy and human rights promotion, \$5 million for educational and cultural exchanges, \$5 million for public diplomacy efforts, and \$36.1 million for the Broadcasting Board of Governors' Persian-language broadcasting. We greatly appreciate Congressional support for this important priority.

Since FY04, with the support of Congress, we have awarded \$4 million to programs that support civil society and nongovernmental organizations. With the FY06 funding, we will expand outreach to Iranians who have never experienced a democratic government that respects the rule of law. We will foster development of respect for human rights and religious freedom, promote greater understanding of, and affinity for, Western culture and values, and provide the Iranian people unbiased sources of information.

We also plan to augment professional, cultural, sports, and youth exchanges to build bridges between our two nations. Our programs will bring hundreds of new Iranian visitors—including teachers, religious scholars, journalists, athletes, and musicians—to the United States.

We already reach out to Iranians through our Farsi language website, which had over 100,000 visitors from Iran last month. In addition, we plan to develop further cutting edge initiatives—what we call e-Diplomacy—to promote active connections between Iranians and Americans.

One such innovative outreach effort is our planned Virtual Gateway program. Content on the Virtual Gateway sites will include scheduled online chats with officials, academics, popular artists, actors and musicians, information on educational opportunities, accurate information about events inside Iran, and online consular services to ease the process for Iranian visa applicants.

Additionally, we will work with the Broadcasting Board of Governors to expand the quality and quantity of our Persian-language television broadcasting into Iran to penetrate Iran's government-dominated media in the short to medium term. While we look forward to the day when Iran's behavior will permit us to have normal diplomatic relations, we will not let this obstacle prevent us from reaching out to the Iranian people in the meantime.

### **Conclusion**

Let me conclude by thanking the Congress for the effort and interest that you have devoted to Iran, and for your support. As we move forward, we will need your help on a variety of fronts:

- To continue to support the Administration as we seek to stop Iran's pursuit of nuclear weapons, its support for terrorism, its harmful meddling in the affairs of the region, and end its repression of its own citizenry;
- To help our friends and allies protect themselves from the danger posed by Iran and the terrorists it sponsors and harbors;
- To reauthorize the Iran-related provisions in ILSA in their current form. Doing so will facilitate the strengthening of the broad global coalition that is already achieving real progress in addressing Iran's nuclear ambitions; and
- To remove references from the law to Libya—which is meeting its international commitments.

We are under no illusions about the difficulties we face in blocking Iranian ambitions in each of the areas I have outlined, and in rolling back Tehran's dangerous policies. But we are resolute in our determination to achieve a better, more democratic future for the Middle East and greater security for U.S. interests across the world. The challenge of dealing with an authoritarian Iranian regime has become entrenched over the course of an entire generation, and it may require a generational struggle to address it; but we have no choice but to do so in a serious, committed, and effective way.

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### **PREPARED STATEMENT OF PATRICK O'BRIEN**

ASSISTANT SECRETARY FOR TERRORIST FINANCE AND FINANCIAL CRIMES,  
DEPARTMENT OF THE TREASURY

JUNE 22, 2006

Chairman Shelby, Ranking Member Sarbanes, thank you for the opportunity to address you today on a very important issue that presents us with a tremendous challenge.

Iran is a state sponsor of terrorism that has demonstrated a reckless intention to support, facilitate, and direct global terrorist activity. In addition to its blatant sponsorship of global terror, Iran intends to acquire weapons of mass destruction. Exacerbating an already worrisome pattern of dangerous behavior was the election of hardline Iranian President Ahmadinejad in June 2005. His provocative comments about wiping Israel off of the map and Iran's continued activities to destabilize the region and pursue a nuclear weapons capability have heightened the world's concern.

We have been working very closely with our interagency counterparts to consider these threats and develop an appropriate strategy to confront them. Both terrorism and WMD proliferation require vast support networks through which money and material flow. The Treasury Department—working with its interagency partners—has unique tools to address this potent mix of money, terror, and WMD, and has been devoting considerable time and attention to addressing this Iranian threat.

We are now in a particularly crucial moment. The United States, the United Kingdom, France, Germany, Russia, and China have presented a package of incentives and disincentives to Iran to resolve the problem posed by the Iranian nuclear weapons program. As the President and Secretary of State have said, we are dedicated to resolving this issue diplomatically and will exhaust the diplomatic channel accordingly. But if the diplomatic path is not successful, the international community has a range of options to make clear that Iran's pursuit of nuclear weapons will come at the cost of its own isolation.

I would like to provide an overview of the various threats posed by Iran and the relevant authorities we have at Treasury, both with respect to proliferation and terrorism, and with respect to Iran in general.

### **The Threat Posed by the Iranian Regime**

The scope of Iran's perilous activity is enough to warrant significant concern. Iran's sponsorship of these activities is even more troubling because of the vast resources it has to facilitate this threatening conduct. Be it the spread of WMD, the funding of terrorist and militant groups in Lebanon, the Palestinian territories, and Iraq, Iran has the resources to invest substantially in violent projects. We are working steadily with the interagency community, to target the networks that move these funds and prevent them from abusing the integrity of the world's financial system.

#### *Nuclear Weapons Development and Missile Technology*

There is now widespread understanding that the Iranian regime is dedicated to acquiring a nuclear weapons capability, in addition to other kinds of weapons of mass destruction capabilities and the means to deliver them.

As a complimentary measure to the international diplomatic process to press Iran to end its pursuit of nuclear weapons, the Administration will continue to protect ourselves and our financial system against companies engaged in WMD proliferation, including those facilitating Iran's pursuit of WMD technologies. In June 2005, the President issued Executive Order 13382, aimed at undercutting firms involved in proliferation of WMD and their support networks. Proliferators traffic in expensive and sophisticated technologies, and depend heavily on international trade. The President's Executive Order authorizes us to cutoff proliferators and their supporters from the U.S. financial system and to encumber their international commerce.

E.O. 13382 authorizes the imposition of strong financial sanctions against not only WMD proliferators, but also against entities and individuals providing support or services to them. Designation under this Order prohibits all transactions between the designated entities and any U.S. person and freezes any assets the entities may have located under U.S. jurisdiction.

Since June 2005, the U.S. Department of the Treasury has designated six Iranian entities for their support of the proliferation of WMD and their missile delivery systems, including Iran's pursuit of nuclear weapons under the guise of a peaceful nuclear energy program:

- The Atomic Energy Organization of Iran (AEOI), which reports directly to the Iranian President, is the main Iranian institute for research and development activities in the field of nuclear technology, including Iran's centrifuge enrichment program and experimental laser enrichment of uranium program, and manages Iran's overall nuclear program.
- The Aerospace Industries Organization (AIO), a subsidiary of the Iranian Ministry of Defense and Armed Forces Logistics, is the overall manager and coordinator of Iran's missile program. AIO oversees all of Iran's missile industries.
- The Shahid Hemmat Industrial Group (SHIG) is responsible for Iran's ballistic missile programs, most notably the Shahab-3 medium range ballistic missile which is based on the North Korean No Dong missile. The Shahab-3 is capable of carrying chemical, nuclear, and biological warheads and has a range of at least 1500 kilometers. SHIG has received help from China and North Korea in the development of this missile.
- The Shahid Bakeri Industrial Group (SBIG) is an affiliate of Iran's AIO. SBIG is also involved in Iran's missile programs. Among the weapons SBIG produces are the Fateh-110 missile, with a range of 250 kilometers, and the Fajr rocket systems, a series of North Korean-designed rockets produced under license by SBIG with ranges of between 40 and 100 kilometers. Both systems are capable of being armed with chemical and possibly other types of warheads.
- The Novin Energy Company has transferred millions of dollars on behalf of the AEOI to entities associated with Iran's nuclear program. Novin operates within the AEOI, and shares the same address as the AEOI; and
- The Mesbah Energy Company is a state-owned company subordinate to the AEOI. Through its role as a front for the AEOI, Mesbah has been used to procure products for Iran's heavy water project. Heavy water is essential for Iran's heavy-water-moderated research reactor project, which when completed, could provide Iran the capability to produce plutonium for nuclear weapons.

Just this past week, we designated four Chinese companies and one U.S. representative office, which supplied Iran's military and Iranian proliferators with missile-related and dual-use components. No reputable company or institution should be doing business with these entities.

#### *Support for Terrorism and Violence*

Iran also actively sponsors terrorism and violence across the Middle East. The Islamic Revolutionary Guard Corps (IRGC) and Ministry of Intelligence and Security (MOIS)—both Iranian government bodies—are directly involved in the planning and support of terrorist acts by nonstate actors and continue to sponsor and train a variety of violent groups that act as surrogates on Iran's behalf.<sup>1</sup>

The Administration is or will, as appropriate, draw on all instruments of national power to combat the very real threat posed by Iran's sponsorship of terrorism. At Treasury, we are focused on the support networks, trying to identify and sever the lines of support that fuel terrorist activities. Stopping the money flows is particularly challenging in this instance, as Iran draws upon a large network of state-owned banks and parastatal companies, which is difficult to penetrate and thwart. We are also hampered by the fact that many of our key allies have yet to recognize Hizballah as a terrorist organization. Nevertheless, there remain opportunities for disruption, and we continue to pursue them vigorously.

#### **Broad Sanctions Against Iran**

At the Treasury Department, we have also been enforcing a set of far-reaching sanctions against Iran that have been in place since 1995. Pursuant to the Iranian Transactions Regulations, 31 C.F.R. Part 560 (the "ITR"), Treasury's Office of Foreign Assets Control (OFAC) administers commercial and financial sanctions against Iran that prohibit U.S. persons from engaging in a wide variety of trade and financial transactions with Iran or the Government of Iran. The term *U.S. person* means any U.S. citizen, permanent resident alien, entity organized under the laws of the United States (including foreign branches), or any person in the United States.

The ITR prohibit most trade in goods and services between the United States and Iran or the Government of Iran. U.S. persons are also prohibited from dealing in Iranian-origin goods overseas or in goods for export to Iran from third countries. Non-U.S. persons are prohibited by the ITR from reexporting controlled U.S. origin goods to Iran. However, the import and export of information and informational materials to and from Iran is exempt by statute. In addition, the Trade Sanctions Reform Act provides for specific licenses to be issued for the export of certain agricultural products, medicine, and medical devices to Iran.

Aside from the trade-related sanctions described above, the ITR prohibit any post-May 7, 1995 investments by U.S. persons in Iran. U.S. persons are also prohibited from facilitating transactions by third-country persons that could not be engaged in by U.S. persons themselves. Finally, the ITR prohibit U.S. persons from evading or attempting to violate any of the prohibitions contained in the ITR.

OFAC also maintains in effect the Iranian Assets Control Regulations, 31 C.F.R. Part 535 (the "IACR"), which governed the freezing of Iranian assets at the time of the hostage crisis. Pursuant to the 1981 Algiers Accords, most Iranian assets in the United States were unblocked and transferred to various escrow accounts. The IACR remain in effect to facilitate the resolution of claims before the Iran-U.S. Claims Tribunal in The Hague. Certain assets related to claims before the Iran-U.S. Claims Tribunal remain blocked in the United States and consist mainly of diplomatic and consular property.

#### *Private Sector Reaction*

Perhaps as important as governmental action is the response that we are seeing from the international private sector to the Iranian regime's destabilizing activities. As it witnesses firsthand the disturbing direction in which the Iranian regime seems to be headed, the financial sector has begun to reassess whether it is appropriate or prudent to do business with Iran. The words and signals coming out of Iran have led observers to worry about Iran as an investment arena and have prompted reputable members of the international financial community to curtail or cut ties with Iran altogether.

- In the international banking community, UBS ceased its activities with Iran. Credit Suisse announced that it would no longer establish new business relations with Iran. ABN Amro and HSBC have also curbed their dealings with Iran.

<sup>1</sup>Country Reports on Terrorism.

- Energy firms Baker Hughes, ConocoPhillips, and BP PLC have reportedly suspended dealings with Iran.
- In May, the Organization for Economic Cooperation and Development (OECD) downgraded Iran's credit rating for official credits and now assesses Iran at the same level of risk as countries with active insurgencies, such as Colombia and Sri Lanka.

These are just the decisions that have been publicly reported. Reputable institutions around the world are making quiet decisions to cut back or sever their dealings with Iran, having decided that they do not want to do business with this state sponsor of terror and proliferator. We in the government can inform this process by identifying specific threats that private firms might otherwise be unable to detect and protect against.

**Conclusion**

We are in a critical moment with Iran now. The Treasury Department along with all members of the U.S. Government, is lending its full support to the State Department's work to bring about a successful outcome to this recent round of multilateral efforts. In the meantime, we will continue to use our tools and leverage to dismantle networks that support terrorism and weapons proliferation, wherever they may be. We can not afford to alleviate any pressure on sponsors of terrorism and supporters of WMD proliferation, and we will continue to do everything in our power to deny these networks access to the financial system.