IRAN SANCTIONS: STRATEGY, IMPLEMENTATION, AND ENFORCEMENT

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IRAN SANCTIONS: STRATEGY, IMPLEMENTATION, AND ENFORCEMENT

THURSDAY, MAY 17, 2012

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The committee met, pursuant to notice, at 10 o'clock a.m., in room 2172 Rayburn House Office Building, Hon. Ileana Ros-Lehtinen (chairman of the committee) presiding.

Chairman ROS-LEHTINEN. The committee will come to order. After recognizing myself and the ranking member, Mr. Berman, for 7 minutes each for our opening statements on today's hearing topic, I will recognize the chairman and ranking member of our Middle East and South Asia Subcommittee for 3 minutes each for their opening statements. I will then recognize any member for 1-minute opening statements. We will then hear from our witnesses. Thank you, gentlemen.

And I would ask that you summarize your prepared statements into 5 minutes each before we move to the question and answers with members under our 5-minute rule.

Without objection, the prepared statements of the witnesses will be made part of the record, and members may have 5 days to insert statements and questions for the record subject to the length limitation in the rules.

I would like to point out that we are privileged and honored to have a distinguished group of Americans with us in the audience. They are the loved ones, the survivors from the terrible bombing of the Marine barracks in Beirut, Lebanon that occurred in October 1983 that resulted in 241 dead and we are working for justice for them. If you could stand up and let us applaud you. Thank you. Thank you, ladies and gentlemen, for joining us today.

The Chair now recognizes herself for 7 minutes for an opening statement.

Today's hearing is part of a broader oversight effort by the committee to examine U.S. policy options to address the Iranian threat. And this particular hearing will focus on U.S. policy and sanctions implementation and enforcement. Economic sanctions are inflicting damage on Iran's long-term oil production potential.

Continuous reinvestment in upstream production is required to offset a natural decline. Sanctions on Iran's oil industry and its banking system are curtailing foreign partnerships that the Iranian oil industry has relied upon.

With these trends in place, it is not unreasonable to contemplate the end of net oil export from Iran within a few years and its re-

sulting effect on government finances, on foreign exchange earnings, and presumably the larger economy. But much more remains to be done.

I am deeply concerned that the administration's foolish embrace of yet another round of negotiations will only embolden the regime. The administration has made already concession after concession in its negotiations with Iran only to come up empty handed.

The Iranian approach seems to be what is mine is mine, and what is yours is negotiable. Unfortunately, the administration seems to be playing along.

Last month the Los Angeles Times reported that U.S. officials are now willing to let Iran continue enriching uranium in the face of multiple U.N. Security Council resolutions demanding that Iran immediately halt uranium enrichment. Rather than embarking on this dangerous and foolhardy course, we must accelerate and expand our sanctions to compel the Iranians to verifiably and permanently abandon their dangerous policies.

We know what must be done, and today we are here to explore what additional measures we must take in order to achieve our vital national security objectives.

Ambassador Wallace, thank you for joining us today. I would greatly appreciate your views on what additional measures we can take to prevent insurance and reinsurance companies that operate in the U.S. from providing services to entities that facilitate Iran's ability to trade or develop its energy and infrastructure projects. Also, what specific disclosure requirements are currently required? Have they been implemented, and what additional measures can and should we pursue? What additional measures beyond sanctioning the National Iranian Tanker Corporation do you recommend taking to effectively sanction the Iranian energy sector, both crude oil and downstream petrochemical products?

Additionally, we have previously discussed the idea of mandating that automakers receiving Federal Government contracts must certify with the U.S. Department of Transportation that they are not engaged with business in Iran, or engaged in the implementation of any agreement with Iranian entities. So, if you could elaborate on your estimates of the impact that this action would have on the coffers of the regime.

And, Mr. Dubowitz, thank you also for joining us with your smashed shoulder and all. And I would greatly appreciate your thoughts on two specific issues. With respect to sanctions against Iranian shipping, you state in your testimony, "Sources reveal that China, in the past few weeks, has engaged in covert purchases of Iranian oil estimated to be about 1 million barrels in excess of their committed purchased volumes under agreement between Chinese traders and the national Iranian Oil Company." You said, "This may be one reason for the Iranian decision to turn off ship locating systems so that Western authorities cannot track those shipments." And lastly, you state, "Iran may also be reluctant to expose the extent of their floating storage, which is a sign of the difficulty they may be facing in selling their oil."

Now, Iranian tankers have been turning off their onboard vessel tracking systems even though the International Maritime Organization requires that those systems stay on. Can multilateral ac-

tions be taken against the National Iranian Tanker Company to penalize Iran for its activities? And what specific role does the National Iranian Tanker Company play within the IRGC supply chain?

And, additionally, you recommend that the United States pass measures to establish the U.S. as an Iranian oil-free zone to provide U.S. leverage in enforcing the EU oil embargo. What is the projected impact of this course of action on the regime's finances? And could you also comment on the possible impact of integrating prohibitions on the purchases of Iranian oil futures contracts into the Iranian Sanctions Act structure?

And, Mr. Takeyh, you make the cogent observation in your written testimony that a multi-staged diplomatic process plays into the Ayatollah's inclination to simply muddle through, or to quote you, "as he can trade some modest compromises for a measure of sanctions relief." You add that this helps the regime protect the essential aspects of its nuclear program while gaining some breathing room. If you could expand upon your statement, and what modest compromises do you believe the Iranians will attempt to trade for this actions relief? What are the essential aspects of the nuclear program, and what measures do you recommend that congress take to counter these efforts?

Unfortunately, time is of the essence, and this year may mark our last chance to prevent Iran from crossing the nuclear threshold. History has taught us that failing to act, and relying on hope, when threatened by a deadly foe like Iran, usually ends in an avoidable tragedy.

Iran's nuclear weapons program, its unconventional and ballistic missile development programs, and its political and military involvement across the Middle East and South Asia, and indeed in our own hemisphere, is a force to be reckoned with. We must take the necessary measures through sanctions development, implementation and enforcement that will finally address the threat posed by the Iranian regime.

Again, I thank you gentlemen for appearing before the committee today. I look forward to your testimony.

I now turn to my good friend, the ranking member, Mr. Berman of California.

Mr. BERMAN. Well, thank you very much, Madam Chairman, for calling this timely hearing on Iran sanctions. In less than 1 week, representatives of the five permanent members of the U.N. Security Council and Germany, the so called P5+1, will meet with Iranian negotiators in Baghdad in pursuit of a resolution to the ongoing nuclear problem.

The administration has appropriately pursued a two-track approach, diplomacy and pressure. Those tracks are supposed to be mutually reinforcing, but most people agree that it is the pressure track that has brought Iran back to the table.

The point of sanctions has always been an effort to change Iran's calculus in pursuing a nuclear weapons program. Without rigorous enforcement, sanctions have no value. Let us be clear, the Obama administration has done far more than any previous administration to implement U.S. sanctions and to build support for multilateral sanctions.

For more than a decade we urged successive administrations to follow the law and implement sanctions against energy companies that invest in Iran, but to no avail. Now, with the implementation of CISADA, all of the major oil companies have ceased developing energy fields in Iran. The EU is about to implement a boycott on the purchase of Iranian crude, and Tehran is finally financially isolated, reduced in some cases to signing barter agreements in order to sell its oil.

The administration has rallied the international community, and especially the European Union, to tighten its sanctions against Iran's nuclear weapons program in an unprecedented fashion.

As we all know, congressional focus on sanctions has been crucial in this regard with this committee leading the way. That said, the administration has yet to use all the tools at its disposal. The sanctions have had an impact on Iran's economy, but they are still far from crippling. With oil prices so high, Iran is still expected to earn significant oil revenue this year.

In addition, some nations have not been as helpful as they should be in terms of enforcing sanctions. Take China, for example. Chinese oil companies continue to buy Iranian oil. Chinese Oil Services Company is still helping Iran develop its oil fields. Chinese banks continue to finance sanctionable transactions with Iran, and Chinese shipyards are building oil tankers for Iran. It is time, in fact, it is long past time to impose sanctions on the entities involved in these activities.

Last year this committee marked up and the House passed the Iran Threat Reduction Act which strengthens our sanctions regime in several ways. For example, it would ban foreign subsidiaries of American firms from engaging in commerce with Iran, just like their American parent companies. But if we are to persuade Iran to suspend uranium enrichment and end its quest for nuclear weapons, we must do more than pass legislation. That legislation must also be implemented and enforced.

With regard to negotiations, the most immediate goal of the talks must be to turn back the nuclear clock to set back Iran's timetable for achieving nuclear weapons capability. Some have suggested the possibility of an interim agreement where Iran would agree to ship out its most highly enriched uranium and agree to close its underground bunker facility near Qom, Fordo, which is set up for production of high-grade enriched uranium and may be virtually impervious to conventional military attack.

That would be a useful start, but I think it is important to make clear that such an agreement would not warrant the easing of sanctions. And most importantly, I believe we should not compromise on the fundamental goal demanded by the Security Council six separate times since 2006, that Iran fully suspend its uranium enrichment.

In a New York Times article earlier this week, an Iranian advisor to Supreme Leader Khamenei gloats that the Iranian regime through sheer passage of time has won Western acquiescence to its uranium enrichment program. The headline of the article which accurately characterized the official's view was, "Iran See Success in Stalling on Nuclear Issue."

The official posted that Iran has "managed to bypass the redlines the West has created for us." Well, we need to make clear that Iran is not going to wear us down. We are going to insist on full and sustained suspension of enrichment. We are going to demand that Iran answer all of the outstanding questions about the history of its nuclear weapons program; questions asked repeatedly by the International Atomic Energy Agency, questions that Iran has been stonewalling for years. We are going to insist on far more intrusive inspections; otherwise, we will keep moving forward with stronger and tougher sanctions.

I am eager to hear the witnesses' assessments as to how effective the current sanctions regime is, how effectively the sanctions have been implemented, and what other sanctions we in Congress should pursue. But most of all, I would like to hear their thoughts on whether and how the sanctions are achieving our primary goal, ending Iran's nuclear weapons program once and for all.

I yield back, Madam Chair.

Chairman ROS-LEHTINEN. Thank you very much, Mr. Berman. Please yield 3 minutes to the chairman of the Subcommittee on the Middle East and South Asia, Mr. Chabot of Ohio.

Mr. CHABOT. Thank you, Madam Chairman, for calling this timely and important hearing. I look forward to hearing the testimony of the witnesses here today.

I remain very skeptical about the administration's current policy which continues to be a combination of engagement and pressure. The theory, as I understand it, is that if we are able to put enough pressure on the Iranian regime, not the people but the regime, we may be able to alter its calculation, and either entice it or coerce it into negotiating away the nuclear program that it continues to pour resources into.

We are, however, now over 3 years into this policy, and as far as I can tell, the regime is no closer to complying with its international obligations. Nevertheless, the administration continues to pursue this questionable policy, the next chapter of which will play out in 6 days at the next round of negotiations.

I don't think I am alone when I say that I will not be holding my breath for a breakthrough, at least not a real one, but I am concerned that the administration is so desirous of progress that it may end up manufacturing through unwise concessions something it can parade around as success.

Along these lines, I was deeply disturbed to read recently that according to one report the administration "might agree to let Iran continue enriching uranium up to 5 percent purity." The Non-Proliferation Treaty may give its signatories the right to peaceful nuclear energy, but it does not give them the right to the full nuclear fuel cycle, including domestic enrichment.

Allowing Iran to enrich on its own soil even with the appropriate safeguards would allow the regime to continue to stockpile low-enriched uranium and would bring it ever closer to a breakout capability. Just this morning I read a report which suggests that Iran is installing additional centrifuges at an underground facility.

As one analyst recently noted, getting within weeks of acquiring a bomb by making nuclear fuel, especially when doing so is uneco-

nomical and is now tactically required in order to produce nuclear power ought not to qualify as peaceful nuclear energy.

As I have said before, it is my belief that Iran's nuclear program is a symptom of the disease rather than the disease itself. I want to be clear, Iran's illicit nuclear program is a paramount challenge to U.S. core national security interests and it must be addressed. But to speak of a nuclear program independently of the regime which pursues it is to put the cart before the horse. A nuclear program is not in and of itself what makes the regime nefarious, it is the perverse nature of the regime that makes the nuclear program so dangerous. And it is my belief that any regime that threatens to wipe Israel off the map or so wantonly shirks its international obligations cannot be allowed to enrich on its own soil.

As we sit here today, Iran's centrifuges continue to spin and the regime inches closer to a nuclear weapons capability. That we would permit this is anathema to me, and I yield back.

Chairman ROS-LEHTINEN. Thank you very much, Mr. Chabot. Honored to yield 3 minutes to the ranking member of the same subcommittee, Mr. Ackerman of New York.

Mr. ACKERMAN. I think it important that we consider the context in which both the upcoming P5+1 negotiations and the sanctions are taking place.

There has been bipartisan concern about this issue since the 1990s. Some of us here voted on a bipartisan basis for the first sanctions investment in Iran's petroleum sector, and we have been working together on this committee to strengthen those sanctions ever since.

Bipartisan frustration regarding the implementation of those sanctions by the Clinton and Bush administrations culminated almost 2 years ago with the passage of the Comprehensive Iran Sanctions Accountability Divestment Act which significantly boosted pressure on Iran.

But more than just supporting CISADA, the Obama administration broke with its predecessors which, unfortunately, viewed further U.S. sanctions an unwelcome impediment. In contrast, the Obama administration, wisely in my view, embraced sanctions as a critical element of a comprehensive strategy, and skillfully unified the international community as never before behind our policy of seeking to engage Iran while also cranking up serious pressure on the Ayatollah's regime to back down.

The Obama administration has worked to make sanctions more effective by improving U.S. enforcement, enhancing international participation and successfully moving a Sanctions Resolution, one with further unilateral sanction supporting language through the United Nations Security Council.

Previously, we had painless sanctions, feckless negotiations, and no real leverage. Iran was seen as a rising power in the Middle East and the United States was seen as failing in a morass of endless war in Iraq and Afghanistan.

Today, the picture is nearly 180 degrees reversed and that is no accident. While our economy continues to add jobs, Iran's economy has been choked by sanctions that are only getting stronger, and the bottom has fallen out of their currency.

Rather than being mired in Iraq, we have successfully disengaged militarily. We are reducing our liabilities in Afghanistan, far from being viewed as the vanguard of a new Middle East built upon the so called axis of resistance, Iran has made itself the enemy of the Arabs by aiding the Assad regime's slaughter and terror.

Admittedly, I have low expectations for the upcoming negotiations, but only because I have such low expectations of Iran's leaders. Unfortunately, I think they would rather see their own country fail than accept any deal, no matter how reasonable. But even though I doubt Iran will negotiate in good faith, I believe we must continue as we have by strengthening, sharpening, and broadening sanctions, by improving international cooperation on their enforcement, and by insuring that we have a truly viable military option so that no matter what Iran absolutely does, not acquire a nuclear weapons capability. The bottom line is that, and the mullahs need to know it.

Chairman ROS-LEHTINEN. Thank you so much, Mr. Ackerman.

We will now move to the 1-minute statements by our members. Pleased to yield to Mr. Smith, the chairman of the Subcommittee on Africa, Global Health, and Human Rights.

Mr. SMITH. I thank my good friend, the distinguished chair.

Madam Chair, a nuclear weapons capable Iran poses an unprecedented and absolutely unacceptable threat to Israel, its neighbors, the United States, Europe, the world. Some have naively suggested that the Mutually assured destruction Theory or MAD theory that mitigated the threat of nuclear annihilation with the Soviet Union is somehow applicable to a nuclear Iran. It isn't. Unlike Moscow's penchant for survival, the Iranian dictatorship savors, even welcomes individual and mass suicide as somehow noble and worthy of eternal paradise.

I congratulate Chairman Ros-Lehtinen and the ranking member Howard Berman for working tirelessly to strengthen sanctions, especially the potentially most effective sanction of all, shutting down Iran's banking capabilities.

In his testimony, Ambassador Mark Wallace says, "First we must fully end Iran's access to international banking system." I couldn't agree more.

Chairman ROS-LEHTINEN. Thank you. Mr. Sherman, the ranking member on the Subcommittee on Terrorism, Nonproliferation, and Trade.

Mr. SHERMAN. I agree with Mr. Chabot that non-nuclear states do not have the right to the full fuel cycle under the NPT, but with Iran, there is another reason; they are already a violator of the NPT and should not be allowed to enrich.

It is said that this administration has done more than prior administrations. That is way too low a standard. It is like we used to have the record spinning at 33 revolutions for an LP, and now we have adjusted it up to that old 78. The centrifuges spin at 90,000 revolutions per minute, and we have to have sanctions that move just as fast.

We need, and I hope to have co-sponsors in this committee of my bill to punish those banks in swift, that do not vote for the complete shutoff of all Iranian banks from the inter-bank communica-

tion system, and it is time for the administration to sanction all Iranian banks, not just the Central Bank. There is so much more we could do and so little time to do it. I yield back.

Chairman ROS-LEHTINEN. Thank you, sir. Mr. Rohrabacher is recognized, chairman of the Subcommittee on Oversight and Investigations.

Mr. ROHRABACHER. Thank you very much, Madam Chairman. Thank you for holding this hearing.

It is time for us to admit that our strategy about Iran, a nuclear armed Iran, is not working. I mean, here we are. It just keeps getting worse and worse, closer and closer to the time when Iran, these mullah, the crazy mullah regime will have a nuclear weapon.

We have focused actively on China, on our allies, on U.S. corporations, we have focused on economic sanctions, diplomatic pressures, negotiations with the mullahs themselves, but we left out the significant player who could make the difference, how about the Iranian people? This administration has been noticeably quiet when the first Arab Spring demonstrations happened where, in Tehran. We didn't even give them any support. We haven't supported any of those elements in Iran. We are willing to fight against the mullah regime. That would be the most successful strategy, but yet we have been talking about China trying to enlist our allies, doing everything but going to the people and forming an alliance with those people who could make a difference. Thank you very much, Madam Chairman.

Chairman ROS-LEHTINEN. Thank you. Mr. Sires of New Jersey is recognized.

Mr. SIRES. Madam Chair, I don't have a statement at this time.

Chairman ROS-LEHTINEN. Thank you very much. Mr. Murphy of Connecticut.

Mr. MURPHY. Thank you, Madam Chair. During the 5 to 10 years before President Obama took office, we didn't stand still, we went backwards. During that period of time year by year the balance of power tipped every year in favor of Iran. Why? Because we decided to empower Iran by fighting an unjustified war in Iraq that essentially elevated their presence in the region. By being distracted both in the war in Iraq, and by mismanaged war in Afghanistan we essentially pursued absolutely no policy of sanctions, no policy of multi-lateralism. In fact, the Bush administration didn't enforce one single sanction against Iran during their time in office.

So, the historical context for this hearing is important because over the past 3 years, the Obama administration has done something different. They have engaged the international community. They have put in place sanctions that have never been tougher, and they have pursued a policy backing it up to talk to the Iranians about something different, a way forward that is different. That is the historical context that this hearing takes place in today.

Chairman ROS-LEHTINEN. Thank you so much. Mr. Joe Wilson of South Carolina.

Mr. WILSON. Thank you, Madam Chair. I am particularly appreciative of the survivors of the Beirut barracks bombing. I want to thank you for being here. What a tribute to your loved ones, persons on October 23rd, 1983, 241 U.S. Marines, sailors and soldiers were killed clearly by an Iranian attack. The American people need

to remember this. Sadly, so many people have forgotten. But thank you for being here. The American people need to know that the resulting explosion was the largest non-nuclear explosion ever detonated on the face of the earth. It was a force of 15 to 21,000 pounds of TNT.

The court ruling of 2009 made it clear that because of the Iranian connection with Hezbollah, that there was no question that the material and technical support was from the Iranian Government.

Thank you for being here. Thank you for reminding the American people. We must not repeat this. I agree with Congressman Rohrabacher, we need to be encouraging the people of Iran to encourage change, and there has been a failure by this administration. Thank you, Madam Chair.

Chairman ROS-LEHTINEN. Thank you, sir. Mr. Deutch of Florida.

Mr. DEUTCH. Madam Chairman, I would like to thank you and Ranking Member Berman for your leadership and your commitment to preventing a nuclear Iran. And thanks for our witnesses whom I have had the pleasure of working with on this issue.

In the last 3 years, the U.S. has gone from having essentially no impactful sanctions policy to the most robust targeted Iran sanctions program in the world, and we have amassed a broad international coalition of partners. We are finally seeing sanctions severely strangle the Iranian economy, but we can and we must do more.

I encourage the administration to stay the course and proceed with the implementation of crude export sanctions at the end of next month. I, along with several of my colleagues on this committee have proposed additional legislation to strengthen sanctions even further, and I hope the Senate moves forward with its new package today.

Madam Chairman, we cannot allow the Iranian regime to use negotiations simply to buy time while thousands of centrifuges continue to spin.

I look forward to the testimony of our witnesses, and I yield back.

Chairman ROS-LEHTINEN. Thank you very much. Mr. Turner of New York.

Mr. TURNER. Thank you, Madam Chair. If the purpose of the sanctions is to stop the Iranian nuclear weapons program, I would be anxious to hear what our witnesses have to say about the efficacy of this program, particularly in view of the timeline. By year end, we expect a weaponization program. Which do you think will work, sanctions or will the Iranians win on the time? I yield back, thank you.

Chairman ROS-LEHTINEN. Thank you. Mr. Meeks, the ranking member on the Subcommittee on Europe and Eurasia.

Mr. MEEKS. Thank you, Madam Chair, for convening this timely hearing on Iran sanctions.

Let me just say that I strongly support and supportive of President Obama's efforts to establish what is unprecedented international sanctions against the regime of Iran. In order for sanctions to be successful, first you have to have a coalition of individuals. You know, you do certain things on a bilateral or unilateral

basis, generally that means you can pass all the sanctions you want. It will not have the intended effect. The way to be successful is to make sure you do it on a multilateral effort.

What the Obama administration has been doing that has been successful is now they have brought in a number of our European allies who I also want to congratulate, who have implemented wide-ranging sanctions despite even difficult economic situations that they are in. This is a real achievement, I think, for the Obama administration and for the rest of the world, as now everyone can be focused and united to make sure that Iran does not a nuclear weapon. This is not about containment, it is about making sure they do not obtain a nuclear weapon.

Chairman ROS-LEHTINEN. Thank you, sir. Mr. Marino of Pennsylvania.

Mr. MARINO. I have no statement.

Chairman ROS-LEHTINEN. Thank you. Mr. Bilirakis of Florida. Thank you. Mr. Connolly of Virginia.

Mr. CONNOLLY. Thank you, Madam Chairman. I think we need to be careful as Members of Congress that we don't talk ourselves out of a very strenuous and robust sanctions regime to bring Iran to the table and to resolve the issue of its nuclear capability.

The fact of the matter is, and I respectfully disagree with my friend, Mr. Berman from California, and Mr. Rohrabacher from California. I don't think we have ever seen a sanctions regime as strict and as tightly controlled as we are seeing under the Obama administration with respect to Iran.

There is mounting evidence it is working. It is working in cutting off its ability to supply oil to its customers. It is working in terms of the banking system and its access to credit. It is working in terms of mounting domestic pressure within Iran among consumers and among the people of Iran who are seeing the negative consequences of this folly. And I think the Obama administration deserves credit and a little more time to make it all come home. I thank the chair.

Chairman ROS-LEHTINEN. Thank you very much. And now the Chair is pleased to welcome our witnesses. We will start with Ambassador Mark Wallace, who is the chief executive officer, co-founder and former president of United Against Nuclear Iran. He is also the CEO of Tigris Financial Group.

Ambassador Wallace previously served as our Ambassador to the U.N. in the field of management and reform. How did that work out? He also served as principal legal advisor to the Bureau of Immigration and Customs Enforcement, and the Bureau of Immigration and Citizenship Services in the Department of Homeland Security. Welcome, sir.

Mr. Mark Dubowitz is the executive director of the Foundation for Defense of Democracies where he is the head of FDD's Iran Energy Project, and directs its Iran Human Rights Project. He is also a principal at the Iran Advisory Group. Mr. Dubowitz previously served in software management as director of International Business Development in Double Click. Thank you, sir.

And lastly, we will hear from Ray Takeyh. He is a former—he is a senior fellow for Middle Eastern Studies at the Council of For-

eign Relations. Dr. Takeyh is also an adjunct professor at the Center for Peace and Security Studies at Georgetown.

Before that, he was a professor at the National War College, and at the National Defense University, as well as a fellow at Yale, and the Washington Institute for Near East Policy. He recently contributed to the work of the special advisor for the Gulf and Southwest Asia at the Department of State. Welcome.

I would like to kindly remind our witnesses to keep your testimony to no more than 5 minutes. And without objection, the witnesses' entire written statements will be inserted into the hearing record. And we will begin with you, Ambassador Wallace.

STATEMENT OF THE HONORABLE MARK D. WALLACE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, UNITED AGAINST NUCLEAR IRAN (FORMER UNITED STATES REPRESENTATIVE TO THE UNITED NATIONS FOR MANAGEMENT AND REFORM)

Ambassador WALLACE. Thank you, Madam Chairman. Madam Chair, Congressman Berman, distinguished members of the committee, it is an honor to have the opportunity to appear before you again today to discuss what is unquestionably the most serious national security challenge confronting the United States. Thank you for having me, and I would like to acknowledge the important work of my colleagues on the panel, Mark and Ray.

I am proud that my colleagues from UANI are here today, David Ibsen and Lara Pham. They and their other UANI colleagues do the hard important work so well. I must acknowledge the UANI Advisory Board and the intimate role they play in our work, including prominent foreign policy experts such as Graham Allison, Les Felb and Fouad Ajami, and former government officials like former CIA Director, Jim Woolsey, former Homeland Security Advisory, Fran Townsend, former head of the Mossad Meir Dagan, former head of the German Intelligence Service, Dr. August Hanning, and the former head of the United Kingdom's MI6, Sir Richard Dearlove, among many others. I am lucky to have colleagues like UANI's president, Kristen Silverberg, and European partners in the London-based Institute for Strategic Dialogue.

The international and transatlantic character of our organization is a testament to the consensus belief that a nuclear armed Iran is the preeminent global security challenge. The threat of a nuclear armed Iran is difficult to overstate. If Iran acquires nuclear weapons, the threat environment that the United States faces will be changed in dramatic, fundamental, and irrevocable ways.

With bold action, we still have an opportunity to thwart Iran's nuclear ambitions. We must seek the most robust sanctions in history. And we must consider much more than tweaks to current sanctions. We have made real progress. The U.S. and EU passed financial sanctions against Iran's central bank and pressured SWIFT to bar Iranian bank access to the international banking system. And, of course, the very important decision by countries to either ban or significantly curtail oil imports from Iran has been a very key development.

The consequences to Iran have been significant. Iran's rial, its currency, has been in free fall, a reliable indicator of the economic impact of sanctions.

This committee has been at the forefront in championing sanctions, and I would like to discuss some concepts for consideration to achieve an economic blockade of Iran.

Our proposed strategy focuses on four areas; namely, banking, insurance and reinsurance, disclosure and debarment, and shipping. We give it an acronym called BIDS, B–I–D–S.

First, we must fully end Iran's access to the international banking system. All Iranian financial institutions and banks should be sanctioned, and there should be no exceptions to the areas of prohibited banking activity. Moreover, any institution that engages in sanction work-arounds, including participating in elaborate barter-type arrangements should be penalized and sanctioned.

Second, we must increase pressure on Iran through the insurance sector. Insurance and reinsurance companies that operate in Iran should be identified and prohibited from doing business in the United States, and precluded from entering into insurance or reinsurance agreements with any entities in the United States.

Third, companies that avail themselves of U.S. capital markets should be required to disclose the business that they conduct in Iran and with Iranian entities, not limited just to the energy sector or after some threshold amount. And if a company conducts business in Iran, any type of business, it should not be eligible to receive U.S. Government contracts.

Finally, international cargo and crude shippers that service Iranian ports should be barred from docking in U.S. ports for 10 years. Vessels arriving in U.S. ports should certify that they have not docked at an Iranian port, or carried Iranian crude oil, or downstream petrochemical products in the previous 36 months. Some vessels have also worked to conceal their movements including by disabling their GPS tracking devices, and thus are actively facilitating the illegal practices of the Iranian regime. Such violations should result in permanent bans from U.S. ports.

Some may say that the above measures are too hard, particularly on the Iranian people, while others will say that it is too late for economic pressure, and that the only option is a military one. But Iran's economy is controlled by the regime and the IRGC which profit at the expense of the Iranian people. This regime will never change course due to half-measures. As for the other argument, I cannot under oath with certainty, state with certainty that sanctions and pressure will finally compel the Iranian regime to change course. But before we would take military action against Iran, we should be willing to test the most robust sanctions in history. Doing so will show the regime that we are serious, committed, and willing to do what is necessary to stop Iran's pursuit of a nuclear weapon, but we must act, and act now.

Thank you for allowing my longer statement to be submitted for the record. It includes our detailed BIDS proposal that we hope may achieve an economic blockage of Iran, and it is an honor to be here today, particularly before the survivors of the 1983 attacks in Beirut, something that we all so frequently talked about as one of the reasons why we should oppose a nuclear armed Iran. But to

have these people in this room, it is an honor for me to be here. Thank you, Madam Chairman.

[The prepared statement of Ambassador Wallace follows:]

U.S. House Committee on Foreign Affairs

"Iran Sanctions: Strategy, Implementation, and Enforcement"

May 17, 2012

The Honorable Mark D. Wallace

Chief Executive Officer, United Against Nuclear Iran

Testimony for the Record

Thank you Madame Chairman. Madame Chair, Congressman Berman, distinguished members of the Committee, it is an honor to have the opportunity to appear before you again today to discuss what is unquestionably the most serious national security challenge confronting the United States. Thank you for having me, and I would like to acknowledge the important work of my colleagues on the panel, Mark Dubowitz and Ray Takeyh.

The threat of a nuclear-armed Iran is difficult to overstate. If Iran acquires nuclear weapons, the threat environment that the United States faces will be changed in dramatic, fundamental and irrevocable ways.

I am proud that my colleagues from UANI are here today – David Ibsen, Lara Pham and Mark Groombridge. They and their other UANI colleagues do the hard important work so well. I must acknowledge the UANI Advisory Board and the intimate role they play in our work, including prominent foreign policy experts such as Graham Allison, Les Gelb and Fouad Ajami, and former government officials including former CIA Director Jim Woolsey, former Homeland Security Advisor Fran Townsend, former Mossad Chief Meir Dagan, former head of the German Intelligence Service Dr. August Hanning, and former head of the United Kingdom's MI6 Sir Richard Dearlove among many others. I am lucky to have colleagues like UANI President Ambassador Kristen Silverberg and European partners in the London-based Institute for Strategic Dialogue.

The international and transatlantic character of our organization is a testament to the consensus belief that a nuclear armed Iran is the preeminent global security challenge.

With bold action, we still have an opportunity to thwart Iran's nuclear ambitions. We must seek the most robust sanctions in history, and we must consider much more than tweaks to current sanctions. We have made real progress. The U.S. and EU passed financial sanctions against Iran's central bank and pressured SWIFT to bar Iranian banks' access to the international banking system. And, of course, the very important decision by countries to either ban or significantly curtail oil imports from Iran has been a key development. The consequences to Iran have been significant. Iran's rial has been in free-fall, a reliable indicator of the economic impact of sanctions.

This Committee has been at the forefront in championing sanctions, and I would like to discuss some concepts for consideration to achieve an economic blockade.

Our proposed strategy focuses on four areas, namely **B**anking, **I**nsurance and Reinsurance, **D**isclosure and Debarment and Shipping ("**BIDS**").

First, we must fully end Iran's access to the international banking system. All Iranian financial institutions and banks should be sanctioned, and there should be no exceptions to the areas of prohibited banking activity. Moreover, any institution that engages in sanction workarounds including participating in elaborate "barter" arrangements should be penalized and sanctioned.

Second, we must increase pressure on Iran through the insurance sector. Insurance and reinsurance companies that operate in Iran should be identified and prohibited from doing business in the U.S. and precluded from entering into insurance or reinsurance agreements with any entities in the U.S.

Third, companies that avail themselves of U.S. capital markets should be required to disclose the business that they conduct in Iran and with Iranian entities – not limited to the just the energy sector or after a threshold amount. And, if a company conducts business in Iran, any type of business, it should not be eligible to receive U.S. government contracts.

Finally, international cargo and crude shippers that service Iranian ports should be barred from docking in U.S. ports for 10 years. Vessels arriving in U.S. ports should certify that they have not docked at an Iranian port or carried Iranian crude oil or downstream petrochemical products in the previous 36 months. Some vessels have also worked to conceal their movements including by disabling their GPS tracking devices, and thus are actively facilitating the illegal practices of the Iranian regime. Such violations should result in permanent bans from U.S. ports.

Some may say that the above measures are too hard, particularly on the Iranian people, while others will say that it is too late for economic pressure and that the only option is a military one. But Iran's economy is controlled by the regime and the IRGC which profit at the expense of the Iranian people. This regime will never change course due to half-measures. As for the other argument, I cannot under oath state with certainty that sanctions and pressure will finally compel the Iranian regime to change course. But before we would take military action against Iran, we should be willing to test the most robust sanctions in history. Doing so will show the regime that we are serious, committed, and willing to do what is necessary to stop Iran's pursuit of a nuclear weapon. But we must act and act now.

In the interest of time, I would ask that my longer statement be submitted for the record.

Thank you Madame Chair and you Congressman Berman and all members of this Committee for your great and important work in this area. I look forward to your questions and comments.

As part of UANI's BIDS strategy, we have proposed model legislation that we hope will assist this Committee its Iran sanctions. Attached are (1) the "Iran Financial Disclosure and Sanctions Act of 2012," (2) the "Iran Insurance and Reinsurance Certification and Sanctions Act of 2012," (3) the "Iran Transparency and Accountability Act of 2012," and (4) the "Sanctioning Shippers to Iranian Ports Act of 2012" or the "SSHIP Act of 2012."

Previously and complimentary to the UANI BIDS proposal, UANI has developed and proposed model legislation and regulations at both the federal and state level. One area that we believe has been particularly impactful has been to use the purchasing power of the federal government and the U.S. state governments to compel international businesses to choose between doing business with the United States and the individual states or Iran. Economic imperatives make such a choice clear – leave Iran.

Members of this committee are well aware that in the past two years, the U.S. Congress has worked to pass milestone legislation, including the *Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010* ("CISADA"). As you know, a key provision of CISADA requires that companies that hope to procure federal government contracts must first certify that they do not do business in Iran. Several individual U.S. states, with the inspiration of CISADA, have followed through with their own respective debarment legislation. In the last 18 months, California, Florida, Indiana, Maryland and New York have all passed legislation that mirrors the certification and debarment principles of CISADA. As a result of these measures, contractors at the federal and state levels face debarment from government procurement lists and ineligibility for lucrative government contracts if they do business in Iran. UANI is working closely with other states to pass similar legislation.

In addition, as many members of this Committee are aware, UANI has long advocated for companies to publicly disclose their work in Iran. For far too long, companies have been able to continue to pursue short-term profit in Iran while avoiding the potential reputational damage of such business. The *Iran Transparency and Accountability Act* ("ITAA"), introduced by members of this Committee (Representative Ted Deutch), based on UANI's proposed Securities and Exchange Commission ("SEC") disclosure concepts, has been included in the *Iran Threat Reduction Act*. The ITAA will redefine all Iran business as 'material' and require all publicly traded companies availing themselves of U.S. capital markets to disclose the nature and extent of their Iran business in their public disclosure filings. The moment companies are forced to disclose their Iran business is the moment that they will begin planning their exit. The risk of reputational harm from doing business in Iran is too great.

Our legislative proposals are guided by our years of experience in pursuing our 'private sanctions' campaigns.

I am proud of UANI's work and believe that UANI has achieved some important and notable campaign successes. The effort to stop Iran from acquiring a nuclear weapon is a shared challenge for all responsible entities and concerned individuals, not just governments. To this end, UANI has worked to publicly reveal companies that operate in Iran and how their Iranian business activities are detrimental to advancing the important foreign policy goals of the United States and the international community. We call on these businesses to end their work in Iran.

Absent economic support from international businesses, the Iranian regime would not have the financial wherewithal to develop a nuclear weapon, repress its own citizens and support terrorism. UANI has led numerous campaigns that have successfully compelled international businesses to end their work in Iran.

UANI's 'private sanctions' campaigns (and legislative and regulatory initiatives) are based on the premise that companies doing business in Iran expose themselves, their partners, affiliates and shareholders to grave reputational risk. Most companies that do business in Iran do so as quietly and confidentially as possible. In the spotlight of UANI campaigns, the reputational and fiduciary risks become too great for responsible businesses to continue.

Many notable American and multinational firms have begun to scale back their work or have withdrawn from Iran in response to UANI. General Electric, Caterpillar, Siemens, Ingersoll Rand, KPMG, Huntsman, Huawei, Hitachi, Porsche, Bobcat, Komatsu, Standard Chartered Bank, Banque de Commerce et de Placements, Eaton Corporation, ABB, Layher, Transammonia, KGL, Royal Dutch Shell are key examples.

Several UANI campaigns deserve special attention. While UANI's focus is on Iran's nuclear weapons program, we recognize that the protection of basic human rights remains a critical issue if we are to promote long-term comprehensive change in Iran. Last year, UANI launched its "Cranes Campaign" to educate manufacturers about Iran's grisly practice of using cranes to hang dissidents and homosexuals in public displays of brutal intimidation. In response to this campaign, Terex, UNIC, Tadano and Liebherr, four of the world's leading crane manufacturers, all agreed to stop selling equipment in Iran.

Similarly, in 2011 UANI launched its "Tech and Telecom Campaign" to publicly highlight the role of telecommunications companies in Iran and about how their technology was being misused by Iranian government security forces to monitor and track peaceful dissidents and protestors. In so doing, companies were directly facilitating the ability of the Iranian regime to wage a campaign of terror against its own people. In response to UANI's campaign, companies like Nokia Siemens Networks and Ericsson agreed to not take on any new business in Iran. Of particular significance is the fact that even Huawei, the Chinese telecom giant, curtailed its Iran business in response to UANI's campaign. UANI worked closely with Huawei to explain the dangers of their investments in Iran. As a result of these discussions, Huawei became the first Chinese company to announce an end to all new business activities in Iran. In today's integrated business and financial worlds, companies cannot exist in a national vacuum. Any corporation that seeks access to American capital markets is subject to American law, public pressure and American public opinion.

There is still much work to be done. For example, despite the action of other responsible telecommunication companies, South African telecom company MTN continues to openly partner with sanctioned Iran entities affiliated with the brutal Iranian regime. Companies like MTN deserve the condemnation of the American public and concerned citizens worldwide as well as the attention of this Congress, which should investigate MTN's collaboration with the Iranian regime. Nevertheless, UANI will continue to educate citizens and apply pressure against recalcitrant companies that pursue short-term profits at the expense of global security.

This year, UANI also launched its "Auto Campaign" that calls on some of the world's leading automobile manufacturers to leave Iran. Auto-manufacturing is a central component of Iran's industrial sector and is dominated by the regime and the IRGC. Auto manufacturers provide crucial support to the Iranian regime by serving as both a massive source of revenue and as a conduit for advanced goods and sophisticated technology. The IRGC is notorious for misusing vehicles imported or license-built by companies including Fiat, Honda, Nissan, Peugeot, Toyota and Volvo, for a number of nefarious purposes including to stage executions, transport weapons and to facilitate the repressive activities of its militia and internal security forces. Since the launch of UANI's campaign, Hyundai and Porsche have agreed to end their sales in Iran. However, more must be done. Despite its extensive business in Iran, Peugeot has partnered with American automaker General Motors, a company partly owned by the U.S. Treasury that was rescued from imminent bankruptcy by a $50 billion U.S. taxpayer funded bailout. In addition, Japanese automaker Nissan was awarded a $1 billion contract from the City of New York to build the next iconic New York taxi cab despite the fact that Nissan is directly partnered with Iranian entities controlled by the Iranian regime and the IRGC. New York taxpayer dollars should not benefit companies, like Nissan, that partner with the world's leading state sponsor of terror, an ally of al-Qaeda with one of the world's most abhorrent human rights records. New York should use the power of the contracting purse to compel Nissan to choose between New York and Iran.

UANI has introduced model legislation, the Debarment and Restrictions for Iranian-related Vehicle Enterprises Act (the "DRIVE Act"), to require automakers to certify they are not engaged in any business in Iran, or engaged in the implementation of any agreement with Iranian entities in order to be eligible for U.S. government contracts or financial assistance. (See attached)

International organizations must also realize that their relationship with Iran is not just member-country "business as usual," and this Committee's important oversight role can help. Put bluntly, Iran is in violation of many of its international treaty obligations, and it should not be treated like a member in good standing of international bodies. We do not suggest that Iran be denied access to the U.N., as it should be welcome to come and express its points and engage in open dialogue. Iran should not, though, have the same rights as members in good standing.

Just three months ago, UANI launched a campaign against the Society for Worldwide Interbank Financial Telecommunication ("SWIFT"). As many of you know, SWIFT is the world's leading international financial messaging system used by banks worldwide. UANI launched its SWIFT campaign in January, submitting a detailed legal explanation to SWIFT, international banking and regulatory officials, and U.S. lawmakers, demonstrating that SWIFT was in violation of U.S. and EU sanctions as well as its own bylaws. Subsequently, Chairwoman Ileana Ros-Lehtinen and Congressman Brad Sherman introduced the *Iran Financial Sanctions Improvement Act of 2012* (H.R. 4179), which would sanction SWIFT if it continues to provide services on behalf of any Iranian bank and would expand CISADA sanctions to penalize financial entities that engage with any Iranian bank – not just designated ones. Members of the U.S. Senate also drafted and introduced an amendment that would sanction SWIFT. SWIFT, after initially defending its work with Iran, subsequently pledged to "find the right multilateral

legal framework which will enable SWIFT to address the issues." In short, relented and no longer does SWIFT provide services to Iranian sanctioned banks, but it does provide services to non-sanctioned banks. (Hence, the importance of ensuring that all Iranian banks face sanctions.). SWIFT's chief executive, Lazaro Campos, described the move as "extraordinary and unprecedented. It is a direct result of international and multilateral action to intensify financial sanctions against Iran."

Other international institutions are also conducting "business as usual" in Iran. The case of the International Monetary Fund ("IMF") is a good example. The United States and E.U. sanctioned Bank Markazi, Iran's Central Bank. Yet today the IMF holds billions of dollars' worth of cash and securities in Bank Markazi. The IMF should not hold accounts (even according to its own rules) in a sanctioned bank. If the IMF cannot work with Iran without doing so, it should suspend Iran's membership in the IMF.

In a similar vein, Iran is in violation of numerous United Nations Security Council resolutions. Yet in the thirty eight (38) UN Funds, Programs and Specialized Agencies, Iran votes, runs for leadership positions and serves in various committee roles just like any other member in good standing. If Iran refuses to comply with its obligations to the UN, particularly as related to the Security Council mandate of maintaining international peace and security, Iran should not be considered a member in good standing. It should be welcomed in plenary sessions to engage in open dialogue, but Iran should have its voting rights suspended and it should not be allowed to seek leadership positions unless and until it comes into compliance with its treaty obligations including Security Council resolutions. As long as Iran continues to defy the UN, it should not be allowed the same privileges of a member in good standing at the expense of the credibility of the UN system as a whole while legitimizing the Iranian regime.

I am aware that governments around the world, including this Congress, have already taken steps to enact measures in the foregoing areas. However, the numerous workarounds, loop-holes and exceptions included in these measures are undermining our ability to achieve the common objective of enacting the most robust sanctions in history. The time for half-measures and exceptions is over. We must commit ourselves to imposing a complete economic blockade.

An example of how half-measures undermine the implementation of a full economic embargo can be found in Iran's petrochemical industry. While the U.S. has sanctioned the National Petrochemical Company ("NPC") and the Petrochemical Commercial Company ("PCC") of Iran, a number of private or quasi-state owned entities controlled or owned by the NPC and PCC remained unsanctioned. As a result, Iran's revenues from exports of petrochemical products continue to grow. An Iranian Trade Promotion Organization recently stated that Iran's petrochemical exports totaled $13 billion in the first 11 months of the Iranian calendar year ending March 21, 2012. This figure represents a significant share of Iran's non-oil exports which had reached $43 billion during the same period. Reports state that if the same sanctions that have been historically applied to Iran's oil exports were also applied to Iran's non-oil exports, the combined effect against the country's trade would be over $31 billion, or 6.5% of its GDP. (See, *Bloomberg*, "Iran Non-Oil Exports Rose 28% in First 11 Months, Press TV Says," Ladane Nasseri, 3/16/12, *Reuters*, "Analysis: Iran Economy Could Limp Along Under Sanctions," Andrew Torchia, 2/6/12, and *Tehran Times*, "Iran Finds New Petrochemical

Markets, Despite Sanctions," 2/21/12) Clearly, the existing petrochemical sanctions, while limiting some Iranian petrochemical activity, lack the necessary scope.

We hope that the experiences of UANI over the years of its work, our model legislation and the UANI BIDS proposal will be helpful to this Committee and its staff. Thank you for the opportunity to share our work with you and we will remain available for any questions or comments.

Thank you.

Chairman ROS-LEHTINEN. Thank you, Mr. Ambassador.
Mr. Dubowitz.

STATEMENT OF MR. MARK DUBOWITZ, EXECUTIVE DIRECTOR, FOUNDATION FOR DEFENSE OF DEMOCRACIES

Mr. DUBOWITZ. Thank you very much. Chairman Ros-Lehtinen, Ranking Member Berman, distinguished members of the committee, on behalf of FDD it is an honor to be here today, and an honor to be testifying with Mark and Ray.

The topic of my testimony is sanctions relief as the Obama administration prepares for the P5+1 talks in Baghdad. Now, administration officials publicly and privately are making a tough case for relieving sanctions on Iran, but these officials have, nevertheless, made it clear that these talks are part of a process that will require confidence-building measures and reciprocal concessions.

To be meaningful to Tehran, concessions will have to come in the form of sanctions relief which are threatening the regime's oil wealth, and perhaps even its survival in ways not seen since the Iran-Iraq War.

Supreme Leader Ali Khamenei badly needs to relieve this economic pressure. He is seeking to buy his country enough hard currency from oil sales to withstand soaring inflation and a crumbling currency. He also seeks to use the P5+1 negotiations to buy more time to reach breakout capacity, which would enable him to build a nuclear weapon within a few months.

Now, Iran sees the negotiations as an opportunity to force the international community to accept its enrichment activities. In the face of five UNSC resolutions and a U.S. commitment to stop Iran from crossing previously established red lines, Iran has simply moved the goal posts. Bushehr, Arak, Natanze and Fordo are a testament to the success of this Iranian strategy.

Khamenei likely will continue the strategy of playing for time by dangling incremental nuclear concessions before the negotiators, such as the cessation of 20 percent uranium enrichment. This concession will be portrayed as an important confidence-building measure putting pressure on the administration and its partners for a similar gesture of goodwill in return.

As eager, however, as President Obama is for a deal he cannot take the risk of offering too much relief for too few concessions. Once these sanctions start to unravel, the fear of U.S. penalties that held them together will become difficult to re-establish. The multi-lateral sanctions regime, the centerpiece of the President's Iran strategy, will be gone. In order to make concessions to Iran, the President or our allies may be tempted to offer sanctions relief in the shadows.

In my written testimony, I detail some of the ways in which Iran could be offered sanctions relief without inviting public scrutiny. These are just a few examples of what should not be allowed. They include reducing by even a few percentage points what constitutes a significant reduction to the volume of petroleum purchased from Iran, as provided in 1245 of the NDAA. Doing so would provide Iran with additional hard currency. Allowing the 14 or so Iranian financial institutions to continue using SWIFT. Supporting Europe in relaxing the Maritime insurance sanctions that are so effective

in slowing down Iranian oil shipments. Looking the other way as Europe allows sanctions busting of its oil embargo. Keeping open financial channels that allow the Iranians to access the global financial systems and repatriate its oil profits. Permitting sanctionable transactions to take place through barter trade to help Iran reverse the decline in its energy production. Delaying sanctions against critical elements of the oil supply chain like NIOC or NITC. Providing less rigorous enforcement of shipping sanctions that allow Iran to covertly sell more of its oil.

Now, these are just a few of the ways that the U.S. or our allies could provide sanctions relief in the shadows. President Obama must not allow this. Instead, the recommended course is for the President to engage openly with the American people, with Congress, with this committee, and with key allies like Israel during the negotiating process with Iran.

He needs to green light the passage of the Senate's sanctions bill before the Baghdad talks begin. He needs to support additional sanctions proposed by members of this committee, and by members of the Senate Banking Committee on an expanded energy and commercial embargo, broader insurance sanctions, and Iranian oil-free zone, expanded financial sanctions, and the lifting of CBI immunity to allow victims of Iranian terrorism to finally receive justice.

He should provide detailed reports to this committee and to Congress on the type of sanctions relief being offered, and on the nature of the Iranian concessions that they are offering. And he has considerable flexibility under the National Interest Waiver in Section 1245 of the NDAA to provide sanctions relief in the open. But the President needs to be careful. Sanctions relief needs to be coordinated with the EU, and an EU suspension of sanctions is not likely to be easily and quickly reversed. Real sanctions relief should only be offered in response to meaningful Iranian concessions.

Congress, and this committee, in particular, has played a critical role in the development and implementation of sanctions. Your next task is to ensure that sanctions relief, if it is to be provided at all is only provided in the open, not in the shadows, and only in exchange for meaningful, verifiable and irreversible Iranian nuclear concessions.

Thank you very much for inviting me here today.

[The prepared statement of Mr. Dubowitz follows:]

Iran Sanctions

Strategy, Implementation and Enforcement

Congressional Testimony

Hearing before the
House Committee on Foreign Affairs

Mark Dubowitz, Esq.
Executive Director
Foundation for Defense of Democracies

Washington, DC
May 17, 2012

Mark Dubowitz May 17, 2012

Introduction

Chairman Ros-Lehtinen, Ranking Member Berman, and distinguished Members of the Committee, on behalf of the Foundation for Defense of Democracies, thank you for the opportunity to testify before this committee.

I base my testimony today on my extensive work on Iran sanctions issues as executive director of FDD, and director of FDD's Iran Energy Project, which provides research and analysis on Iran energy sanctions and tracks the role of the Islamic Revolutionary Guard Corps in Iran's energy sector. I also research Iranian financial, human rights, and non-proliferation sanctions and have co-authored six extensive studies on Iran sanctions issues provided to the Obama administration and Congress.

The topic of my testimony is sanctions relief as the Obama administration approaches the P5+1 talks with Iran over its nuclear weapons program next week in Baghdad.

Obama administration officials are making a tough case for relieving sanctions on Iran. "I believe in action for action but I think in this case the burden of action falls on the Iranians to demonstrate their seriousness," Secretary of State Hillary Clinton said recently, "and we are going to keep the sanctions in place and the pressure on Iran as they consider ... what they'll bring to the table in Baghdad, and we'll respond accordingly."[1]

Administration officials have nevertheless made it clear that they see these talks as part of a process that will require confidence-building measures and reciprocal concessions.[2] To be meaningful to Tehran, concessions will have to come in the form of sanctions relief, as oil market and financial sanctions are threatening the Iranian regime's oil wealth, and potentially even its survival, in ways not seen since the Iran-Iraq War.[3]

Iran's Supreme Leader Ali Khamenei badly needs to relieve this economic pressure. He is seeking to buy his country enough hard currency from oil sales to withstand soaring inflation, now estimated to be as high as 40 percent per year,[4] and a crumbling currency, at one point down this year by almost 50 percent since December 2011.[5]

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[1] "Clinton Says U.S. Will Keep Sanctions on Iran," *Reuters*, April 16, 2012. (http://www.reuters.com/article/2012/04/16/us-iran-usa-clinton-idUSBRE83F1CJ20120416)

[2] The White House, Press Release, "Press Gaggle by Press Secretary Jay Carney and Deputy National Security Advisor for Strategic Communications Ben Rhodes Aboard Air Force One," April 13, 2012. (http://www.whitehouse.gov/the-press-office/2012/04/13/press-gaggle-press-secretary-jay-carney-and-deputy-national-security-adv)

[3] Mohammad Davari, "Iran Wants Sanctions Eased, Hints On Enrichment," *Agence France Presse*, April 16, 2012. (http://www.google.com/hostednews/afp/article/ALeqM5i4ll44E8lBXF4V-ta-cUrjdXw30Q?docId=CNG.b3a51da26e7e858e1c7f73c604cd63e3.6b1)

[4] Mitra Amiri, "UPDATE 1-Iran Rial Slides, 'Dollar' Text Messages Appear Blocked," *Bloomberg*, January 10, 2012. (http://www.reuters.com/article/2012/01/10/iran-currency-idUSL6E8CA2MQ20120110)

[5] Bill Spindle, Benoit Faucon, & Farnaz Fassihi, "Iran Cracks Down on Dollar Trades," *The Wall Street Journal*, January 17, 2012. (http://online.wsj.com/article/SB10001424052970203735304577164640064408710.html)

Khamenei also seeks to use the P5+1 negotiations to buy more time to reach breakout capacity, which would enable him to build -- or credibly threaten to build -- a nuclear weapon within a few months. Despite five resolutions by the United Nations Security Council requiring Iran to suspend all of its enrichment activities, it is clear that Iran sees the negotiations with the P5+1 as an opportunity to force the international community to accept its enrichment activities.

According to Hamidreza Taraghi, an adviser to Khamenei, Iran has succeeded with a strategy to "bypass the red lines the West created for us," including building the Bushehr reactor, constructing the Arak heavy-water facility, and building an extensive enrichment program, including at the Fordo complex near Qom constructed to withstand an attack by the United States or Israel.[6]

Despite tough sanctions, and a western commitment to stop Iran from crossing well-established redlines, as *The New York Times* notes, Iran's "carefully crafted strategy has helped move the goal posts in their favor by making enrichment a reality that the West has been unable to stop – and may not be willing, however, grudgingly, to accept."[7] As Taraghi puts it, "But here we are, enriching as much as we need for our nuclear energy program."[8]

Khamenei likely will continue this strategy of playing for time by dangling some incremental nuclear concessions before the negotiators, such as the cessation of 20-percent uranium enrichment, while maintaining Iran's right to continue enrichment at lower levels. This concession will be portrayed as an important confidence-building measure, putting pressure on the Obama administration and its P5+1 partners for a similar gesture of goodwill in return, to help keep the negotiations moving forward.

As eager, however, as President Obama is for a deal that will get Iran off the front pages -- and all but eliminate the possibility of an Israeli strike ahead of the November election -- he cannot take the political risk of offering too much relief for too few concessions. Once sanctions start to unravel, the fear of U.S. penalties that held them together will become difficult to reestablish, and the multilateral sanctions regime -- the centerpiece of the president's Iran strategy -- will be gone. This may also persuade the Israelis that the time for diplomacy has passed, and only military action can stop Iran's development of nuclear weapons.

How can President Obama make meaningful concessions to Iran without providing political opportunities to Mitt Romney and an opening for Israeli Prime Minister Benjamin Netanyahu to launch military strikes? By offering relief in the shadows, where sanctions may or may not be enforced. While it may be difficult for President Obama to

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[6] Thomas Erdbrink, "Iran Sees Success in Stalling on Nuclear Issue," *The New York Times*, May 14, 2012. (http://www.nytimes.com/2012/05/15/world/middleeast/iran-sees-success-in-stalling-on-nuclear-issue.html)
[7] Ibid.
[8] Ibid.

relax sanctions, he will likely have European Union states and other allies on his side if he does. He must however resist the temptation to loosen the reins.

The recommended course, instead, is for President Obama to engage openly with the American people, Congress and with key allies like Israel during the negotiation process with Iran. He should intensify sanctions by moving forward quickly with the passage of Congressional legislation, provide detailed reports to Congress on the type of sanctions relief being offered and on the nature of the Iranian concessions they are offering, and use the considerable flexibility he already has under the national interest waiver contained in section 1245 of the National Defense Authorization Act (NDAA) to provide sanctions relief in the open.

The administration should only offer sanctions relief in response to meaningful concessions by the Iranians, as stipulated in multiple U.N. Security Council resolutions, IAEA reports, executive branch demands, and Congressional legislation. These concessions must include the complete suspension of Iran's enrichment activities, a full accounting of its past and current nuclear weapons activities, and its agreement to intrusive inspections as outlined in the Additional Protocol to the Nuclear Non-Proliferation Treaty. An open process involving the full disclosure of sanctions relief provided and concessions obtained will lead to a deal with Tehran, if one is even possible with this regime, which enjoys much greater bipartisan and international support.

Sanctions Relief in the Shadows

The Obama administration should resist the urge to offer sanctions relief in the shadows. There are hundreds of ways Washington could provide the Iranians with meaningful sanctions relief without inviting public scrutiny. Many of these could provide the Iranians with what they most desperately need: Hard-currency earnings to mitigate the economic damage they've already sustained from sanctions and the internal mismanagement of their economy.

Relax the standard for what constitutes a "significant reduction" to the volume of petroleum purchased from Iran, as provided under section 1245 of the NDAA.

Despite a request[9] to U.S. Secretary of the Treasury Timothy Geithner from the co-authors of this language, Senators Robert Menendez (D-NJ) and Mark Kirk (R-IL),[10] the Obama administration has refused to specify how much of a cut qualifies as a "significant

[9] Sen. Mark Kirk & Sen. Robert Menendez, "Letter to Secretary Timothy Geithner," January 19, 2012. (http://www.foreignpolicy.com/files/fp_uploaded_documents/120119_Menendez-Kirk%20Letter%20to%20SECTREAS%20on%20CBI%20Implementation%20Rules.pdf)

[10] "New Iranian Sanctions Enacted," *Dewey & LeBoeuf*, January 5, 2012. (http://www.deweyleboeuf.com/~/media/Files/clientalerts/2012/201215_IranianSanctions.ashx)

reduction" in Iranian oil purchases, which would justify an exception to sanctions on the Central Bank of Iran ("CBI").[11]

To give the Iranians some relief, the President could grant exceptions to buyers of their oil, enabling them to sell more of it at market prices. This would still enable the President to sanction countries that have not met the significant reductions required by June 28, but lower the threshold for an exception by a few percentage points. For example, by reducing the threshold for a significant reduction by 5% for all of Iran's oil buyers (for example, from a reduction of 20% in purchases in order to qualify for an exception to a lower threshold of 15%), Iran could earn nearly $5 billion in additional annual oil revenues (based on IMF estimates of 2011 oil revenues of $97 billion)[12].

Allow some Iranian financial institutions to maintain access to the Society for Worldwide Interbank Financial Telecommunication (SWIFT)

On March 15, 2012, the European Union ordered SWIFT to expel designated Iranian banks from the SWIFT financial communications network.[13] According to SWIFT's 2010 annual report, 44 Iranian financial institutions were using the system.[14] According to press reports, the EU order only applied to 30 Iranian institutions.[15]

President Obama could delay requiring SWIFT to expel the 14 or so remaining Iranian financial institutions that are still using SWIFT, and which have not been sanctioned by the EU. This would allow the Iranians to use these institutions to move money through the global financial system.

Support Europe in relaxing the maritime insurance sanctions that are slowing down Iranian oil shipments

Sanctions prohibiting European Protection and Indemnity ("P&I") Clubs and reinsurance companies from underwriting Iranian oil shipments are proving highly effective in preventing Iran from selling its products.[16] The International Energy Agency estimates that Iran may lose up to a million barrels per day in oil shipments during the second

[11] The While House, Press Release, "Briefing on U.S. Sanctions on Iranian Oil-Related Transactions," April 1, 2012. (http://iipdigital.usembassy.gov/st/english/texttrans/2012/04/201204013093.html#axzz1uqzqTWrb)
[12] Indira Lakshmanan, U.S. Lawmakers Target Iran Energy Sector for Expanded Sanctions, *Bloomberg*, March 29, 2012. (http://www.bloomberg.com/news/2012-03-29/lawmakers-target-iran-s-energy-sector-for-expanded-sanctions.html)
[13] "Payments System SWIFT to Expel Iranian Banks Saturday," *Reuters*, March 15, 2012. (http://www.reuters.com/article/2012/03/15/us-nuclear-iran-idUSBRE82E15M20120315)
[14] Society for Worldwide Interbank Financial Telecommunication, *SWIFT Annual Review 2010*, page 29. http://www.swift.com/about_swift/publications/annual_reports/annual_review_2010/SWIFT_AR2010.pdf
[15] "Payments System SWIFT to Expel Iranian Banks Saturday," *Reuters*, March 15, 2012. (http://www.reuters.com/article/2012/03/15/us-nuclear-iran-idUSBRE82E15M20120315)
[16] Clare Baldwin & Osamu Tsukimori, "Marine Insurance: the Stranglehold on Iran?" *Reuters*, April 17, 2012. (http://uk.mobile.reuters.com/article/stocksNews/idUKLNE83G00G20120417)

quarter of 2012, largely as a result of this measure and related oil market and financial sanctions.[17]

To provide Iran with sanctions relief, the Obama administration can ease the financial pressure that has persuaded these insurers to stop covering Iranian vessels. This would be especially pertinent to Iran's NITC ships, which currently rely on a relatively new Iranian insurer, Kish P&I. China, South Korea, India,[18] and Japan[19] are also reportedly considering providing sovereign guarantees in lieu of maritime insurance.

Sources also reveal that the Chinese government has plans to establish a "super" P&I maritime insurance company in Hong Kong backed by a Chinese state-owned bank, which would provide the sovereign guarantee of the Chinese government to enable Iranian oil shipments. Kish's government ownership, and government guarantees from four of Iran's largest buyers of oil, have raised the possibility that countries that buy Iranian oil will be able to bypass maritime insurance sanctions by receiving implicit sovereign guarantees. It is still unclear how payouts would be handled, and how the guarantees will actually work.[20]

The Obama administration could support a European decision to offer exemptions to EU insurance and reinsurance companies, permitting them to underwrite oil shipments. This decision, which is reportedly under consideration,[21] could be presented as a useful step in ensuring that oil sales permitted under section 1245 take place, thereby minimizing the risks of oil price spikes. Since the difference between legal and illegal oil trades depends ultimately on enforcement, however, the Iranians could capitalize on the relaxed enforcement of insurance sanctions to sell more of their oil at market rates.

Look the other way as Europe allows sanctions busting of its oil embargo

European states will likely adhere to the July 1, 2012 date to impose the EU oil embargo, but they may look the other way when a 100 percent embargo turns into an 80 percent or 70 percent embargo, as Iranian oil makes its way to European refineries disguised as non-Iranian oil (for example, shipped to Greek refineries on Chinese ships insured by a Hong Kong P&I backed by Chinese sovereign guarantees). Iran may incentivize refineries from

[17] James Herron, "2nd UPDATE: Iran Oil Exports Fall In April As Sanctions Tighten-IEA," *The Wall Street Journal*, May 11, 2012. (http://online.wsj.com/article/BT-CO-20120511-708007.html)
[18] Alison Leung, "Exclusive: China Mulls Guarantees for Ships Carrying Iran Oil," *Reuters*, April 30, 2012. (http://news.yahoo.com/exclusive-china-mulls-guarantees-ships-carrying-iran-oil-053802319--business.html)
[19] "Japan eyes guarantees for ships carrying Iranian oil -- Nikkei," Reuters, May 7, 2012. (http://af.reuters.com/article/energyOilNews/idAFL4E8G749V20120507)
[20] "Iran's Main Ship Insurer Will Meet Western Claims, Despite Sanctions," *The Maritime Executive*, March 2, 2012. (http://www.maritime-executive.com/article/iran-s-main-ship-insurer-will-meet-western-claims)
[21] Ewa Krukowska and Jonathan Stearns, "EU Permits Three-Month Insurance Exemptions For Tankers To Iran," *Bloomberg*, March 23, 2012. (http://www.bloomberg.com/news/2012-03-23/eu-permits-three-month-insurance-exemptions-for-tankers-to-iran.html)

Greece, Italy and Spain, for example, to defy the oil embargo by offering price discounts or relaxed payment terms.[22]

And the administration may decide not to enforce U.S. sanctions against these countries, especially after it has already provided them with exceptions under 1245 of the NDAA. While these exceptions are only valid for 180 days under the law, and need to be renewed, it will likely be politically difficult for the administration to sanction some of its closest allies, especially as these European countries contend with a massive debt crisis. President Obama may be tempted to look the other way and allow Iran to sell additional oil.

Keep open financial channels that allow the Iranians to access the global financial system

The President may resist pressure from Congress to designate the remaining 8-10 Iranian banks not under U.S. sanctions, so that the Iranians can still conduct some global financial transactions.[23] The administration also may be tempted to look the other way as financial institutions from Russia, South Korea and Azerbaijan, among others, act as Iran's extraterritorial bankers.

The administration may also permit a foreign financial institution to open a channel to repatriate some of Iran's oil profits. This is a concession that Tehran urgently needs: The administration's success in persuading the Dubai-based Noor Islamic Bank to terminate its role in helping Iran repatriate oil profits was reportedly a major contributor to the devaluation of the Iranian Rial.[24]

Permit sanctionable transactions to take place through barter trade

The administration may decide to allow extensive barter trades between Iran and China, India and South Korea even though these are sanctionable activities under section 1245 of the NDAA.[25] While Iran will reportedly use this barter mechanism to buy food, pharmaceuticals, and other goods of lesser concern to Western governments, it may also enable Iran to buy key goods and services it needs to stem the decline in its oil production, despite U.S. and European sanctions. For example, China has reportedly

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[22] Alessandra Migliaccio, "Iran Embargo May Speed Refinery Closures," *Bloomberg*, January 24, 2012. (http://www.bloomberg.com/news/2012-01-25/iran-embargo-may-speed-europe-refinery-closures-after-petroplus-failure.html)

[23] "U.S. Says Looking for More Ways to Pressure Iran," *Reuters*, March 20, 2012. (http://www.reuters.com/article/2012/03/20/us-usa-geithner-iran-idUSBRE82J10Q20120320)

[24] Alan Cowell, "Dubai Bank Says It Cut Ties With Iranian Institutions," *The New York Times*, February 29, 2012. (http://www.nytimes.com/2012/03/01/world/middleeast/noor-islamic-bank-in-dubai-says-it-cut-ties-with-iran.html)

[25] "Questions Regarding the NDAA (Section 1245 of the National Defense Authorization Act for Fiscal Year 2012)," *U.S. Department of the Treasury*, Accessed May 14, 2012. (http://www.treasury.gov/resource-center/faqs/Sanctions/Pages/ques_index.aspx#ndaa)

agreed to exchange Iranian oil for commitments to help Iran develop its petroleum resources, a sanctionable activity under U.S. law.[26]

Delay sanctions against critical elements of the Iranian oil supply chain

The Obama administration could delay a finding, currently requested in a House bill introduced by Rep. Howard Berman (D-CA) and in Senate legislation at the request of Senator Robert Menendez (D-NJ),[27] as to whether the National Iranian Oil Company and NITC (the former National Iranian Tanker Company) are owned or controlled by the IRGC. This finding would significantly diminish Iran's ability to sell its oil as many insurance companies, refineries, financial institutions, traders and other actors would not wish to do business with entities linked to terrorism and unlawful nuclear activities.

Provide less rigorous enforcement of shipping sanctions

The Obama administration could apply the brakes to the Department of Treasury's pursuit of sanctions against additional shipping shell companies. This would be easy enough to do behind the scenes, as Treasury is reportedly already working overtime to keep up with Iran's shipping games.[28] And unless Congress established some sort of monitoring benchmarks on how many companies Treasury had to sanction, it would be hard to confirm that any such slowdown had occurred until it turned up in press reports.

The administration could overlook Iranian ships, sanctioned by Treasury's Office of Foreign Assets Control, and flagged to countries like Malta, which are theoretically part of the coalition meant to enforce U.S. and EU sanctions.[29]

The administration could also turn a blind eye to sanctionable financial transactions related to bunkering services, registry fees, and the like, making it easier for Iranian ships to call at ports of their choosing.[30] Or the administration could raise no concerns when Iran-linked ships turn off their AIS ship locating systems and make port calls, which do not show up on public or commercially available ship-tracking databases.[31]

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[26] "Iran Accepts Yuan for Oil Trade with China, Threatens US Dollar," *Commodity Online*, May 8, 2012. (http://www.commodityonline.com/news/iran-accepts-yuan-for-oil-trade-with-china-threatens-us-dollar-47928-3-47929.html)

[27] U.S. House of Representatives Committee on Foreign Affairs, Press Release, "Rep. Berman, Senator Menendez Introduce Stiff Sanctions Targeting Iran's IRGC, Energy Sector," January 31, 2012. (http://democrats.foreignaffairs.house.gov/press_display.asp?id=914)

[28] Claudia Rosett, "Iran Sanctions: A Tale of Two Fleets," *Forbes*, February 27, 2012. (http://www.defenddemocracy.org/media-hit/iran-sanctions-a-tale-of-two-fleets/)

[29] "Factbox - Iranian Ships Now Flying Bolivian Flags," *Reuters*, April 18, 2012. (http://uk.reuters.com/article/2012/04/18/uk-iran-ships-irisl-idUKBRE83H10Q20120418)

[30] Randy Fabi and Jasmin Choo, "Refueling EU Shippers May Violate Iran Sanctions," *Reuters*, May 11, 2012. (http://finance.yahoo.com/news/refuelling-eu-shippers-may-violate-093252245.html)

[31] Christopher Johnson & Peg Mackey, "Exclusive - Iran Ships "Off Radar" As Tehran Conceals Oil Sales," *Reuters*, April 13, 2012. (http://uk.reuters.com/article/2012/04/13/uk-iran-oil-tracking-idUKBRE83C0TQ20120413)

Sources reveal that China, in the past few weeks, has engaged in covert purchases of Iranian oil, estimated to be about one million barrels in excess of their committed purchased volumes under agreements between Chinese traders and NIOC. This may be one reason for the Iranian decision to turn off their ship locating systems so that western authorities cannot track these shipments. Iran may also be reluctant to expose the extent of their floating storage, which is a sign of the difficulty they may be facing in selling their oil.

Sanctions Relief in the Daylight

Instead of providing sanctions relief in the shadows, President Obama should intensify sanctions, and engage openly with Congress and key allies like Israel during negotiations with Iran. If a meaningful deal can be reached with Iran that addresses all concerns about Iran's nuclear weapons program, an open process will ensure that it enjoys greater bipartisan and international support.

Recommendations:

1. Exercise the National Interest Waiver

Section 1245 of the NDAA provides a way to provide sanctions relief on a transparent basis while keeping the pressure on Iran with the threat of resumed sanctions.

If Iran agrees to a first interim step, such as halting all uranium enrichment at 20 percent, closing the Fordo enrichment facility at Qom and shipping all 20 percent enriched uranium outside Iran, for example, the President could exercise a national interest waiver under NDAA 1245, which waives all CBI sanctions for 120 days.

The President must make clear that this is all based on a commitment by Iran to take the second step within 120 days -- halting all enrichment activities in compliance with United Nations Security Council resolutions, agreeing to fully account for its nuclear weapons activities, and an agreement to the Additional Protocol of the Nuclear Non-Proliferation Treaty, which requires extensive inspections. If Iran does not take this second step, CBI sanctions resume automatically. If Iran complies, the President can promise to extend CBI sanctions for another 120 days until the IAEA can report to the United Nations Security Council that Iran is fully in compliance. At that point, the President could pledge to fulfill a commitment to provide Iran with nuclear fuel rods for its Tehran Research Reactor[32] and request that Congress repeal sanctions.

2. Require the Obama administration to report to Congress on sanctions concessions

Congress should add a provision to the *Iran Sanctions, Accountability and Human Rights Act*, to require the administration to report to Congress every 30 days on the sanctions relief it is contemplating offering to Iran. The report should outline the concessions Iran

[32] Fact Box—Tehran Research Reactor, *Reuters*, February 16, 2012. (http://in.reuters.com/article/2012/02/16/iran-nuclear-reactor-idINDEE81F04620120216)

is offering and the nature and extent of sanctions relief under consideration, including measures being considering by other countries. The report can include classified annexes on sensitive issues that the administration does not want to make public.

3. Intensify sanctions by expediting the passage of Congressional sanctions legislation

Administration officials agree that Tehran would not have returned to negotiations if not for sanctions.[33] Some argue that the Iranian regime fears sanctions more than the threat of military strikes.[34] If that is true, now is the time to intensify sanctions, and expedite the passage of legislation, to give the administration even more concessions to trade in exchange for meaningful Iranian nuclear concessions.

Tough new sanctions are already in pending legislation. *The Iran Threat Reduction Act*, passed the House of Representatives by a vote of 410 to 11 on December 14, 2011,[35] and the Senate Banking Committee adopted unanimously *The Iran Sanctions, Accountability and Human Rights Act* on February 2, 2012.[36] The Senate bill should be moved quickly to a vote before the Baghdad talks begin, and a conference committee should be convened without delay.

New sanctions are also contained in proposed amendments in the Senate and bills in the House, advanced variously by Senators Mark Kirk,[37] and Joseph Lieberman,[38] and Representatives Ileana Ros-Lehtinen and Brad Sherman,[39]and Ted Deutch and Robert Dold.[40]

These new measures, which should be part of the new congressional sanctions package, would:

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[33] "Interview: U.S. Nuclear Official Samore Discusses Iran Nuclear Talks," *Radio Free Europe Radio Liberty*, April 17, 2012. (http://www.rferl.org/content/interview_us_nuclear_official_samore_iran_nuclear_talks/24551477.html)

[34] Karen DeYoung and Scott Wilson, "Public Ire One Goal Of Iran Sanctions, U.S. Official Says," *The Washington Post,* January 10, 2012. (http://www.washingtonpost.com/world/national-security/goal-of-iran-sanctions-is-regime-collapse-us-official-says/2012/01/10/gIQA0KJsoP_story.html)

[35] Natasha Mozgovaya, "U.S. House of Representatives Endorses Tough Sanctions On Iran," *Haaretz,* December 15, 2011. (http://www.haaretz.com/news/middle-east/u-s-house-of-representatives-endorses-tough-sanctions-on-iran-1.401495)

[36] Rick Gladstone, "Senate Panel Approves Potentially Toughest Penalty Yet Against Iran's Wallet," *The New York Times,* February 2, 2012. (http://www.nytimes.com/2012/02/03/world/middleeast/tough-iran-penalty-clears-senate-banking-panel.html)

[37] S. 2101: Iran Sanctions, Accountability, and Human Rights Act of 2012, 112th Congress, 2011-2012. (http://www.govtrack.us/congress/bills/112/s2101)

[38] Joseph Lieberman, Press Release, "Senators Introduce Resolution Ruling Out 'Containment' Strategy of Nuclear-Armed Iran," February 16, 2012. (http://lieberman.senate.gov/index.cfm/news-events/news/2012/2/senators-introduce-resolution-ruling-out-containment-strategy-of-nucleararmed-iran)

[39]H.R. 4179: Iran Financial Sanctions Improvement Act of 2012, 112th Congress, 2011-2012. (http://www.govtrack.us/congress/bills/112/hr4179)

[40] H.R. 4317: To expand sanctions with respect to the energy sector of Iran, and for other purposes., 112th Congress, 2011-2012. (http://www.govtrack.us/congress/bills/112/hr4317)

(a) impose an insurance embargo on Iran for any company providing insurance or reinsurance services for any sanctionable activity;

(b) declare Iran's energy sector a zone of proliferation concern, prohibiting any energy-related transaction except those permissible under section 1245 of the NDAA;

(c) declare Iran's telecommunications and technology sectors as zones of electronic repression, to crack down on companies providing technologies and services that do not promote open and secure communications for the Iranian people;

(d) require international financial institutions maintaining correspondent accounts in the U.S. to disclose to the U.S. Department of Treasury any and all transactions with Iranian financial institutions; and,

(e) impose sanctions on any company, including SWIFT and Clearstream, which provides services to an Iranian financial institution.

4. Pass expanded measures against Iran's Islamic Revolutionary Guards

The Iran Threat Reduction Act and *The Iran Sanctions, Accountability and Human Rights Act* both contain a very effective provision targeting the Islamic Revolutionary Guard Corps, which plays a dominant role in the Iranian economy.[41] The provision would call on the Obama administration to accelerate the designation of IRGC entities, causing international companies to seriously reconsider their trading relationships with Iranian companies. Many would be loath to export goods and services to entities involved in terrorism and nuclear proliferation, and their departure would cause considerable economic trouble for Iranian leaders. This approach would greatly restrict exports to Iran's commercial sector, with the exception of food and humanitarian goods, exacerbating the shortages that Iran is experiencing across its economy.

5. *Pass measures to establish the U.S. as an Iranian oil-free zone to provide U.S. leverage in enforcing the EU oil embargo*

To provide the U.S. with leverage to enforce the EU oil embargo, and limit the possibility of European refineries buying Iranian oil through payment mechanisms not connected with the CBI, Congress should establish the United States as an Iranian-oil-free zone.[42] The idea would be to penalize any European refinery selling refined petroleum to the United States, which contains any Iranian crude. Congress should close the loophole in U.S. law that allows refined petroleum made from Iranian crude to enter the U.S. market even though Iranian crude itself is prohibited. This would force refineries, which are

[41] "S. 2101: Iran Sanctions, Accountability, and Human Rights Act of 2012," *Govtrack.us,* Accessed May 14, 2012. (http://www.govtrack.us/congress/bills/112/s2101/text); "H.R. 1905: Iran Threat Reduction Act of 2011," *Govtrack.Us,* Accessed May 14, 2012. (http://www.govtrack.us/congress/bills/112/hr1905/text)

[42] Mark Dubowitz and Reuel Marc Gerecht, The Case for an Iranian-Oil-Free Zone, *The Wall Street Journal*, May 31, 2011.
(http://online.wsj.com/article/SB10001424052748703730804576321372879366338.html)

tempted to circumvent the EU embargo, to risk losing access to the lucrative U.S. market (where European refineries are the largest exporters of refined petroleum to the U.S.), in addition to any penalties they would face from European authorities.

Chairman Ros-Lehtinen, Ranking Member Berman, and distinguished Committee Members, on behalf of the Foundation for Defense of Democracies, I thank you again for inviting me here today.

Chairman ROS-LEHTINEN. Thank you so much.
Dr. Takeyh.

STATEMENT OF RAY TAKEYH, PH.D., SENIOR FELLOW FOR MIDDLE EASTERN STUDIES, COUNCIL ON FOREIGN RELATIONS

Mr. TAKEYH. Thank you very much for inviting me, Madam Chairman, Congressman Berman. I am also very privileged to be here with Ambassador Wallace and Mr. Dubowitz, who have done much to draw attention to this particular issue.

As has been discussed, diplomacy has resumed its place in the Iranian drama. I would like to draw attention to some of the Iranian calculations as I understand them, because I think little is being paid to contradictions that are likely to complicate Tehran's path to a prospective settlement.

The objectives of the United States and the Western powers are as seamless as they are obvious. We hope for confidence-building measures yielding a durable arms control agreement. Al Khamenei's path, however, the Supreme Leader's path is beset by contradictions.

For long, Iran's Supreme Leader perceived that he could advance his program at a tolerable cost to his economy. Today he stands at crossroads of conflicting ambitions. On the one hand, the Supreme Leader needs America as an enemy and a robust nuclear infrastructure to legitimize his rule. Yet, such convenient enmities further erode his economy and potentially threaten his hold on power. Whether he can untangle these contradictions will determine the success or failure of the latest diplomatic efforts.

As a revolutionary, Al Khamenei has long pursued a confrontational foreign policy as a means of reinforcing the regime's ideological identity. What many observers often miss about the Islamic Republic is that its leaders may rationally opt for self-defeating policies abroad in order to buttress a certain ideological character at home. The theocratic state needs an American enemy, and it needs some degree of estrangement from the international community as a means of sanctioning its hegemony of power. In contemplating his moves, Supreme Leader has to calibrate how transacting an agreement with nefarious Westerners impact his need for such useful enemies.

Nuclear empowerment has emerged as a core element of Islamic Republic's strategic conception. Iran's quest for nuclear capability is not really predicated on ideological assumptions. An enhanced nuclear capacity gives Iran ability to assume a more dominating role in the region that is beset by political transitions.

Moreover, unfortunately, the history of proliferation suggests that nuclear weapon states ordinarily receive better treatment from the international community in terms of resumed contracts and diplomatic recognition, whether it is Pakistan, China, so on and so forth.

The argument that a nuclear armed nation is too dangerous to remain isolated and must be reintegrated in the global system has proven compelling over time.

Despite these frequent professions of autonomy and self-sufficiency, Iran is profoundly dependent on global economic structures.

After all, Iran subsists on revenues derived from an export commodity whose price and the means of transport are determined by actors beyond its control.

For Iran to successfully sell its oil it requires access to global financial institutions, tankers that are insured by European firms largely, and customers that have alternative suppliers. Can a stage really reject global norms yet benefit from the prevailing mechanisms of international trade? And here lies Khamenei's dilemma as his revolutionary foreign policy and his quest for nuclear capability are increasingly clashing with the vulnerabilities of his state.

Al Khamenei today faces a choice he would rather not make. He Supreme Leader would much prefer to persist with brandishing his anti-Western slogans, incrementally expanding his nuclear apparatus, and somehow managing Iran's economy. Protracted diplomacy may actually serve his cause and his inclination to muddle through where he can attempt to offer some compromises for a measure of sanctions relief. In such a format, he can protect essential aspects of the nuclear program.

Despite the limitations of the diplomatic process, there is still much the West can do. My colleagues have highlighted some of these issues. I think after decades of sanctions and pressure, the international community is finally placing the Supreme Leader in a position where he can no longer afford both his enmities and his economy.

The Western powers would be wise to stress that sanctions will not be lifted until there is a fundamental different Iranian approach to the issue of proliferation. As such, the European boycott of the Iranian oil scheduled to take place in July should be implemented irrespective of offers that Iran is likely to dangle between now and then, and the same can be said about the central bank sanctions that are designed to take effect.

It must be said that it is entirely possible that the Supreme Leader will opt to preside over a country that has greater nuclear capability and a permanently degraded economy. He may opt for that choice. Still, the objective of the Ally Diplomacy should be to compel him to make a choice and deprive him of his uncanny ability to continuously square his many circles. Thank you very much.

[The prepared statement of Mr. Takeyh follows:]

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Before the Committee on Foreign Affairs
United States House of Representative
112th Congress, 2nd Session

May 17, 2012

"Sanctions: Strategy, Implementation and Enforcement"

As diplomacy reclaims its place in the Iran's nuclear drama, little attention is being paid to a series of contradictions that are likely to complicate Tehran's path to a settlement. The objectives of the United States are seamless and obvious: a series of confidence-building measures yielding a durable arms control agreement. Ali Khamenei's path, however, is beset by a litany of incongruities. For long, Iran's Supreme Leader perceived that he could advance his nuclear program at a tolerable cost to his economy. Today, he stands at crossroads of conflicting ambitions. On the one hand, Khamenei needs America as an enemy and a robust nuclear infrastructure to legitimize his rule. Yet, such convenient enmities only further erode his economy and potentially threaten his hold on power. The fate of Washington's latest diplomatic gambit rests on Khamenei's willingness to untangle these contradictions.

Useful Adversary

More than thirty years after Ayatollah Khomeini came to power—and two decades after his passing—the Islamic Republic remains an outlier in international relations. Unlike other non-Western, revolutionary regimes that, over time, eschewed a rigidly ideological approach to foreign policy and accepted the fundamental legitimacy of the international system, Iran's leaders today remain largely committed to upholding Khomeini's worldview. The founder of the revolution's international vision had to have an antagonist, a foil to define itself against. A

caricatured concept of the West soon became the central pillar of his Islamist imagination. The Western powers were rapacious imperialists determined to exploit Iran's wealth for their self-aggrandizement. The Islamic themes were not far behind, as the West was also seeking to subjugate Muslims and impose its cultural template in the name of modernity. In a sense, for Khomeini the Shah was a mere tool of a larger Western conspiracy to plunder and abuse the Muslim world. One of the principal purposes of the Islamic Revolution was to expose the manner in which the West sustained its exploitive presence through local proxies. Disunity among Muslims, the autocracies populating the region, the failure of the clerical class to assume the mantle of the opposition, and the young people's attraction to alien ideologies were all somehow byproducts of a Western plot to sustain its dominance over Islam's realm.

The resilience of Iran's Islamist ideology as a guide for successive generations of policymakers is striking. One cannot argue that the present-day foreign policy of China is being structured according to Mao's thought, nor is Ho Chi Minh the guiding light behind Vietnam's efforts to integrate into a larger Asian community of nations. Iran's leadership, however, continues to implement policies derived, in part, from Khomeini's ideological vision—even when such policies are detrimental to other stated national interests of the country; even when such policies are rejected by a sizeable portion of the ruling elite.

As a recalcitrant revolutionary, Khamenei has long pursued a confrontational foreign policy as a means of reinforcing his regime's ideological identity. What Western observers often miss about the Islamic Republic is that its leaders may rationally adopt self-defeating policies abroad in order to buttress a certain ideological character at home. The theocratic state needs an American enemy and some degree of estrangement from the international community as a means of sanctioning its hegemony of power. Enemies lurking abroad, hatching imaginary plots makes it easier for Khamenei to justify his revolutionary verities. In contemplating his moves, Khamenei has to calibrate how transacting an agreement with nefarious Westerners impacts his need for useful enemies.

In many ways, China's experience encapsulates the paradigm of the life cycle of a non-Western revolutionary state. Initially, the new regime rejects the existing state system and norms of international behavior, especially respect for sovereignty. Foreign policy decision-making dominated by ideological considerations, even if there are concessions made to pragmatic concerns. But, over time, a clear trajectory is observed. As the next generation of leaders comes to power, the ideology is modified and later abandoned outright in favor of becoming a "normal" country, usually to promote the economic development and modernization of the country.

This continues to puzzle Western policymakers—why Iran has not yet become a post-revolutionary country. What makes this case more peculiar is that by the late 1990s, Iran did

appear to be following the footsteps of states like China and Vietnam, at least in terms of its foreign policy. Yet this evolution was deliberately halted and then more fundamentally reversed by the election of Mahmoud Ahmadinejad in 2005. Paradoxically today, it is the younger generation of Iranian leaders who have rejected the more pragmatic, non-revolutionary approach of their elders—such as Rafsanjani and Khatami—in favor of reclaiming the legacy of Khomeini in foreign affairs; a commitment, rooted in austere Islamist vision, to overturning the regional order and to find ways to challenge the existing international system.

In the end, the Islamic Republic has managed to maintain its revolutionary identity in face of counter-veiling pressures, elite defection, and mass disaffection. The institutional juggernaut of the revolution, an elite molded in Khomeini's image or mere domestic politics that press factions in a manner that ill-serves a country's interests are all valid. However, Iran's foreign policy has also played a crucial role in sustaining its domestic ideological identity. A narrow segment of conservative clerical elite, in command of key institutions of the state, have sought to fashion a foreign policy that would maintain the ideological character of the regime. As such, preoccupation with external determinants—changing balance of power in the region, the rise and fall of superpowers—misses a key ingredient about how the Islamic Republic thinks of itself and its role in the Middle East.

Nuclear Empowerment

The primary supporters and drivers of the nuclear program within the Iranian government are hardline elements associated with the Supreme Leader Ali Khamenei. Through command of key institutions, such as the Revolutionary Guards and the Guardian Council, Iran's reactionary elite have enormous influence on national security planning. A fundamental tenet of the hard-liners' ideology is that the Islamic Republic is in constant danger from predatory external forces, necessitating military self-reliance. This perception was initially molded by a revolution that sought not just to defy international norms but to refashion them. The passage of time and the failure of that mission have not necessarily diminished the hard-liners' suspicions of the international order and its primary guardian, the United States.

At the core, all disarmament agreements call upon a state to forgo a certain degree of sovereignty in exchange for enhanced security. Once a state renounces its weapons of mass destruction program it can be assured of support from the international community should it be threatened by another state possessing such arms. This implied trade-off has no value for Iran's hardliners. Iran's prolonged war with Iraq has done much to condition their worldview and behavior. Iraq's use of chemical weapons against Iran has reinforced Iran's suspicions of

international order. For many within the Islamic Republic's reactionary leaders, the only way to safeguard Iran's interests is to develop an independent nuclear deterrent.

The ultimate arbiter of Iranian politics and the person responsible for setting the national course remains Khamenei. Thus, far Khamenei has found much to recommend in the hard-liners' perception. Khamenei has echoed the claims of the militants in stressing that any setback will encourage the enemy to become more assertive. A Supreme Leader who has survived myriad of internal and external challenges, he seems at ease with the hardliners nuclear advocacy. Thus far, the Supreme Leader has opted for a more judicious and incremental approach to nuclear empowerment. It is a strategy that has served him well, as Iran has succeeded in expanding its nuclear infrastructure and has transgressed a series of Western red-lines. The price for such advances has been increasing economic penalties and a degree of international isolation. It is a price that is increasingly difficult to bear.

Beyond issues of security and power projection, there are two other factors that may impact the direction of the nuclear program—bureaucratic politics and nationalism. Whatever strategic benefits such weapons offer a state, they are certainly a source of parochial benefits to various bureaucracies and politicians. As such constituencies emerge, a state can cross the nuclear threshold even if the initial strategic factors that provoked the program are no longer salient. The emergence of bureaucracies, particularly the scientific community and military, in Iran is generating its own proliferation momentum, empowering those who seek a nuclear breakout. As time passes, the pragmatic voices within the Iranian leadership calling for hedging or moderation are likely to be marginalized and lose their influence within the regime.

The maturing of the nuclear program has generated patriotic fever, and the regime has certainly done its share to promote the importance of the atomic industry as a pathway to scientific achievement and national greatness. From issuing commemorative stamps to celebrate enrichment, the clerical regime believes that a national commitment to the cause of nuclear self-sufficiency can once more revive its political fortunes. The problem with this approach is that, once such a nationalistic narrative is created, it will be difficult for the government to offer any concessions without provoking a popular backlash. After years of proclaiming that this is the most important issue confronting Iran since the nationalization of the oil industry in 1951, the government will find that meekly suspending the program will challenge the legitimacy of the state. The Islamic Republic's deliberate strategy of marrying Iran's national identity to the cause of nuclear aggrandizement makes the task of diplomacy even more daunting.

In the end, nuclear empowerment has emerged as a core element of the Islamic Republic's strategic conception. As evident, Iran's quest for nuclear capability is not predicated on illogical or irrational assumptions. An enhanced nuclear capacity gives Iran the ability to

assume a more domineering role in a region beset by unpredictable transitions. Moreover, the history of proliferation suggests that nuclear-weapon states ordinarily receive more favorable treatment from the international community in terms of resumed diplomatic and commercial relations. The argument that a nuclear-armed nation is too dangerous to remain isolated and must be reintegrated into the global system has proved compelling over time. Given such advantages, it should not be surprising that Khamenei is averse to arresting Iran's nuclear trajectory through enduring concessions.

The Path ahead

Despite its frequent professions of autonomy and self-sufficiency, Iran is profoundly dependent on global economic structures. After all, Iran subsists on revenues derived from an export commodity whose price and means of transport are determined by actors beyond its control. For Iran to successfully sell its oil, it requires access to global financial institutions, tankers that are ensured by European firms and customers that have alternative suppliers. Can a state really reject global norms and yet benefit from the prevailing mechanisms of international trade? And here lies Khamenei's dilemma, as his revolutionary foreign policy and his quest for nuclear arms are increasingly clashing with the vulnerabilities of his state.

Ali Khamenei today faces a choice he rather not makes. The Supreme Leader would much prefer to persist with brandishing his anti-American shibboleths, incrementally expanding his nuclear apparatus and somehow managing Iran's anemic economy. In an ironic manner what may allow him to defer fundamental decisions is protracted diplomacy. A multi-staged diplomatic process plays well into his inclination to simply muddle through, as he can trade some modest compromises for a measure of sanctions relief. In such a format he can protect the essential aspects of the nuclear program while providing his regime some breathing room. Despite the limitations of the diplomatic process, there is still much that the West can do to press Khamenei toward coming to terms with his contradictions. After decades of sanctions and pressure, the international community is finally placing Khamenei in a position where he can no longer have both his enmities and his economy. The United States and its allies would be wise to stress that sanctions would not be lifted until there is a fundamentally different Iranian approach to the issue of proliferation. As such, the European boycott of Iranian oil scheduled to take place in July and the American sanctioning of Iran's Central Bank should be implemented irrespective of the offers that Iran is sure to dangle between now and then. It is entirely possible that the Supreme Leader will opt to preside over a country with an empowered nuclear program and a permanently degraded economy. Still, the objective of allied diplomacy should be to compel

Khamenei to make a choice and deprive him of his uncanny ability to continuously square his many circles.

Chairman ROS-LEHTINEN. Thank you for excellent testimony the three of you. Thank you.

When you talk about the Supreme Leader, as we know, in July 2011 Treasury sanctioned and designated six al-Qaeda terrorists and reported that they are working for a network that would be headquarters in Iran operating under an agreement between al-Qaeda and the Iranian regime. Do you think that the administration should sanction senior Iranian political leadership folks, including Ahmadinejad and the Supreme Leader? He has the authority under Executive Order 13224 because they are providing material support to al-Qaeda?

And let me ask you the additional question. Now, a lot of individuals in the international community are under the impression that the United States has done everything we can to fully sanction the Iranian regime. And, as we know, and we discussed right here, nothing could be further than the truth. And you have pointed out in your testimony we must fully end Iran's access to international banking system, increase pressure on Iran through the insurance sector, require companies that avail themselves of U.S. capital market to disclose the business that they conduct in Iran, and with the Iranian regime, bar international cargo and crude shippers that serve Iranian ports from docking in U.S. ports for 10 years. There is so much more that needs to be done, in addition to sanctioning the Supreme Leaders, tell me what you think will come out of this upcoming negotiations on May 23rd in Baghdad. What has been accomplished with previous negotiations? What could be accomplished with this, and why is there that sense incorrect that we have done all the sanctions that could possibly be had, and that is why there is nothing else to do but to negotiate for some settlement. If you could comment on any of those. We will start with Ambassador Wallace.

Ambassador WALLACE. Thank you, Madam Chairman. It is a very important question, and a good question.

This committee has really led in the area of sanctions and dragged, frankly, much of the rest of the sanctions community along with it over the years. And it is a problem we have been dealing with since 1978–79, and we have seen really bad behavior from Iranian regime. And we haven't dealt with Iran effectively through successive administrations.

We called for something very clear, United Against Nuclear Iran, and I am hoping to convince you all that it is possible. We have to have an economic blockade of that government.

As Ray testified very accurately, this is an economy that is very dependent upon outside forces. We can do that, and our focus has been on banking, insurance, disclosure and debarment, and shipping, and importantly, oil. And if we say no more banking, no more insurance, deny any shipping opportunity, and force all Iranian businesses to disclose and continue to pursue the oil embargo, you will see that economy continue to be stressed.

When this committee did such important work on SWIFT, my colleagues at the table, as well, we tracked the rial, the Iranian currency. And when you looked at the precipitous drop of the rial at the time of the sanctioning of SWIFT, and the discussion even of sanctioning of SWIFT it was an incredible and precipitous drop.

If we were able to cut them off fully and completely from the banking industry, deny their oil exports in a fundamental way, continue to do so, and their ability to ship, have an impact on their automotive industry. We have a plan to sanction their automotive industry. It is a dirty little secret, but it is the 13th largest automotive producer in the world. It is the fastest growing in the Middle East. It is the largest part of their economy other than oil. We have to do more to sanction these areas of the economy.

Chairman ROS-LEHTINEN. Thank you, Ambassador Wallace. And I will let the other gentleman go.

Mr. DUBOWITZ. I think the most effective sanction that is available that is out there is the sanction that decreases the global price of oil, because the Iranian budget today is set at a price per barrel at $85. So, while I absolutely agree with my colleague here that we should seek the most robust sanctions, we have to also be cognizant of the fact that anything we do that spooks oil markets and drives up the price of oil will only enrich Al Khamenei, only buy him more time, will only embolden him. So, we should be very careful about threading the needle when it comes to oil market sanctions, and financial sanctions.

I would argue that with spare capacity still very tight in the market, the best thing we can do is turn Iranian oil into a toxic asset, into a distressed asset, and in doing so force the Iranians to offer price discounts on every barrel.

Chairman ROS-LEHTINEN. Thank you. And I apologize, maybe somebody will get to you, Dr. Takeyh. I am out of time. Thank you, sir. Mr. Berman is recognized. Thank you.

Mr. BERMAN. Dr. Takeyh, you spoke of an ideological regime in your written testimony. But ideological regimes, I mean, I think of the Soviet Union in 1939 cut deals to insure survival. Do you think that there is a real chance that the economic pressures, the damage to the economy, the growing unrest, the factionalization within the regime offers some prospect of, if we stay the course and pursue this, getting them to shift their calculus?

Mr. TAKEYH. As you mentioned, Congressman Berman, this is intensely an ideological regime. It is kind of animated by certain ideological spirit.

I think that what could compel the Supreme Leader and a narrow circle of advisors to change their calculus would be if they fear they are going to lose power, if they feel all the walls are closing in and they have no option but to engage in some sort of diplomacy in order to relieve that particular status. So, it would have to be strenuous enough to threaten the regime's hold on power.

We think of economic sanctions as one of the tools in the toolbox. There are other things I think we can do. For instance, Iran—we have to work harder to make sure they remain regionally isolated and largely isolated from the international community. I think as has been mentioned by members of this committee, there are some we can do to support forces of domestic dissent. And there is a relationship between domestic dissent and economic debilitation. So, it has to be a multi-pronged process to compel this particular regime to agree to some sort of an agreement. It would have to be quite a strenuous policy.

Mr. BERMAN. All right. Mr. Dubowitz, you made an interesting point as we talk about an additional litany of sanctions. There are also sanctions in place that have not yet been—there is legal authority in place to impose sanctions that have not yet been imposed, even if there were to be no additional sanctions beyond what existed CISADA and the central bank sanctions. What would you suggest the administration do here? And put into that that they haven't yet done with the existing authority they have now.

Mr. DUBOWITZ. Well, Congressman Berman, I think that that is really the key. You know, we talk a lot about new sanctions, and we all like to develop or help develop new legislation, but the key for sanctions is enforcement.

Mr. BERMAN. We are not paid on a commission basis.

Mr. DUBOWITZ. Exactly.

Mr. BERMAN. But I get your point.

Mr. DUBOWITZ. There already is existing authority under U.S. law. The President has the power to really crack down on the Iranian economy, on the Iranian oil sector. We should be designating the National Iranian Oil Company and all its subsidiaries. We should be designating the National Iranian Tanker Company and make it very difficult for the Iranians to ship. We should be imposing a much broader insurance embargo on Iran, and we should be kicking off banks from SWIFT, on the one hand. But on the other hand, what we need to do is be very careful about threading the needle because there are sanctions that make us feel good, and there are sanctions that do good. And any sanction that actually creates the perception that there is going to be a physical supply disruption of Iranian oil too quickly is going to spook oil markets and drive up the price, and in doing so, neuter all the sanctions that we are actually trying to impose.

Mr. BERMAN. Your organization put out a paper which affected my thinking, which was you don't have to achieve the absolute boycott of Iranian petroleum worldwide to have massive impacts on the Iranian economy. And if other countries, oil-producing countries help make up the difference, less impact on price, greater impact on Iran.

Mr. DUBOWITZ. Well, that is exactly right. I mean, I think the goal here is to get the Iranians to sell their oil at a discount. The goal is to cut Iranian supply up to the point at which the Saudis and others can replace it, and effectively turn Iranian oil into, as I said, a toxic asset.

I think one of the most effective sanctions that we have actually put in place is a sanction that didn't get much attention. It was actually implemented by the administration in convincing Norr Islamic Bank out of Dubai to stop repatriating oil profits back to Iran. You know, you can sell all the oil you want, but if you are getting Rupees and Yuan in a barter trade, and if you are getting all of these dollars in Euros that you can't repatriate, all of that is useless. So, I think that the goal should not be on an oil embargo; the goal should be in focusing on cutting hard currency oil revenues from Iran, which can be done in a variety of precise ways that don't ultimately and inadvertently enrich the regime.

Chairman ROS-LEHTINEN. Thank you very much. Thank you, Mr. Berman. Mr. Smith is recognized.

Mr. SMITH. Thank you very much, Madam Chair.

Let me first, note and thank for their service those who are survivors from the terrible bombing in Beirut. I would note that Paul Innocenzi who was from my district, I remember being at his funeral. He was one of the victims who died in that terrible, terrible act of terrorism, and we all remember him. And thank you again for your service.

Let me ask a couple of questions. First, I notice again, Ambassador Wallace, you make the point that this regime will never change course due to half-measures. And I would note, Mark Dubowitz, you point out something I think many of us are concerned about, and that is the idea of sanctions relief in the shadows. And I really thank you for bringing that, and giving some very specific possibilities that would evade press, and maybe even congressional scrutiny the way it shouldn't.

I do believe the President should have some flexibility but I am very worried, and I think we all are, that in the time frame there may be an effort to postpone sanctions, maybe wittingly or unwittingly, thinking it is going to do the issue better, but you have got to wonder.

And I think your first point, the standard—relaxing the standard of what constitutes a significant reduction to the volume of petroleum purchased from Iran as provided under Section 1245 of the NDAA, and you did point out again in your statement—I think this is very important, that the administration has refused to specify how much of a cut qualifies as significant. And I think you might want to expand on that, and perhaps our other witnesses, I would appreciate it.

Secondly, Youcef Nadarkhani has, as you know, posted a very important statement. He apparently is getting 9 years for simply believing in Christianity and being a pastor. I think, and I would hope the Iranians would sit up and take notice, maybe they don't care. But some of us have raised this issue directly to Iranian leaders. We believe in religious freedom, and that includes Muslims' freedom to establish mosques, to practice their faith in an unfettered way, and the mistreatment of this pastor is emblematic, I would suggest, and I think you would agree, of an intolerance that brings dishonor to Iran. So, our belief would be that 9-year sentence is absolutely unwarranted. Obviously, the death sentence was an absolute outrage, but this is not good, as well. Perhaps, if you could speak to that issue of the sanctions relief in the shadows especially as it relates to the upcoming conversation with the Iranians.

Mr. DUBOWITZ. Thank you, Congressman Smith. I mean, I guess my concern with sanctions is so much of it happens in the shadows with respect to implementation. So, we can pass all the new sanctions we want and issue press releases, and be proud of what we have done, but in the shadows at a level of detail and granularity that is often not visible, the Iranians could be circumventing sanctions and getting the sanctions relief that they most desperately need, which is hard currency from oil earnings.

Now, on the significant reduction threshold, one way to give the Iranians hard currency is to lower the standard. Now, as you pointed out, the administration has refused to adhere to a specific num-

ber, despite requests from Congress that that number be at least 18 percent. And it is entirely possible that come June 28th, that the standard would be lowered by 3–5 percentage points, really would mean $3–5 billion of extra hard currency in Iranian coffers. And I think it is critical that Congress play its oversight role in holding the administration accountable for what really constitutes a significant reduction, and that we don't give concessions to the Iranians, as I said, in the shadows in ways that I think will help them survive all of the other sanctions that we put in place.

Ambassador WALLACE. Just as to one point. Unfortunately, the global economic slowdown is giving us a bit of a gift. You see China cooling problems still in Europe and oil prices being somewhat deflated. We agree on so many things. I think we have a slight disagreement. I am less concerned about the rising price of oil to benefit the Iranians. The market is already adjusting for it, and I think the market would explode if Iran got a nuclear weapon, or God forbid there was a military strike.

I do see a heightened sense of supply in the market. We have seen commitments from oil producers to make up the difference in Iran. I think what we have to do is make as airtight as possible boycott on Iranian oil. And to the extent that Iran is selling oil to, in fact, third countries, they have to discount is so dramatically, if we impose these other restrictions that they won't be getting the benefit of a rising oil price.

Mr. TAKEYH. I will just say briefly on your question of human rights, which has significantly deteriorated in Iran since the disputed election of 2009 with show trials, imprisonment of dissidents and summary executions. I think most of our sanctions effort has been focused on proliferation. I think we should highlight also how Iran treats its own citizens, is a factor in its reintegration into the global economy.

The United Nations does have a Human Rights representative, and we have to ask him to support that particular effort. But the entire human rights issue and repression of the Iranian citizenry has dramatically escalated and intensified, not just the case that you mentioned, but an entire spectrum of issues.

Chairman ROS-LEHTINEN. Thank you very much. Mr. Ackerman, the ranking member on the Subcommittee Middle East.

Mr. ACKERMAN. Thank you. I have just been making little marks as to the word "goal," and so far the goal has been nine different things from affecting the price of oil to talking directly over the heads of the mullahs to the Iranian people, to everything that you could think of. If you have been listening to our opening statements, our goal is to affect a fictitious race between President Obama and President Bush, and who gets credit for what. And I think that what we are forgetting is regardless of what we are all doing here, is that the real goal that we think we are discussing is stopping Iran from getting a nuclear bomb. And all of these other things are ways to get them to do that, and ways to affect their thinking and, ultimately, their behavior.

The discussion that I have been trying to figure out or the two options, and I don't know that it is an either/or, and that is what I want to ask you, is whether we exclusively continue to apply the choke hold that all on this committee, or almost—I think all on this

committee have agreed to over several administrations, and to apply the type of economic pressure continuously, unilaterally if we have to, internationally as we must, to get them into a position where they have no option, but to weigh the merits of whether it is advantageous to have a bomb or to have a country. And that is the way to do it, and only that way, and ascribe that to the goal of one President or another, or to employ just having discussions that one side would like to portray, the other side is saying that you just want to talk to these people who you can't talk to, and get them to agree, which they never will. Or should we have both?

It seems to me one side would portray it that if you are having one of these extreme fighting or boxing matches, or whatever, and you are sitting on your opponent's chest and pummeling him about the head, if you say to him you give up? The other side accuses you of having a dialogue. Can you get them to a place without having a dialogue, and just having the economic sanctions, or do you need some intelligent application of both?

Mr. TAKEYH. I would say the two-track policy that offers dialogue as well as pressure track. I do think that has benefitted us in the international community in the sense that the impasse in U.S.-Iran relations is no longer blamed on the United States.

Mr. ACKERMAN. And the international community is important because we want to seem to be popular, or because they are needed in order to accomplish——

Mr. TAKEYH. Well, I think a successful sanctions regime need to be multilateralized, because all the things that have been talked about, the insurance issue that has been talked about. These are largely European companies, so the United States has largely estranged itself from the Iranian economy for the past 20 years, so if we are going to have measurable sanctions really we have to have allied coalitions.

Now, I do worry about our ability to maintain this international coalition with the reassertion of President Putin, with the changes that are taking place in France where President Sarkozy was really the steel behind this issue. So, as we go forward I think it may be more challenging for us to hold this coalition together.

Mr. DUBOWITZ. Congressman Ackerman, I would say two things. First, on the sanctions front, it is not really an either/or. We need a robust multilateral sanctions regime. We need unilateral U.S. sanctions. It is only unilateral U.S. sanctions and the penalties that have actually helped create a multilateral sanctions regime. So, I think like many bipolar debates in Washington, it is both rather than either/or.

On the question of what the goal is, I think the goal is regime change in Iran. I don't think this regime can be trusted to adhere to any agreement, no matter how tight, no matter how much accountability we impose on them. This regime is dedicated to having a nuclear weapon, and they will find workarounds in any way they can. The goal has to be to change the regime to support the Iranian people, and I think one of the ways we can do that——

Mr. ACKERMAN. How do you do that? I saw a lot of nodding of heads on your side of the table when people on my side of the table said we have to talk to the Iranian people. I mean, if we are having a difference of opinion with Iran and they want to get around our

administration, how do they talk to the American people? Can they convince Joe Six-Pack in America to go along with it? How do you talk to the Iranian people?

Mr. DUBOWITZ. Well, I think some of the practical things we can do——

Mr. ACKERMAN. Sign an agreement with who?

Mr. DUBOWITZ. Well, I think number one, we should designate Al Khamenei and the top Iranian leadership for Human Rights abuses. I think that sends a message to the Iranian people.

Mr. ACKERMAN. I will talk to Time Magazine.

Mr. DUBOWITZ. I'm sorry?

Mr. ACKERMAN. I will talk to Time Magazine end of the year.

Mr. DUBOWITZ. I think we should also declare, for example, the entire Iranian technology and telecom sector is a zone of electronic repression. I mean, one of the things we see now——

Chairman ROS-LEHTINEN. Thank you.

Mr. DUBOWITZ [continuing]. Is tremendous Human Rights abuses. Let us put an end to that.

Chairman ROS-LEHTINEN. Thank you very much. Mr. Rohrabacher, the chairman of the Subcommittee on Oversight and Investigations.

Mr. ROHRABACHER. Thank you very much, Madam Chairman. And let me just say that this has been a valuable hearing for me. If nothing else, one point that has opened my eyes to a fundamental truth in how we are trying to drum in policy. And as Dr. Takeyh's observation that in the long run if the Iranians hold out they know they can expect better treatment because they are now a nuclear armed country. And we have a history of playing up to and trying to then placate countries that have nuclear weapons. So, it would seem to me that the strategy of basically trying to make it hurt right now isn't going to work if they know there is going to be benefit for holding out in the long run; not just the ending of the sanctions, but actually better treatment in the long run.

Let me just for our friends who have come here who are the survivors of the Marine families, let me note, I worked in the White House during that time period. I take that whole issue very, very seriously.

The Iranians and the Iranian support for Hezbollah did not cause the death of your loved ones. What caused the death of your loved ones was a State Department that insisted on a mission that should have never been taken. And we handed to the Marines a mission that they couldn't fulfill, and then they were ordered not to have bullets in their guns. I don't know if you—how many people here are aware that the Marines did not have bullets in their guns by order of the Commanding Officer as demanded by the State Department.

I worked for Ronald Reagan. I was his Special Assistant, and he frequently admitted that sending the Marines into Lebanon was his worst decision of his presidency, and how much he regretted it. And afterwards he was told by his advisors, again the foreign policy gurus, that we should send in 20,000 more Marines in order to show these guys they can't kill Marines and get away with it. And he made the best decision of his presidency when he said no, we are not going to send in more Marines. We are going to get our

butts out of there, and we did; otherwise, we would have been in quagmire for the rest of the administration. And what happened after that debacle? Ronald Reagan turned to a policy and a strategy that worked. It was called the Reagan Doctrine. And the Reagan Doctrine had us supporting the enemies of our enemy and letting the enemies of our enemy do the fighting. It was a strategy that worked then, and it ended up destroying the Soviet Union without a military confrontation between American troops and the loss of so many lives that that would have taken. Instead, we helped the people in Poland, Lech Walesa, in Afghanistan, in Nicaragua. That is how we ended the Cold War.

Now, we should try to take a look and maybe there is a message for us in this, a message for what works, a strategy based on sanctions is not going to bring about the end we want, but let us take a look at Iran. There are Kurds, there are Turkmen, that are Azaris, there are Baluchs, there are Arab speaking Azaris, as well as young Persians, all of whom can be mobilized against the mullah regime, and we have done nothing to mobilize them against the mullah regime. Instead, we sit here talking about strategies, economic strategies which, again, the testimony today suggests will be ineffective because in the long run they will benefit by holding out.

Let us go to our roots. Let us go to where America is the supporter of people who are struggling for freedom, and liberty, and justice, and the people of the world will unite with us and overthrow these people who threaten the stability, and peace, and freedom of humankind as the fanatical mullah regime in Iran does.

That is just a thought. And, by the way, this administration, again, who is quiet, quiet about the demonstrations by those people in Iran, they are the same ones who are now insisting that we keep a terrorist designation for the MEK so that we can then eventually, the Iranians mullahs know we are labeling their opponents as bad guys, as terrorists. This is not a strategy that will work, and I would hope that—I have had my say, and I have got 15 seconds. I am sorry I have used up my time, but that is my time. Thank you.

Chairman ROS-LEHTINEN. Thank you, sir. Mr. Deutch of Florida is recognized.

Mr. DEUTCH. I thank the chairman. Before asking my questions, I don't know if my friend was simply trying to use the reference as some sort of rhetorical flourish or not, but I take—I think it is wrong and does a disservice to, and is on a whole host of levels offensive to suggest that the State Department is responsible for the bombing of the Marine barracks and not Hezbollah, and Iran, and Syria. And I hope the gentleman will please clarify that that wasn't actually the intent.

Mr. ROHRABACHER. When we send our troops into battle, those people who send troops into battle for a no-win battle are responsible——

Mr. DEUTCH. Reclaiming my time.

Mr. ROHRABACHER [continuing]. For those lives.

Mr. DEUTCH. Reclaiming my time, Madam Chairman. Reclaiming my time. Thank you.

Now, if I could focus first on the issue of proliferation and what is going to happen between now and July 1st, July 2nd. And if I could just ask you to address, number one, if—as these negotiations are getting ready to start again, what will come next, June 28th, July 1st, what will happen under this, if the Senate were to take up the sanctions bill and pass it today, we were to have something to the President's desk to be signed quickly. What is the most biting piece of sanctions that will come from those three first? Let me ask that question of whoever would like to comment.

Mr. DUBOWITZ. Well, I think the dates are very important. On June 28th, the President, under 1245 of the NDAA, has to make a determination about whether countries should be granted exceptions to the sanctions law based on whether they have satisfied the significant reduction threshold. Are they significantly reducing their purchases of Iranian oil? And I think it is critical that on that date that we hold these countries to account. We have granted exceptions to Japan and Europe right now, but what is key is India, China, Turkey, and other countries. So, it is important that we see what that determination looks like, and that significant reduction really means significant.

July 1st is the date that the European Oil Embargo is supposed to kick in. I think what we want to look at is, as Ray said, we want to make sure July 1st is when it actually happens, and that we don't actually concede that as sanctions relief in Baghdad and delay the imposition of that oil embargo. But an oil embargo is only as good as enforcement, and we have to be careful that 100 percent embargo doesn't turn into a 50 percent embargo by allowing Iranian oil to be disguised as non-Iranian oil and sold to Europe.

And finally, the Senate bill—I think the most important provision in that Senate bill is actually send a powerful message that the Iranian energy sector is a no-go zone because of the link between energy revenues and proliferation. So, I would hope that at the Conference Committee that bill would be strengthened with that in mind.

Mr. DEUTCH. Can the—Ambassador Wallace, when you spoke of extending sanctions to the entire Iranian economy, and if you could focus on natural gas and the sale of natural gas, and why—actually, this is for any of the three of you, why it is important to focus on the sale of natural gas, and while there is legislation that has been introduced that I am working on that is trying to expand this, is that something that can be done by Executive Order? Can CISADA, for example, be expanded to cover natural gas sales by Executive Order?

Ambassador WALLACE. Thank you. Sitting here, I haven't chimed in. I do note, we underestimate the impact that our economy has on the world. The lesson—maybe we didn't learn any lessons in the 2008 financial crisis, but one of the lessons is that what happens in America affects the entire world. And if we impose a true economic blockage with bright lines it will have a dramatic impact. And Mark very accurately talks about these shadowy things that you can do on the margins of these very complicated sanctions proposals.

I think bright lines of having bans on these certain sectors are the way to go. If you have a very bright line, transparent blockade in certain sectors, it is very much harder to break that blockade.

In terms of natural gas, I think the focus is obviously on petrochemicals, which the downstream petrochemical companies have really dramatically expanded their sales in Iran. We designated the National Petrochemical Company in Iran, but all the quasi-state and other state-related authorities have not been designated. We need to do that, and stop the growing petrochemical sector in Iran, which has been a huge source of revenue.

Chairman ROS-LEHTINEN. Thank you very much. Thank you, Mr. Deutch. Mr. Chabot is recognized, the chairman of the Subcommittee on Middle East.

Mr. CHABOT. Thank you, Madam Chair. Before I ask my question, the gentlemen from California has asked that I yield to him, and I yield 15 seconds to the gentleman.

Mr. ROHRABACHER. To clarify my position, President Reagan was responsible for the death of the Marines in Lebanon. He was the one who gave the order. He accepted that responsibility. We in political life owe a great deal to our defenders, and we owe them our very best judgment, but we are responsible for those judgments of where we send our troops. Thank you very much.

Mr. CHABOT. Reclaiming my time. A question I would like to focus on, Iranian enrichment. As I mentioned in my opening statement, I am deeply disturbed to hear that the administration is even considering offering the regime in Tehran the ability to enrich domestically, even with so called safeguards and supervisions. Doing so would allow Iran to stockpile low-level enriched uranium making it significantly easier for the regime to break out if it were to decide to do so. And offering this, it seems to me, could have ramifications not just for the Iranian nuclear program, but for the entire non-proliferation regime.

I would be interested if any of you gentlemen would like to share your thoughts specifically what it would mean for Iran's ability to actually advance toward a nuclear weapons capability this idea that the administration may be considering. Anyone in particular would like to answer that?

Mr. DUBOWITZ. Well, I just want to point out, I think it has been misrepresented in the media, that no country is actually entitled to domestic enrichment under the NPT. You are entitled to nuclear fuel, so the notion that we have to give the Iranians domestic enrichment because it is the fair thing to do is actually inaccurate. I think the Iranians if they have domestic enrichment, and if they even have the capacity, they don't need nuclear weapons to create enormous difficulties, and enormous risks for the international community. If Khamenei is at capacity, he can do anything he wants. He can threaten the region. He can threaten the United States and Israel. I think it is key to insure that he doesn't get to capacity, which is why I would again reiterate, I think the only deal that is worth having is a deal with a new government.

Mr. CHABOT. Doctor?

Mr. TAKEYH. Sure, I will just say a few things. The Iranian nuclear program as we understand and see it today is an illicit program in the sense that it, to use a Catholic phrase, it was born in

sin, in a sense that Iran has always been in violation of its arms control obligations in violation of the NPT. And there are a series of international agreements that it has to abide by.

Most of the discussion recently has been about the NPT, but there are about six U.N. Security Council Resolutions, as well, that impose demands on Iran beyond the NPT. They call for suspension of all its activities, a real suspension. They call for Iran to come to terms with its previous weaponization, and acknowledge those. And all these things have to happen before Iran comes back to conformity with the NPT. And once it comes back to the NPT, as Mark was suggesting, there are varying interpretations of it.

There is no explicit right to enrich in the nuclear non-proliferation treaty. There is right to have access to nuclear fuel, and most countries that actually use nuclear fuel don't actually enrich indigenously. You know, that purchase it from abroad and so on. So, once Iran comes back to the NPT, that is a conversation we can have, but it is not there yet. It doesn't conform with the NPT; it doesn't conform with the U.N. Security Council Resolution. And today there are contentious negotiations between Iran and the IAEA about access to military facilities, such as Porchine and so forth.

Mr. CHABOT. Thank you. I have only got a little over 1 minute left. Let me ask something if I could in a different direction real quickly. We oftentimes discuss this dynamics of sanctions, and with Iran in particular, the sanctions we want to affect the regime, and not necessarily the people of Iran. But in this particular case, the argument is that the regime really doesn't care too much how the effect is on the people because they make out fine. It is kind of the same thing with North Korea on food. They give it to the military, and the people suffer. Would one of you gentlemen talk about that dynamic and what actually happens in Iran, Mr. Ambassador?

Ambassador WALLACE. I think the leadership of Iran, as I think everyone has testified here today, is very fractured and is diffuse, but the regime has done a better job of almost any very dictatorial-like regime of permeating its economy with thugs of the regime that control its key businesses. So, when we are actually taking steps to pressure that economy, you are not seeing any of the major businesses that are operating in Iran that don't have—that aren't either owned by IRGC or controlled tacitly or explicitly by the IRGC. And to the extent that you can undermine confidence of their thugs, you will make a real impact, potentially, on the regime. So, I think it is very important to hit these key businesses and their economy.

Mr. CHABOT. Thank you. My time has expired, Madam Chair.

Chairman ROS-LEHTINEN. Thank you very much. Mr. Sherman, the ranking member on the Subcommittee on Terrorism.

Mr. SHERMAN. Thank you. Mr. Dubowitz, thank you for the work of FDD. We are going after their energy sector to some degree, their banking sector, but they do have cash reserves. China is willing to buy their oil. China can sell them many products, but what China cannot sell is the spare parts for everything in Iran, whether it be the airplanes that the Shah bought from the U.S. producers, where GE is seeking a license to repair them, or inspect them,

whether it be any elevator in any building in Iran where the equipment was imported from Europe.

Now, our closest allies say that they want to maintain what they call legitimate trade. Under American law the only legitimate trade is food and medicine. If Iran can't buy machines, and more importantly, spare parts, that would have a more immediate effect than taking away their export markets because they have a cash reserve, so even if we cut off all their exports they would have the cash.

What measures and secondary sanctions can we adopt here in Congress to convince our European and Asian friends to withhold these non-lethal exports, particularly spare parts?

Mr. DUBOWITZ. Well, thank you, Congressman Sherman. This is where I do agree that we should have an embargo. We should have an import embargo on Iran. And, as you mentioned, there are an array of goods that we should deny the Iranians, with the exception of humanitarian goods and services.

Mr. SHERMAN. You are saying—you mean an export embargo where we don't export to Iran?

Mr. DUBOWITZ. Right.

Mr. SHERMAN. I think we already have that, don't we?

Mr. DUBOWITZ. Well, I am talking about a multilateral embargo.

Mr. SHERMAN. We, the big we.

Mr. DUBOWITZ. We, the big.

Mr. SHERMAN. All the good countries.

Mr. DUBOWITZ. And I think what would be very useful, and it is in the House bill right now, and it is in the Senate package is to accelerate the designation of IRGC entities that are active in Iran's broader commercial sector. As Mark mentioned, the IRGC controls much of the Iranian economy.

We have gone after the financial sector, increasingly gone after the energy sector. But, there is a broader commercial sector. And the ability to actually designate and accelerate the designation of the IRGC companies that control Iran's broader commercial sector, and then impose secondary sanctions on any company, any international company doing business with those IRGC companies would go a long way to establishing from an Iranian perspective an import embargo.

Mr. SHERMAN. What if we were to go further and say no company in the world could get a Federal or state contract if they sold anything to Iran other than food or medicine?

Mr. DUBOWITZ. Exactly right. We should be putting these companies to a fundamental choice between doing business in Iran and doing business in the United States. If you are doing business in Iran, you are doing business with the Revolutionary Guards, and that is bad for your reputation. There will be serious financial penalties. And in doing so, you are supporting terrorism, proliferation, and human rights abuses.

Mr. SHERMAN. Ambassador Wallace, have we actually imposed sanctions on any company that had any political clout in either the United States or any of our friendly governments? As I understand it, we have sanctioned some very small Chinese traders who don't do business in the United States, are now prohibited from doing what they never thought of doing. And we have sanctioned one

Swiss corporation that was full owned by the Iranians. Have we actually had the guts to impose the Iran Sanctions Act?

Ambassador WALLACE. It is a very good question, Congressman. And you, of course, are aware that success of administrations have not adequately enforced probably what was good law from the state of the Iranian revolution in terms of sanctions. But don't underestimate something, Congressman. When you speak and ask me a question like that, and call on all businesses around the world to stop selling goods into Iran for fear of not being able to do business in the United States, that is a sanction. You just sanctioned that government, because when I go out and I challenge businesses around the world and I say we are going to make public the business that you do in Iran, and you are not going to be able to do business in the United States, you know what they do? They pull out of Iran, because they want to do business with the biggest economy in the world, so don't underestimate the power I think of these statements. But you are very right, sir, successive administrations have failed.

Mr. SHERMAN. We will keep repeating them but we need to do more than just talk. We need legislation. What would be the reaction—I mean, I think our administration has gone as far as it can in persuading foreign governments that are our friends to do what they are willing to do. What would be the reaction if we sanction, say Siemens, in a way that the German Government didn't like?

Chairman ROS-LEHTINEN. And I will persuade you to not answer that right now.

Mr. SHERMAN. Then please answer that for the record.

Chairman ROS-LEHTINEN. Thank you. Mr. Kelly is recognized, our vice chair on the Subcommittee on Asia and the Pacific.

Mr. KELLY. Thank you, ma'am. And thank you for being here today. I have actually had the opportunity to travel with our chairwoman to the Mideast right after the first of the year, and in all the countries we visited they talked about being in the same neighborhood with Iran, and the dangers of Iran actually developing nuclear weapons. And when we asked them so, what can we do to help? They kept coming back with the United States needs to be in a stronger position. It is nice to have coalitions but only if somebody is going to be the lead in the coalition.

And I was reading the Op Ed in the Wall Street Journal today. We are kind of on some kind of a crash course eventually with Iran. And I know we have been working on sanctions for many decades now, and trying to come up with something that is going to keep Iran at bay.

Ambassador Wallace, I mean, how strong is this coalition? And how—I know we keep talking about strong sanctions, and I know you answered Congressman Berman saying when we tell people you are not going to be able to do business with us, so we can walk softly and carry a big stick, but the other idea is the only way a big stick works is every once in a while if you swing it and hit somebody. So, tell me how would we approach this?

And all three, I need you to weigh in because I think the disconnection here is we think the longer we stay at the table and the longer we talk that somehow we are going to arrive at an answer. I don't think that works. I think that in this part of the world kind-

ness is interpreted as weakness, and the longer we talk the more it gives them opportunities to get ready to do something more drastic. So, if you could all just kind of weigh in on that for me.

Ambassador WALLACE. I think we all have it wrong. I think that we have to—multilateral sanctions are very, very important, and that is where we should give our diplomats and the President discretion to come up with some sort of U.N. framework or the like. There should be no discretion. This is the dominant economy in the world right now. Do not underestimate the power of our ability to do things on a unilateral basis that will have an incredible effect.

This committee has always dragged administrations and governments to tougher sanctions. If you impose an economic blockade here in the United States and deny the ability of other countries and businesses to do business here in the United States if they do business in Iran, you will be sending a huge and powerful message.

Don't underestimate it. If you require companies that come to the U.S. capital markets, that is nearly everyone. Certainly, there are some small companies out there that don't avail themselves of the U.S. capital markets. To disclose their business, if they do it in Iran, they will stop doing that business. The reputational risk is too great, but we can't underestimate the benefit of having a bright line economic blockage and using the power of our economy to impose that blockade.

Mr. DUBOWITZ. Congressman, let me give you a specific example of what Mark is talking about. With respect to financial sanctions, the U.S. administration has not sanctioned any international financial institution for violations under CISADA. And despite the fact that there are numerous banks in places like Russia, Azerbaijan, South Korea, Dubai that act as Iran's extraterritorial bankers, under current House bills and the Senate legislation it would require international financial institutions that have corresponding banking relationships in the United States that are doing business with Iran to disclose the nature and extent of their Iranian business.

If that was passed and enforced, we would know what those banks are doing with Iran. And, in doing so, we should take the step of sanctioning those banks under CISADA and cutting them off from the U.S. financial market. I think that would send shockwaves through the financial community and send a signal that the United States is serious about sanctions enforcement.

Mr. TAKEYH. I would agree with you, Congressman, that the diplomatic process that yields no tangible benefits cannot persist and it cannot persist forever. There is going to be some discussions in the next meeting maybe in Baghdad or the one following it about doing something about Iran's 20 percent enriched stockpile, and perhaps a session of further 20 percent enrichment and closure of Fordo as an interim step.

I wouldn't necessarily suggest that interim measures are a bad thing. I don't think they are a substitute for a deal. I don't think they are a substitute for arms control agreement that is real, but in some way they do arrest Iran's nuclear trajectory which has been going unabated for a long time.

So, if this process can yield that, and then we can continue to build upon it, I am not quite sure if it is effortless. Now, we may

not be able to get that through this particular process, and that will clarify itself that the diplomatic process that we have embarked upon is deficient, and we think about other measures of approaching it.

One of the problems with this particular issue has been that the way it is framed is that diplomacy versus war. And if you frame it that way, then the inclination by international community and many international actors to persist with diplomacy is quite great. And we have to kind of offer some of the things that have been said, that there is an alternative. If this diplomacy is stalled or breaks down we go back, have additional course of steps, and maybe we can put Iran in a position where it once again makes compromises.

I don't think the situation is the question that we often is what would Iran accept? The relevant question is, will Iran accept what its predicament suggests? The question is how do we put Iran in a position where it accepts an arms control agreement that would be U.S. satisfactory?

Mr. KELLY. Okay. So, just real quickly, how close to midnight are we?

Mr. TAKEYH. The physics of this largely eludes me, having failed physics twice, well, same class twice, so I don't know if that counts as twice.

I think we probably have more time than we think. I think the nuclear program of Iran is still embryonic. It is still having some technical problems. We are not at the point when they are ready to detonate, but we are—they are incrementally getting closer to that. But I think we can build more time into this effort as it goes on.

Mr. KELLY. Thank you.

Chairman ROS-LEHTINEN. Thank you so much.

Mr. KELLY. My time has expired. Thank you.

Chairman ROS-LEHTINEN. Thank you, sir. Mr. Meeks, ranking member on the Subcommittee on Europe.

Mr. MEEKS. Thank you, Madam Chair.

I am having all kinds of questions in my head. First, from my viewpoint, I agree that our economic power is tremendous. I agree that the whole idea is to have regime change. I equate it to, and my hopes are that we can do this without bombing. When I look at the Soviet Union and how it no longer exists as we knew it, says that there can be pressure that can be applied to force economies to disintegrate, and thereby compel the regime change.

I don't see how we do that just unilaterally. I think that we have to do it multilaterally, and that is why it is important to have our partners, and I think that particularly right now our European partners playing a major role as opposed to them leaving windows of opportunities for the Iranian Government to skirt around. They need to be intricately a part of what we are doing.

So, I know that our European allies have implemented not only the United Nations sanctions toward Iran, but they have gone toward the whole EU sanctions. My question then is, first, let me try to figure out, how do you evaluate the EU's efforts? I know we have been focused on ours. I want to know how you evaluate the EU's efforts in bringing sanctions, applying sanctions to Iran so that we

know that we do—we have a real teammate in working collectively together to accomplish the end of what we want to accomplish. How would you evaluate the EU?

Ambassador WALLACE. I think the EU has been very, very important, and it has taken some very, very important steps. Just three quickly. Obviously, the oil—ban on oil purchases has been of monumental importance. Its role in SWIFT has been very, very important, so I think that the EU's actions in some ways have led.

I think what my testimony previously, Congressman, was I think that the United States can take even a more robust stance in also leading and cutting off, and establishing this blockade that I talked about. But I think it is very important between now and the negotiations and the implementation of the EU ban that we encourage our European allies to not walk back those very important steps that they have taken.

Mr. DUBOWITZ. I completely agree with Mark. I think that the key when it comes to Europe has really been France. And I think that the real X factor in the negotiations in Baghdad and beyond will be what happens under a Hollande government. I mean, under Sarkozy, for those of us who have dealt with Europeans, have been to Europe, we have always been amazed at how tough the French have been on sanctions. I think they have dragged many of their European partners with them. The question will be, will Hollande continue France's tough non-proliferation stance and enforce these sanctions, or will the Hollande government become like too many of its European counterparts willing to go along, but not willing to lead?

Mr. TAKEYH. I do agree that the European sanctions have been quite instrumental and significant. And much of the Iranian diplomatic effort right now will be focused on trying to address the Europeans. Perhaps not the entire EU oil embargo, but the insurance-reinsurance provision that is actually supposed to go into effect on July 1st. And that may actually happen.

Right now, there are negotiations taking place between the Europeans and the Asian markets, the Japanese, the South Koreans, and others who have been complaining——

Mr. MEEKS. What about the non-EU nations like Georgia, Armenia, Azerbaijan, Turkey?

Mr. TAKEYH. The main Iranian trading partner used to be EU. I mean, that is gone now in terms of level of economic arrangement it has. Otherwise, it is with countries like India, China, Japan, South Korea, and so forth, those are its other main trading partners now as it is focused toward the Asian markets. But I do think one of the reasons why the insurance-reinsurance of cargo shipping may actually lapse is not so much because of Iranian-European negotiations, but because of the Asian markets that are now appealing, the Japanese and others.

And even beyond that, I think you can see—Mark can talk about this notion of sovereign guarantees, where there is a bill in Japanese Parliament, and so forth. So, I think even without insurance, the Iranian oil cargo may move as countries move to sovereign guarantees.

Chairman ROS-LEHTINEN. Thank you very much. Mr. Bilirakis, my Florida colleague.

Mr. BILIRAKIS. Thank you, Madam Chairman. I appreciate it very much. And thank you for your testimony.

Well, human rights have been systematically violated by the Iranian regime, and there seems to be no sign that the situation is improving. I know we touched on this, but I want you to elaborate if you can for the entire panel. Women, ethics, religious minorities such as Kurds, Bahai, Christians and Jews, political protestors, journalists, human rights, lawyers and others have been repressed and persecuted.

In 2010, the Comprehensive Iran Sanctions Accountability and Divestment Act included a provision that for the first time imposed sanctions against Iranian officials responsible for the country's human rights abusers. This provision has been used in at least 15 cases to my knowledge, targeting many of those who perpetrate human rights violations against the Green Movement.

Additionally, in July 2011, the U.S. and Britain imposed visa restrictions on more than 50 Iranian officials for their roles in political repression in Iran. Can you speak to the effectiveness of these targeted sanctions? I know you touched upon it, but if you can elaborate, I would appreciate it very much. Have we seen a change in Iran's approach to human rights due to this? And I probably know the answer, but I want to hear from you. Can we tailor this newest round of sanctions to more effectively pressure Iran to comply with the human rights obligations? For the entire panel, please.

Ambassador WALLACE. Obviously, I am sure it is probably the consensus of this group, I don't want to testify for my colleagues, but Iran's human rights situation is deplorable, and it has not improved. And if anything, Iran—when the Persian Spring, if you will, was the first of what you saw in the Middle East, started in 2009, and then what has happened around the Arab world, Iran has shown that it is willing to be more brutal and more repressive against its own people in order to retain its power than really almost any other government, perhaps Syria. But you have a very restive minority population, 42 percent minority there, so it is a tenuous hold, particularly as this economic pressure has been put in place.

We ran a campaign, United Against Nuclear Iran, we ran a campaign on human rights abuses where we highlighted international crane manufacturers. One of the great methods of horrible repression is Iran would stage gruesome public executions of hanging dissidents, homosexuals from cranes in public squares. And these were international crane manufacturers. And we succeeded in using those human rights violation abuses to highlight what we think are some economic measures that we can take in order to continue to isolate that regime for those very same human rights abuses.

Mr. DUBOWITZ. I would just say quickly that I do think human rights sanctions work. I don't think the Iranian regime is like the North Korean regime. I think many top level Iranian officials like to travel to Europe. They like to ski in Gstaad. They like to shop at Harrods in London.

I think the difficulty has been that we haven't—we have slapped on travel bans and asset freezes, and then we've relaxed them when these same Iranian officials become the Foreign Minister or

the Defense Minister and travel to an IAEA meeting in Vienna, or an OPEC meeting, or a U.N. meeting. So, those travel bans are great in theory, but in practice they are not being enforced.

I think the human rights sanctions are important, but I would argue that we need to go that next step. We need to sanction Al Khamenei. He is the greatest human rights abuser in Iran. It doesn't mean we still can't negotiate with this regime. But, let us send a message to the Iranian people that we agree with 75 percent of them, that Al Khamenei is a torturer, and a murderer, and should be called to account by the United States of America.

Mr. TAKEYH. This is a point that requires no reinforcement, but I think it should be reinforced anyway. The human rights situation in Iran is abysmal. You mentioned ethnic minorities, women, I think it is Iranian citizens of whatever their gender and ethnicity are being subject to harassment, repression, arbitrary judicial tribunals, show trials, just an entire spectrum of issues where Iran has emerged as one of the most repressive states in the Middle East, and that is saying something given the lofty standards of that particular region.

I think one of the limitations of our dialogue with Iran, and it is a limitation of the 5+1 process is that it focuses on proliferation, and proliferation transgressions. So, the issue of human rights never gets aired at those particular meetings. I am not quite sure if we can successfully—if you should exclude it. I think we should bring it up to the Iranian officials any time we have encounters with them, that the international community is concerned not just because of their violations of their international obligations under the NPT, but also their international obligations in a variety of human rights standards.

Iran is a signatory to various U.N. human rights documents, international human rights documents. It is a violation of Iran's international obligation to behave domestically in the way it has, and that is something that should be highlighted.

Mr. BILIRAKIS. Thank you, Madam Chair. I yield back.

Chairman ROS-LEHTINEN. Thank you very much. Mr. Griffin is recognized. He is the Subcommittee on Europe and Eurasia vice chair.

Mr. GRIFFIN. Thank you, Madam Chairman.

Ambassador Wallace, I would like to—it is good to see you here. Thanks for testifying today. I would like to dig a little deeper on the issue of auto manufacturing in Iran. And I apologize for any duplication there may have been when I was—that I might have missed. But I would like for you to name names in terms of the success that you as a group, and we collectively have had in getting some of the auto manufacturers to suspend. And I would like for you to talk about the actors that are still engaged in production or commerce with Iran, and what we can do to turn up the heat. Obviously, we can name names, and we should. But could you elaborate a little more on that, because it seems to me a lot of the commerce with Iran is in the auto production area.

Ambassador WALLACE. Thank you. It is good to see you, as well.

It is not well known, but the Persian automobile sectors are the 13th largest in the world. And as Mark testified previously, we have to do better at preventing inflows of products and goods,

spare parts, Congressman Sherman asked questions about this previously. And there are major auto manufacturing facilities and employment in Iran. This is a huge sector of their economy. Fifty percent of the country's GDP is in the industrial sector, and 20 percent of it is their automobile manufacturing. This is a sizeable part of their economy.

We have had some successes in having automobile manufacturers leave the Iranian market, the likes of Karsan, Hyundai, and Porsche, but there are some real gaping holes. Peugot right now is a major actor in Iran, major manufacturer inside Iran in direct partnership with the IRGC. You cannot manufacture an automobile in Iran without it being manufactured by an IRGC company.

We all own parts of Peugot because own GM, and this committee has the ability to contact the United States Treasury Department, which is its major shareholder, and say to GM why are you—if you are partnering with Peugot, impress upon Peugot that it cannot be the partner of the United States of America and also manufacture automobiles in Iran, and sell parts into Iran. They have supposedly slowed down their imports of the Peugot build kits, but we have to make that a permanent ban.

Another example is Nissan, a major manufacturer. Actually, I have a picture of the Ahmadinejad I guess Pope mobile or Dictator mobile which is a Nissan vehicle where he is riding in a Nissan vehicle. Well, obviously, Nissan sells cars in the United States, and I don't have anything personally against Nissan, but Nissan is a major provider of vehicles to state governments, governments around the country.

I would suggest, and I would respectfully request this committee to write a letter to our friend, Mayor Bloomberg, in New York. New York City just awarded a multi-billion dollar contract to Nissan to build the most iconic American vehicle, one of the most iconic American vehicles, the New York City taxicab to Nissan. If they are going to build our New York City taxicabs, they shouldn't be manufacturing cars with the IRGC in Iran. And we should be able to use the power of New York's pocketbook to impress upon Nissan to stop manufacturing automobiles in Iran.

This is an important part of their sector, and follows on what Mr. Sherman said, my colleagues on the panel have said, and we can put a real dent in this part of the economy.

Mr. GRIFFIN. I would be really interested in sitting down and talking with you. I would be happy to help with a letter, talk about legislation. I have some notes here that Mercedes is also continuing to do business in Iran. I drive a Ford pickup, so I hope there is no issue there. I am sure there is not. We love Ford. By the way, they didn't take any bailout funds.

So, I also have some notes that some of the companies have suspended auto trade production. Does that mean they still have resources there? What exactly does—suspended doesn't mean—it doesn't sound like they pulled completely out, Audi, General Motors, Toyota. Do you have any information on that?

Ambassador WALLACE. Yes, absolutely. We are concerned by the suspension language because there is such a large presence in Iran of this automobile manufacturing. Peugot we think is the best example. It is the biggest manufacturer in Iran, and they have "sus-

pended" sending in Peugot build kits into Iran for 5 months because of the GM partnership. That should be a permanent ban.

Mr. GRIFFIN. It looks like I am out of time but, Madam Chair, I would just say that if the Federal Government owns part of General Motors, and General Motors is doing business with Peugot, and Peugot is in Iran, that is an outrage, and we need to do something about it. Thank you.

Chairman ROS-LEHTINEN. Thank you so much. Thank you. Mr. Burton is recognized, the chairman on the Subcommittee on Europe and Eurasia.

Mr. BURTON. I love to listen to these discussions. We are going to put pressure on Iran, and they are going to change. And I start thinking about things that people don't talk about in the history books any more. Lord Chamberlain, he was going to negotiate with Adolf Hitler. Hitler violated the Treaty of Versailles. Instead of having 100,000 troops, they had millions. And while the allies were sinking their ships and destroying their jeeps and their airplanes, because if we didn't have weapons there wouldn't be any more war. Hitler was building up. And Chamberlain goes to Munich and shakes hands with Hitler. Comes back, peace in our time, and 50–60 million people died.

There comes a point when you have to talk to these guys in terms that they understand. You have got to say to them look, if you keep this crap up, you are going to die. Now, everybody wants to stay out of war. I hate war. I was shaving the other day and I heard the commentator talking about this young man. I came out and looked at the TV set and there was a good looking young man with his wife and his child, and they announced that he had both arms and legs blown off in Afghanistan with an IED. And I thought why in the hell did that happen?

With the technology we have, you can fly over without a pilot, have a hellfire missile on and put it right down somebody's chimney. We don't have to send a whole bunch of troops in. Through the technology we have, we can get anybody, anybody, but like we did in World War I, we are sitting around talking for hours, and days, and months, and years, saying oh, my gosh, you guys better stop making this nuclear weapons or we are going to sanction you.

Mr. Wallace, you talked about sanctions. We passed a sanctions bill, but it had in it a waiver for the President. So, we pass a waiver so he can do whatever he wants. And you know, you have mentioned there were a bunch of waivers, so we keep negotiating, and negotiating, and negotiating.

In Korea in 1994, we negotiated with the North Koreans. We don't want them, we will not allow them to have nuclear weapons, so we gave them the ability to get cold water nuclear reactors. They got nuclear weapons. Didn't work, didn't work. At that time, if we would said, listen, you keep this crap up and you are in big trouble, buddy, it would have worked, but we messed around and messed around. Now they have nuclear weapons. And we are doing the same thing with Iran.

These guys aren't going to stop. There is always going to be a way to get money and the things that they need. It ain't going to stop, and we are heading toward a war over there. At some point Israel, and I know Bibi Netanyahu, he is not going to risk another

holocaust. If they keep this stuff up, they are going to attack, and it doesn't need to happen.

It seems like to me we could send a message to Ahmadinejad and the mullahs and say look, we know where you are. We know where you live, and we have got the technology to put one right down your chimney. And if they knew we meant it, I think you would probably have a change in attitude. But, no, we keep on saying if we put this pressure on, and put that pressure on and negotiate, it isn't going to work. It will not work.

I have been here 30 years, and I have heard it all. And I am really disappointed that we continue down this path. One thing that we say we ought to do to our kids is teach them history. Well, we don't teach them history any more. If everybody would study history they would know that you reach a point when you can't negotiate with tyrants. When you have to stand up and say look, you stop this stuff because you are endangering humanity. We are talking about nuclear weapons now, can kill—right here. We could kill 50 million people with just a couple of bombs, so it is a lot worse than it was in World War II. So, we have to learn from history. And the history is you tell tyrants enough, while you still have time.

We had the time in Korea, but now we don't. They have got nuclear weapons, and they are working on delivery systems, so we have to do something now because they have the ability to kill a bunch of people.

Iran is not yet in that position, so what we need to do is we need to say very strongly look, we have put sanctions on you. We have done all this stuff, now we are tired of it. And the President or whoever the next President is, if we still have time, needs to say very clearly we are not going to mess with you. You keep this up, and you are going to go to Valhalla, or wherever it is. We are going to put one down your chimney. We have the ability to do it. You could be 2,000 miles away with a computer and you can fire a hellfire missile down somebody's—in somebody's car as they move along a road, or down their chimney.

It is time that we do something to stop this nonsense instead of talking about it, and killing everybody with paper. I yield back.

Chairman ROS-LEHTINEN. Thank you very much, Mr. Burton. Always good to hear your strong voice, clarity. Thank you very much, sir. Don't get frustrated. Mr. Duncan of South Carolina. You are the guy that's going to clean it up here.

Mr. DUNCAN. Thank you, Madam Chairman.

Chairman ROS-LEHTINEN. You are the last batter up. You have got to hit a home run.

Mr. DUNCAN. I am going to bat clean up here, so I appreciate the committee, appreciate the witnesses staying here as long as you have.

I can't say it any more eloquently or strongly as Mr. Burton did. And I want to echo his words. I think we should heed the words of Winston Churchill when he discussed the feeding of a crocodile hoping that he will eat you last. That is exactly what it seems like we are doing with these policies of sanctions, and they seem to be policies of appeasement.

And it is clear with the rhetoric, the posturing, and the actions of Iran exactly what they are doing. They are just buying time. They are buying time so they can do exactly what they want to do, and that is acquire a nuclear weapon and be a threat to the world, and the region, and the United States, the great Satan, the little Satan, and all of the things because that is in their rhetoric. I am not making this up personally, this what they have said.

The free world doesn't want to see Iran get a nuclear weapon. And it has been clear on that, the free world has been clear on that with its rhetoric, but not necessarily with actions that match the rhetoric. So, I guess the question for Mr. Dubowitz, you state in your testimony that Khamenei is seeking to buy his country enough hard currency from oil sales to withstand the soaring inflation, now estimated to be as high as 40 percent per year, a crumbling currency. At one point this year it was down about 50 percent, I think.

So, with all these sanctions, what is the breaking point? What do you see as the breaking point that is going to make Iran allow inspectors to come in, will remove their nuclear capability, will stop pursuing these paths of destruction?

Mr. DUBOWITZ. Well, thank you, Congressman. I would say this, that there is no evidence to date that any sanction or sanctions in their entirety have changed the risk-reward calculus of Khamenei with respect to building a nuclear weapon. I think to change that risk-reward calculus, as Ray has written so eloquently, we have to put him to a fundamental choice between a bomb and the survival of his regime. And we haven't put him to that fundamental choice. And I think part of the reason we haven't put him to that choice, as echoed by Congressman Burton, is that the Iranians don't believe there is a credible military threat. I mean, we haven't actually laid out a serious military option. You know, there are choke holds within the Iranian proliferation supply chain, particularly where you fabricate centrifuges, that if we were to put a missile down that chimney, we could do serious damage to the Iranian nuclear program and set them back by years.

And I think we have failed to communicate that sufficiently to Khamenei. I think he needs to be put to that fundamental choice. He hasn't yet. And, as you said, he has played rope-a-dope, and has successfully moved the goal post, not to mix sports metaphors, but——

Mr. DUNCAN. I agree with you. And, you know, there are two Presidents on these issues that I tend to subscribe to, one is Teddy Roosevelt. I didn't agree with everything with Teddy Roosevelt, but he did say he is going to speak softly and carry a big stick. He truly meant that the big stick works, and that you are very clear, when you speak softly to someone about your intentions and it is not idle threats at that point. It is taken very seriously. You look a person in the eye and you speak softly, but you tell them what you are going to do if they don't straighten up. That is how my dad talked to me, and he meant it.

Ronald Reagan, the reason the Iranians let the hostages go when Ronald Reagan was sworn into office is because they knew he meant what he said on the campaign trail, as it was approaching January 20th and being sworn in, they knew he meant it. And I

don't believe that Khamenei or Ahmadinejad, or the Iranians as a whole truly believe what the free world is saying, that we don't want them to acquire a nuclear weapon. So, I agree with you, and I appreciate your testimony.

Madam Chairman, I don't have anything else. I think it has all been said, so with that I will yield back.

Chairman ROS-LEHTINEN. Thank you so much, and I thank the witnesses, excellent testimony. I hope that we can move on stronger sanctions. I hope that the Senate wakes up. I fear these negotiations May 23rd in Baghdad just a lot of hot air, and a lot of concessions. We have got to get tougher.

Thank you, gentlemen, and the hearing is adjourned. Thank you, Mr. Berman.

[Whereupon, at 12:11:36 p.m., the committee was adjourned.]

APPENDIX

Material Submitted for the Hearing Record

FULL COMMITTEE HEARING NOTICE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515-0128

Ileana Ros-Lehtinen (R-FL), Chairman

May 14, 2012

You are respectfully requested to attend an OPEN hearing of the Committee on Foreign Affairs, to be held in Room 2172 of the Rayburn House Office Building **(and available live via the Committee website at http://www.hcfa.house.gov)**:

DATE: Thursday, May 17, 2012

TIME: 10:00 a.m.

HEARING: Iran Sanctions: Strategy, Implementation, and Enforcement

WITNESSES: The Honorable Mark D. Wallace
President and Chief Executive Officer
United Against Nuclear Iran
(Former United States Representative to the United Nations for Management and Reform)

Mr. Mark Dubowitz
Executive Director
Foundation for Defense of Democracies

Ray Takeyh, Ph.D.
Senior Fellow for Middle Eastern Studies
Council on Foreign Relations

By Direction of the Chairman

The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202/225-5021 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee.

COMMITTEE ON FOREIGN AFFAIRS

MINUTES OF FULL COMMITTEE HEARING

Day *Thursday* Date *5/17/12* Room *2172 RHOB*

Starting Time *10:00 a.m.* Ending Time *12:11 p.m.*

Recesses ____ (____to ____) (____to ____) (____to ____) (____to ____) (____to ____) (____to ____)

Presiding Member(s)

Rep. Ileana Ros-Lehtinen

Check all of the following that apply:

Open Session ☑ **Electronically Recorded (taped)** ☑
Executive (closed) Session ☐ **Stenographic Record** ☑
Televised ☑

TITLE OF HEARING:

Iran Sanctions: Strategy, Implementation, and Enforcement

COMMITTEE MEMBERS PRESENT:

Attendance sheet attached.

NON-COMMITTEE MEMBERS PRESENT:

HEARING WITNESSES: Same as meeting notice attached? Yes ☑ **No** ☐
(If "no", please list below and include title, agency, department, or organization.)

STATEMENTS FOR THE RECORD: *(List any statements submitted for the record.)*

Rep. Ileana Ros-Lehtinen (SFR)
Rep. Schwartz (SFR)
Rep. Smith (SFR)
Rep. Mack (QFR)

TIME SCHEDULED TO RECONVENE _____
or
TIME ADJOURNED *12:11 pm*

Jean Carroll, Director of Committee Operations

Hearing/Briefing Title: Iran Sanctions: Strategy, Implementation, and Enforcement

Date: 5/17/12

Present	Member
X	Ileana Ros-Lehtinen, FL
X	Christopher Smith, NJ
X	Dan Burton, IN
X	Elton Gallegly, CA
X	Dana Rohrabacher, CA
X	Donald Manzullo, IL
	Edward R. Royce, CA
X	Steve Chabot, OH
	Ron Paul, TX
	Mike Pence, IN
X	Joe Wilson, SC
	Connie Mack, FL
X	Jeff Fortenberry, NE
	Michael McCaul, TX
	Ted Poe, TX
X	Gus M. Bilirakis, FL
	Jean Schmidt, OH
	Bill Johnson, OH
	David Rivera, FL
X	Mike Kelly, PA
X	Tim Griffin, AK
X	Tom Marino, PA
X	Jeff Duncan, SC
	Ann Marie Buerkle, NY
	Renee Ellmers, NC
X	Robert Turner, NY

Present	Member
X	Howard L. Berman, CA
X	Gary L. Ackerman, NY
	Eni F.H. Faleomavaega, AS
X	Brad Sherman, CA
	Eliot Engel, NY
X	Gregory Meeks, NY
	Russ Carnahan, MO
X	Albio Sires, NJ
X	Gerry Connolly, VA
X	Ted Deutch, FL
	Dennis Cardoza, CA
	Ben Chandler, KY
	Brian Higgins, NY
	Allyson Schwartz, PA
X	Chris Murphy, CT
	Frederica Wilson, FL
	Karen Bass, CA
	William Keating, MA
X	David Cicilline, RI

MATERIAL SUBMITTED FOR THE RECORD BY THE HONORABLE ILEANA ROS-LEHTINEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA, AND CHAIRMAN, COMMITTEE ON FOREIGN AFFAIRS

May 15, 2012

Statement of Lynn Smith Derbyshire
National Spokesperson, Beirut Families

For the hearing by the House Committee on Foreign Affairs, Iran Sanctions: Strategy, Implementation, and Enforcement

To Chairwoman Ros-Lehtinen, Ranking Member Berman, and members of the committee,

Thank you for allowing me to submit a statement regarding sanctions against Iran. Let me begin by commending you for passing HR 1905 in December with bipartisan support, which is awaiting conference with the Senate. As you know, this subject is very personal to me because the government of Iran shattered my life almost 29 years ago, when they murdered my brother, Captain Vincent L. Smith. On October 23, 1983 the government of Iran, using Hezbollah as its assassin, bombed the Marine Corps barracks in Beirut, Lebanon, killing 241 servicemen including my brother, and wounding countless others. In this wanton act of terror, Iran destroyed not only these men, but their families back home in America. We wept and prayed day after day, week after week, while we waited for news. We sat sleepless by our phones and our television sets desperate for some news of Vince. It took three weeks for them to identify him; they were the most tortuous three weeks of my life. My parents lost their first-born son and they have never been the same.

Iran has continued to perpetrate acts of terrorism against Americans unchecked and it has continued to rip apart families like mine, and yet there has been no justice. Iranian terrorism has to stop; we have to hold Iran accountable and we have to use every measure available to do so.

We need to enact tougher, harder sanctions against this rogue regime. And we need to pass H.R. 4070, sponsored by Rep. Robert Turner and cosponsored by Chairman Ros-Lehtinen and a bipartisan coalition, which will assist the more than 1,300 victims of Iranian terrorism to finally receive justice from the government of Iran for the atrocity of the Beirut Bombing. This law will tighten up loopholes in current law and clarify laws regarding Iranian Central Bank immunity. It will enable the U.S. to deprive Iran of about $1.8 billion in funds that it could otherwise use to fund its nuclear proliferation and terrorist activities.

We need to come at Iran from two angles—making it harder for them to perpetrate crimes, while holding them responsible for the crimes they have already committed. Seizing Iranian funds laundered into the United States for commercial investment and giving those funds to victims of terrorism with valid final judgments goes a long way to accomplishing these goals. I urge the members of this committee to support this legislation.

We must act to deter more crimes of terrorism by holding the Iranians accountable, and we must do it now. It has to cost them something or we will continue to allow Iran to get away with murder. And because they are getting away with it, they continue to build more bombs and fund more heinous acts of terrorism. Just imagine what they will do with this free ride once they have nuclear weapons! It is unthinkable. I can't sit back and do nothing while terrorists continue to destroy families.

My brother Vince was dear to me. His murder ripped a hole in my life that has never healed. Every time there is another terrorist attack, the wound is ripped open again. It affects me every single day. I don't want any of you to suffer what the Beirut Families have endured all these long years. Time has not healed our wounds because there has been no justice. I ask you, Congress, to pass these two bills, and to work tirelessly to affect whatever additional legislative changes are necessary to impose such hardship on the government of Iran that they will have no choice but to stop their wanton killing, to own up to their crimes, and to make restitution for those already committed.

Again, thank you for the privilege of submitting a statement today. I am respectfully,

Lynn Smith Derbyshire
Sister of Captain Vincent Smith, United States Marine Corps, a victim of the bombing of the Marine Corps barracks in Beirut, Lebanon on October 23, 1983

PREPARED STATEMENT OF THE HONORABLE ALLYSON SCHWARTZ, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF PENNSYLVANIA

Madam Chairman, I commend you for calling this important hearing examining the sanctions imposed on Iran.

I remain committed to ensuring that Iran does not achieve nuclear weapons capability. A nuclear-armed Iran would undermine our nuclear non-proliferation efforts by setting off an arms race in the Middle East. It would provide Hamas and Hezbollah with the protection of a nuclear umbrella and increase the chances that a nuclear weapon could end up under the control of a terrorist organization.

The Obama Administration has consistently worked to isolate the Iranian regime and to unite the international community around the need to address this grave threat. The Administration has successfully built support for vital multilateral sanctions and its enforcement of U.S. sanctions has been unprecedented.

These sanctions have clearly impacted the Iranian regime's behavior. The value of the rial has collapsed; Iran finds itself severed from the global financial system; and it is now struggling to find markets for its crude oil. The increasing economic pressure has undoubtedly pushed Iran back to the negotiating table.

The upcoming Baghdad talks are a promising development, but simply talking is not enough. Nor does talking justify any easing of the sanctions. I have consistently supported efforts to enhance sanctions against the regime and hope that Congress will soon complete its work strengthening the United State's sanctions effort. Iran must finally begin to meet its international obligations.

Once again, I thank the Chairman for holding this hearing and I will continue to work with my colleagues to achieve our shared goal of ensuring that Iran does not obtain nuclear weapons capability.

Iran Sanctions: Strategy, Implementation and Enforcement
House Committee on Foreign Affairs
May 17, 2012
Representative Christopher H. Smith

A nuclear weapons-capable Iran poses an unprecedented and absolutely unacceptable threat to Israel, its neighbors, the United States, Europe and the world.

Some have variously suggested that the mutually assured destruction (MAD) theory that mitigated the threat of nuclear annihilation of the Soviet Union is somehow applicable to a nuclear Iran. It isn't.

Unlike Moscow's penchant for survival, the Iranian dictatorship savors – welcomes – individual and mass suicide as somehow noble and worthy of eternal paradise.

I congratulate Chairman Ros-Lehtinen and Ranking Member Berman for working tirelessly to strengthen sanctions – especially the potentially most effective sanction of all: the shutdown of Iran's banking capabilities.

In his testimony, Ambassador Mark Wallace, says: "First, we must fully end Iran's access to the international banking system. All Iranian financial institutions and banks should be sanctioned, and there should be no exceptions to the areas of prohibited banking activity."

I couldn't agree more.

House Committee on Foreign Affairs
Iran Sanctions: Strategy, Implementation, and Enforcement
May 17, 2012
Foundation for Defense of Democracies
Mark Dubowitz

Question for the Record of the Honorable Connie Mack

- **On May 1, 2012, the President signed an Executive Order (E.O.), "Prohibiting Certain Transactions with and Suspending Entry into the United States of Foreign Sanctions Evaders with Respect to Iran and Syria." According to the Department of the Treasury, this E.O. prohibits U.S. persons "from providing to, or procuring from, the sanctioned party goods, services, or technology" and is intended to cut a foreign sanctions "evader off from the U.S. marketplace." Venezuela has already helped Iran evade sanctions at least once, as identified by the U.S. Government when Venezuela's state oil company PDVSA was sanctioned by the Department of State on May 24, 2011. Ecuador has also signed agreements with Iran to facilitate financial transactions between the two countries, possibly helping Iran evade economic sanctions.**
    - How would the President's recently signed E.O. affect Venezuela and Ecuador and the interaction of U.S. persons with those countries?

Response

General

- Under Executive Order of May 1, 2012 "Prohibiting Certain Transactions with and Suspending Entry into the United States of Foreign Sanctions Evaders with Respect to Iran and Syria," foreign companies that facilitate "deceptive transactions for or on behalf of any person subject to United States sanctions concerning Iran or Syria" may be designated by the Treasury Department and banned from the U.S. market.[1] This new executive order authorizes sanctions not only against parent companies but also against those subsidiaries "owned or controlled by, or is acting or purporting to act for or on behalf of, directly or indirectly, any person determined [to be in violation of the Executive Order]."

- The Iranian regime has well-documented history of employing deceptive practices including concealing end-user information, renaming and re-flagging sanctioned ships, operating shell companies, and purchasing military goods on the black market. The Islamic Republic of Iran Shipping Lines (IRISL) and Iran's Islamic Revolutionary Guard

[1] Executive Order -- Prohibiting Certain Transactions with and Suspending Entry into the United States of Foreign Sanctions Evaders with Respect to Iran and Syria. http://www.whitehouse.gov/the-press-office/2012/05/01/executive-order-prohibiting-certain-transactions-and-suspending-entry-un

Corps (IRGC), both of which have been designated by the United States, engage in such behavior.[2]

- As multilateral sanctions against Iran have an increasing impact on the Iranian financial systems, the Iranian regime has sought to find creative ways including possibly using oil itself as a form of currency,[3] to respond to its hard currency deficits.

- As pending House bill H.R. 4317, the Iranian Energy Sector and Proliferation Sanctions Act, notes citing United Nations Security Council Resolution 1929 (2010), "the revenues derived by the Government of Iran from the energy sector of Iran may be used to fund Iran's proliferation-sensitive nuclear activities."[4] Companies that continue to do business in the Iranian energy sector may therefore be complicit in Iran's efforts to evade U.S. and multilateral sanctions. The U.S. Treasury should investigate all companies doing business in the Iranian energy sector and determine whether their actions can be considered violations of the May 1 executive order.

PDVSA

- In May 2011, Venezuela's state owned oil company PDVSA was sanctioned by the State Department for providing Iran with "at least two cargos of reformate, … a blending component that improves the quality of gasoline."[5] These sanctions prohibit PDVSA from competing for government contracts, securing Export-Import Bank financing, or obtaining U.S. export licenses. However, these sanctions do not apply to PDVSA's subsidiaries like U.S.-based CITGO nor do they impact PDVSA's ability to sell crude oil to the United States.[6]

- According to numerous press reports, PDVSA has ongoing contracts with Petropars, the National Iranian Oil Company (NIOC), and other Iranian energy companies.[7] These contracts and PDVSA's activities including its joint ventures with Iranian firms may open up the company to sanction under the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (CISADA) and pending legislation in Congress including the Iran Threat Reduction Act (H.R. 1905) and the Iran Sanctions, Accountability, and Human Rights Act (S. 2101), which have passed the House and Senate respectively and

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[2] For an example of the U.S. designations of IRISL and the IRGC, see The Treasury Department Fact Sheet: Treasury Designates Iranian Entities Tied to the IRGC and IRISL, December 21, 2010. http://www.treasury.gov/press-center/press-releases/Pages/tg1010.aspx

[3] Claudia Rosett, "Iran Sanctions: A Tale of Two Fleets," *Forbes*, February 27, 2012. http://www.forbes.com/sites/claudiarosett/2012/02/27/iran-sanctions-a-tale-of-two-fleets/

[4] Text of H.R. 4317 can be found online here: http://www.govtrack.us/congress/bills/112/hr4317/text

[5] State Department Fact Sheet, "Seven Companies Sanctioned Under the Amended Iran Sanctions Act," May 24, 2011. http://www.state.gov/r/pa/prs/ps/2011/05/164132.htm

[6] Andrew Quinn and Frank Jack Daniel, "U.S. sanctions Venezuelan oil giant for Iran trade," *Reuters*, May 24, 2011. http://www.reuters.com/article/2011/05/24/us-iran-usa-sanctions-idUSTRE74N47R20110524

[7] See Foundation for Defense of Democracies website for more information about PDVSA's activities in the Iranian energy sector. http://www.defenddemocracy.org/petroleos-de-venezuela-sa-pdvsa/

are now awaiting reconciliation in conference committee before being submitted to the President.

- PDVSA's pattern of behavior regarding Iran – its violation of U.S. sanctions and its contracts with companies with links to the IRGC[8] – raises concerns that PDVSA may be conducting activities designed to help Iran evade U.S. and multilateral sanctions.

- Were PDVSA to be found in violation of the foreign sanctions evaders Executive Order, "U.S. persons will generally be prohibited from providing to, or procuring from, the sanctioned party goods, services, or technology, effectively cutting the evader off from the U.S. marketplace."[9] PDVSA's subsidiaries could also find themselves affected by this designation and banned from the U.S. market.

- Additionally, press reports at the end of May 2012 indicate that PDVSA and Petropars Oil and Gas Company, a subsidiary of the National Iranian Oil Company, will sign a contract for $2 billion for the development of the Dobokubi oil field in Venezuela.[10] This type of joint venture would expose PDVSA to additional sanctions under pending legislation which expands sanctionable activities to include the participation in joint ventures with Iran for the development of petroleum resources outside of Iran.[11]

- Other Venezuelan companies including two joint ventures with Iran, VENIROGC[12] and Beniroug[13] may also be complicit in aiding Iran evade U.S. sanctions, or they may be in violation of other U.S. sanctions against Iran. While designation of these two companies would have a negligible direct impact as they do not have investments in the U.S., the U.S. designation could have a chilling effect on their business with other Western countries.

Ecuador

- In recent years, Ecuador and Iran have signed memoranda of understanding and agreements to cooperate in upstream and downstream oil activities and personnel

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[8] For more information on the connections between the IRGC and NICO, FDD's confidential report on this issue is available upon request. Additionally, the Iran Sanctions, Accountability, and Human Rights Act of 2012 and H.R. 3843 authored by Rep. Howard Berman require the Secretary of the Treasury to submit a report to Congress determining whether NIOC or NITC (formerly the National Iranian Tanker Company) is an agent or affiliate of the IRGC.

[9] Treasury Department Fact Sheet: New Executive Order Targeting Foreign Sanctions Evaders. May 1, 2012. http://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Documents/fse_fact_sheet_05012012t.pdf

[10] "Tehran, Caracas to sign $2bn oil contract," *Press TV* (Iran). May 29, 2012. http://www.presstv.ir/detail/2012/05/29/243666/iran-venezuela-to-ink-oil-deal/

[11] See Section 201 of the Iran Sanctions, Accountability, and Human Rights Act of 2012.

[12] "Iran, Venezuela to Build Refinery in Syria," *Press TV* (Iran). September 22, 2009. http://www.presstv.ir/detail.aspx?id=106839&sectionid=351020103

[13] "Energy Cooperation Drives a Murky Venezuela-Iran Relationship," *Oil Price,* June 6, 2010. http://oilprice.com/Geo-Politics/International/Energy-Cooperation-Drives-a-Murky-Venezuela-Iran-Relationship.html

training,[14] to build two power plants in Ecuador constructed by Iran,[15] and to export Iranian oil products to Ecuador.[16] These agreements should be investigated by the administration to determine whether they violate existing executive orders or sanctions legislation including provisions in the National Defense Authorization Act of 2012 which impose sanctions on financial institutions conducting business with the Central Bank of Iran.

- Additionally, in September 2009, the Iranian press reported that Export Development Bank of Iran (EDBI) was planning to open a branch in Ecuador.[17] The U.S. Treasury Department sanctioned EDBI in October 2008 for "provid[ing] financial services to multiple MODAFL-subordinate entities that permit these entities to advance Iran's WMD programs."[18]

- It is not clear that this branch has been opened, but EDBI states on its website that it has opened a $40 million line of credit for Ecuador with the Central Bank of Ecuador.[19] The Treasury Department should investigate this arrangement to determine whether it violates Executive Order 13382 or the foreign sanctions evaders Executive Order.

- Additionally, given Iran's history of sanctions evading behavior and use of foreign banks to access global financial markets, EDBI's relationship with the Central Bank of Ecuador raises concerns that the bank may be utilized to circumvent U.S. and multilateral sanctions. The Treasury Department should issue guidance to U.S. banks warning them of the risks that the Central Bank of Ecuador has assumed due to its relationship with a sanctioned Iranian bank. Treasury should consider putting restrictions on the Central Bank of Ecuador's ability to maintain correspondent accounts with U.S. banks.

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[14] "Iran, Ecuador Sign Letter of Understanding on Oil Cooperation," *IRNA* (Iran), September 14, 2008. http://www.payvand.com/news/08/sep/1159.html

[15] Peter Ward, "Iran to Build Power Plants in Ecuador," *Utilities-me*, March 8, 2010. http://www.utilities-me.com/article-405-iran-to-build-power-plants-in-ecuador/

[16] "Ecuador, Iran Sign Oil Products Agreement", *Dow Jones*, May 24, 2012. http://online.wsj.com/article/BT-CO-20120524-712044.html

[17] "Iranian Bank to Open Branch in Ecuador," *Press TV* (Iran), September 10, 2009. http://www.presstv.ir/detail.aspx?id=105831&sectionid=3510213

[18] Treasury Department, "Export Development Bank of Iran Designated as a Proliferator," October 22, 2008. http://www.treasury.gov/press-center/press-releases/Pages/hp1231.aspx

[19] Export Development Bank of Iran, "EDBI Credit line for Ecuador," December 21, 2008. Last accessed on May 30, 2012. http://old.edbi.ir/frmArticle_en-IR.aspx?ID=1985&CategoryID=53