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MINIMIZING POTENTIAL THREATS FROM IRAN: ADMINISTRATION PERSPECTIVES ON ECONOMIC SANCTIONS AND OTHER U.S. POLICY OPTIONS

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

ON

ADMINISTRATION PERSPECTIVES ON RECENT DEVELOPMENTS IN IRAN AND FUTURE U.S. POLICY OPTIONS

OCTOBER 6, 2009

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MINIMIZING POTENTIAL THREATS FROM IRAN: ADMINISTRATION PERSPECTIVES ON ECONOMIC SANCTIONS AND OTHER U.S. POLICY OPTIONS

TUESDAY, OCTOBER 6, 2009

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

The Committee met at 9:32 a.m. in room SD–106, Dirksen Senate Office Building, Senator Christopher J. Dodd, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN CHRISTOPHER J. DODD

Chairman DODD. The Committee will come to order.

Let me welcome all of our guests who are here in the hearing room this morning and welcome our witnesses to this hearing, as well as my colleagues who are here today. Our hearing is "Minimizing Potential Threats from Iran: Administration Perspectives on Economic Sanctions and Other U.S. Policy Options." I am going to make some brief opening comments. I will then turn to my colleague from Alabama. Normally we move right into our witnesses, but this is a subject matter, I know, in which many members have interest. So I will ask if anyone has any very brief opening comments they would like to make, and then we will turn to our two colleagues who are here—Senator Brownback and Senator Casey.

I should let you know I extended the invitation to others as well who have an interest in the subject matter. My colleague from Connecticut, Senator Lieberman, and my wife this morning are attending a funeral. We lost a wonderful young captain who was killed in Afghanistan, and the funeral services are for him this morning. And Joe, properly, and my wife are there at the funeral services in New Haven this morning. So I apologize for his absence. He has a strong interest in the subject matter, as many of you know, along with Senator Kyl and Senator Bayh, who have also offered a proposal dealing with sanctions.

So we will move along here and get to our witnesses from the administration as quickly as we can. But I thank everyone for their tremendous interest, appropriate interest in this subject matter.

Today we confront, of course, a serious threat to our Nation's security and global stability: the prospect of a nuclear-armed Iran. If Iran were to acquire a nuclear weapons capability, it would pose, I think all of us agree, a serious threat to peace and security in

the Middle East, especially to our closest friend in the region—Israel—not to mention to ourselves and others as well.

At our last Iran hearing in July, Senator Shelby and I agreed to hear from the Obama administration before moving forward on any sanctions legislation. Much, of course, has happened in that time.

Last week, in Geneva, after revealing another covert uranium enrichment facility in Iran, the administration held its first diplomatic meetings with Iran and other permanent members of the U.N. Security Council and Germany. Under Secretary of State William Burns met one-on-one with Iran's chief nuclear negotiator. This dialogue demonstrated the United States' commitment, in my view, to pursuing every avenue to push Iran to come clean on its nuclear program and abide by international nonproliferation commitments.

President Obama described the talks, and I quote, as "a constructive beginning." Participants agreed to follow-up talks later this month. The International Atomic Energy Agency is to be granted access to Iran's uranium enrichment site in Qom, and Iran has indicated a willingness in principle to export low-enriched uranium to Russia and France for processing for medical uses.

Whether Tehran will keep these commitments, or if it will prove yet to be another stall tactic to avoid tougher sanctions, obviously remains to be seen. And the situation is increasingly urgent, as I think many would agree. Over the weekend, the New York Times reported that the IAEA scientists believe Iran has enough sensitive data to assemble a nuclear weapon. Ultimately, we will only succeed if Iran's leaders are persuaded to cooperate or face sustained, progressively intensifying multilateral economic and diplomatic pressure on their government, including tougher sanctions. They must make a clear choice: come clean on their nuclear program, suspend enrichment, and stop supporting terrorists around the world, or continue to deepen their international isolation.

Increased international pressure and the specter of biting sanctions are clearly what have brought Iran to the table for substantive talks, in my view. Worldwide condemnation of Tehran's secret enrichment activities, its human rights abuses, and post-election crackdown have unified the international community to intensify the pressure on Iran's leaders. We must not let up now.

I intend to move forward in this Committee this month on comprehensive sanctions legislation. I am committed, as I think colleagues are as well, to ensuring that this Congress equips this President with all of the tools that he needs to confront the threats posed by Iran. Just as last year, we will incorporate the best of our Senate colleagues' contributions into one original Committee bill, including penalties on companies that support Iran's import of refined petroleum products or bolstering its domestic capacity, advanced by Senators Bayh, Lieberman, and Kyl, the authorization for State and local governments to divest from companies involved in critical businesses with Iran sponsored by our colleagues who are here today, Senators Brownback and Casey.

In addition, our legislation will further tighten our trade embargo on Iran, enhance Treasury's mandate to freeze assets tied to Iran's terrorist and proliferation activities, and help to cutoff Iran's access to the most sensitive and advanced technology available

through tougher export controls on these products sent to Iran through its black market trading partners.

I would hope our legislation will complement, as I believe it will, and reinforce ongoing diplomatic efforts and send a very, very clear signal to Iran's leaders of what is in store if they continue to defy the will of the international community.

We are very fortunate to be joined today by some of the administration's chief architects of Iran policy:

Deputy Secretary of State James Steinberg will elaborate on ongoing diplomatic efforts to curb Iran's nuclear ambitions, assess our chances for success, and survey the policy options.

Under Secretary of the Treasury Stuart Levey joins us once again. A welcome holdover from the Bush administration, he will discuss the tough targeted financial measures already deployed against Iran and explore with us other pressure points in the global financial system that could be employed against Iran's Government.

And, finally, we will hear from the Acting Under Secretary of Commerce Dan Hill. It has been over 2 years since the Bush administration proposed restricting export licenses to countries where sensitive technology flows to rogue nations, such as Iran, via third nations, combating black market proliferation networks which flourish throughout Asia and the Middle East.

But first we are going to hear from two of our colleagues after we hear from Senator Shelby and others this morning who may be here. Senator Casey and Senator Brownback will describe their legislation currently under review by our Committee on the role of divestment from firms doing business in Iran's energy sector.

We welcome to the hearing those members who are here and our guests who are in the audience, but let me turn first to Senator Shelby.

STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Thank you, Mr. Chairman.

Recent developments in Iran underscore the importance of this morning's hearing. Last month, we learned that Iran has a secret uranium enrichment facility. Last week, the Iranians announced that they had reached a last-minute deal to send their supplies of low-enriched uranium to France and Russia for further enrichment. Just yesterday, news reports revealed that senior staff at the International Atomic Energy Agency have concluded that Iran has acquired "sufficient information to be able to design and produce a workable nuclear weapon."

Although Iran denies that it is trying to develop nuclear weapons, it has taken no credible steps to prove otherwise. Iran's troubling conduct is not limited to its pursuit of nuclear weapons. Iran has the dubious distinction of being the most active state sponsor of terrorism for 10 years running, according to our State Department. Because of Iran's extensive financing of terrorism around the globe, the Treasury Department has referred to Iran as "the central banker of international terrorism."

There should be no doubt that Iran remains a serious and growing threat to the entire Middle East region, to our European allies, and to the interests of the United States. The issue is not whether

we must take action to check Iran's hostile ambitions but, rather, I believe, how to maximize the effectiveness of the actions that we take.

There is a long history of failed policy designed to rein in Iran. As Secretary of Defense Gates noted last October, and I quote, "Every administration since 1979 has reached out to the Iranians in one way or another, and all have failed."

Thank you, Mr. Chairman.

Chairman DODD. Thank you very much, Senator.

Any opening comments? I know Senator Corker—it is a modified Corker rule we are applying here this morning, but several members——

Senator SHELBY. Corker II.

Chairman DODD. That is right. Any comments, Jack? No? Jim? Go ahead, Jim.

Senator BUNNING. Thank you, Mr. Chairman.

I believe this is probably the most important hearing that I have been with you since I have been on the Banking Committee. The danger of a nuclear Iran poses one of if not the greatest threat to our national security. Now more than ever, we need to use every economic and diplomatic tool at the disposal of the United States and the rest of the free world to prevent this from happening.

We have had sanctions against Iran on our books since 1987, the first year I was in Congress. They, along with other multilateral efforts, have served to put a financial choke on Iran's rogue behavior. Now is the time to expand these sanctions even further and close several loopholes in existing laws.

In the past, I have authored legislation to enforce a mandatory ruling of investigations of potential violations of existing Iran sanctions under the Iran Sanctions Act of 1996. I was pleased last year to see this Committee incorporate my amendment into the Chairman's mark of S. 3445, the Comprehensive Iran Sanctions Accountability and Divestiture Act. I am looking forward to working with the Chairman and Senator Shelby to ensure that this language and its stated purpose are incorporated in any new Iran sanction legislation that this Committee will take up.

As it stands, the State Department is encouraged but not required to provide a determination on whether or not a company is in violation of our sanctions, thus giving these sanctions little or no enforceability. Time and time again, I have asked the State Department for transparency on this issue as well as guidance on how to develop workable guidelines on enforcement that will give our sanctions real teeth. Now is the time to enforce these sanctions and deny Iran the financial capital needed to fully fund their nuclear proliferation and support for international terrorism.

Thank you, Mr. Chairman.

Chairman DODD. Thank you very much, Senator.

Anyone else wish to be heard? Bob, do you want to be heard on this at all quickly? Senator Menendez.

STATEMENT OF SENATOR ROBERT MENENDEZ

Senator MENENDEZ. Thank you, Mr. Chairman. I appreciate the opportunity.

Mr. Chairman, I just want to say that I appreciate you holding this hearing, incredibly important, incredibly timely, in the midst of all the Committee's other work, and to state my strong support for strong actions on Iran's financial and energy sector should efforts to engage with the regime fail to produce desired results.

You know, although the administration's meetings with Iran officials in Geneva last week have been called "a constructive beginning"—and I look forward to hearing how that definition was defined through our witnesses-what we need now is meaningful action by the Iranian Government to live up to its obligations under multiple U.N. Security Council resolutions.

Current engagement efforts must not be an open-ended process. We cannot weather endless rounds of fruitless negotiations while the Iranian regime surreptitiously advances its nuclear ambitions. The Iranians have a history of using talks to stall for time in developing their nuclear program. This fact and the troubling disclosure of a covert enrichment facility at Qom underscore the urgency with which we must be prepared to resort to severe sanctions to arrest Iran's nuclear ambitions.

I continue to ask, How long are we to pursue what up to now have been fruitless negotiations while the Iranian Government continues to pursue a clandestine nuclear program with the clock running out?

And so I hope that the negotiations can provide a resolution, but I also believe that there are many areas of Iran's financial and energy sector where sanctions can have a profound effect. Sanctioning Iran's central bank or, for that matter, banks that continue to do business with Iranian banks could cause the Iranian banking system to collapse. Sanctioning suppliers of refined petroleum products to Iran and thereby curtailing Iran's ability to import such products could be devastating to Iran's economy. Those are but two examples.

I firmly believe, however, that use economic pressure is far superior to the other alternatives which we might have to consider in the future if we do not act now. And so I believe that the opportunity for those sanctions, if the talks soon do not really produce meaningful results, is a far better alternative than the options that would be left to us on the table.

Thank you, Mr. Chairman, and I would ask that my full statement be included in the record.

Chairman DODD. That will be the case. Thank you, Senator.

Chairman DODD. By the way, for the record purposes, any statements that members want to put in the record will be included, along with any supporting documentation. That will be true of all of our witnesses as well. I will make that point.

Senator Brownback and Senator Casey, we welcome both of you to our Committee, and we are glad you are able to be here this morning to present your thoughts and ideas. Senator Brownback, we will begin with you.

STATEMENT OF SAM BROWNBACK, A U.S. SENATOR FROM THE STATE OF KANSAS

Senator BROWNBACK. Thank you very much, Mr. Chairman. I appreciate that. Ranking Member Shelby, members of the Committee, thank you very much for attending and for letting us speak here today. I have worked for a number of years on Iranian policy issues. It has been a difficult task and one I cannot say we have got a whole lot to show for over a number of years.

In spite of all the efforts and the diplomatic efforts, the Iranian regime has continued to choose a collision course with the free world. The Iranian Government is the leading state sponsor of terrorism worldwide, as Senator Shelby noted, the foremost exporter of extremist ideology, the primary source of instability in the Middle East. The regime's leaders have brutally oppressed their own citizens. They have threatened to commit genocide against the state of Israel, the region's only full-fledged democracy. And the regime's radicalism and brutality not only harms our interest and threatens our national security, but also challenges our moral obligations.

It simply, in my estimation, would be unconscionable to allow the mullahs to acquire nuclear weapons. Were they to achieve this goal, they would possess a trump card to ensure the continuation and augmentation of all these dangerous and destabilizing actions.

Mr. Chairman, you have been willing to hear us on our simple piece of legislation. It is a piece of the puzzle, I believe. It certainly is not the whole thing. It is an effort, like Senator Menendez is saying, that you try to get out in front with some things to try to head off a much bigger collision, and that is what we are after with this.

There is a very simple divestiture piece. It is modeled after something that was done 2 years ago on the Sudan divestiture effort, which was modeled after the South African divestiture effort. This allows State and local units of government to divest from investments associated with Iranian companies or companies doing business in Iran in such a way to bring an economic pressure on them. A number of States have already done this, and yet they are in this legal limbo whether or not they can actually legally do it. This makes it clear that they can do it.

Iran's Sanctions Enabling Act, S. 1065, currently has 33 bipartisan cosponsors of it. The administration I believe would support it. Then-Senator Obama in the last Congress was the cosponsor along with me of this same bill. So I think the President—I know he is well aware of it and is supportive of it.

I would say, though, that this is only one piece of it. We have got to do, I think—and this Committee is a key one in doing this—a broad set of sanctions proposal. I have pushed in the past that we should look at human rights as being our first concern and the last of our concessions, not the other way around. I think we need to showcase that in this overall piece because that gets the people of Iran, which are natural allies, on our side if we emphasize the Iranian people and their need for human rights. Along this line, I think appointment of a special envoy for human rights in Iran to elevate and lift up the issues would be good.

Another issue that is working its way through the foreign operations budget now is the Global Interest Freedom Consortium. It

is a small amount of money, $30 million, to allow people to be able to communicate over blogs, Facebook, and Twitter from the Iranian revolution. We saw this during the election. It has been very effective as the regime tries to block people getting onto the Internet, and yet some of these fairly simple mechanisms can allow them to communicate over the Internet. I think that would be a key thing as well for this Committee to support and add its voice to.

And, finally, Radio Farda I think has been a good key piece of the overall communications effort with the Iranian people, and I would urge its continuation and support.

That is hitting a round of issues, but, Chairman, I think we have got to go at this strong, because the collision course is what has been set by the Iranian regime, and anything we can do to stop that prior to them developing nuclear weapons are things I think we have to engage, and we have to engage them now. We have got to push this forward at this point in time and not wait and not dither, saying, well, we are waiting on something else or we are waiting diplomatically for things to move, because I think diplomatically the Iranians are just using that to stall for time while the collision course gathers steam.

Thank you, Chairman.

Chairman DODD. Thank you very much, Senator.

Senator Casey.

STATEMENT OF ROBERT P. CASEY, JR., A U.S. SENATOR FROM THE STATE OF PENNSYLVANIA

Senator CASEY. Mr. Chairman, thank you very much, and I am honored to be back before this Committee as a former member.

Chairman DODD. Good to have you back. Anytime you want to come back.

Senator CASEY. We meet here at a time of grave challenge with regard to what Iran has been up to, and I want to commend the work of this Committee, Mr. Chairman and Ranking Member Shelby and the entire Committee, for focusing, appropriately so, on this grave challenge. I do want to commend the work of Senator Brownback not just on his work on our particular piece of legislation but generally over many years on these issues.

We have, as I said, a challenge before us, and I know that many saw some hope in some of the discussions last week in Geneva. But I do not think we should be under any illusions with regard to what this regime has been doing.

This is a regime which has refused to recognize the will of the Iranian people and last June's election. This is a regime that has repeatedly disregarded U.N. resolutions on its nuclear program. And this is a regime that previously agreed to send uranium abroad for enrichment, only to later renege on the deal. And, finally, this is a regime which continues to threaten our ally Israel and, of course, is a direct threat to our national security interests.

Iran, the regime in Iran, has repeatedly claimed that its nuclear program is only for peaceful purposes. But the facts, especially in recent weeks, do not add up. The United Nations says Iran violated international law by not notifying the IAEA when construction on the Fordu site started more than 3 years ago. Why are inter-

national inspectors invited only after the regime is caught misleading the world again?

So I believe we have several strategies here that have to be employed, and they are on concurrent or parallel tracks.

First, the negotiations conducted by the administration are important and should continue. At a minimum, this international effort will help restore America's long-held reputation of being an honest broker, of a country that values diplomacy, of a country that values relationships with allies and welcomes new ones. Internationally, the U.S. is on better footing on this ground than it has been in years. Ties with traditional allies in Europe have been strengthened, and those on the fence, like Russia and China, are showing signs of cooperation on issues that are critical to our national interests.

But, second, I believe the Senate must act, and in summary, what we are trying to do is to give not only the Federal Government all the tools it needs, the administration as well, but in particular to give other levels of Government—in this case, pension funds—give them the tools they need to participate in this strategy.

I believe the Senate should do its part by providing the administration all the tools it needs to put pressure on the Iranian regime. Iran's leaders need to know that if they decide to renege on their commitments, as has been done in the past, the United States is prepared to impose a series of tough sanctions—tough sanctions including measures that will allow State pension funds to divest from Iran and restrict petroleum imports.

The Iran Sanctions Enabling Act, which Senator Brownback and I introduced last May, would allow State and local government pension funds to divest from companies that do more than $20 million in business with the Iranian energy sector. As Senator Brownback noted, this measure is similar to legislation used with regard to Sudan in the past. Eighteen State legislatures have passed individual Iran sanction measures, and we need to do the same thing at the Federal level to give these pension funds the authority that they need to help us out on this grave challenge.

Finally, in terms of a third strategy, we need to be prepared—and I would add to the second part of that the Kyl-Bayh-Lieberman legislation as well that I and many others are cosponsors of.

Third, I would think we need to be prepared to support democratic voices and human rights activists in Iran. This is not about regime change, but a genuine commitment to democratic values. In a speech before the U.N. General Assembly, President Obama said, and I quote:

> There are basic principles that are universal. There are certain truths that are self-evident. And the United States will never waver in our efforts to stand up for the right of people everywhere to determine their own destiny.

Our long-held commitment to human rights should not fall off the table during these important deliberations on Iran's nuclear program. In fact, these should be fully addressed, and our diplomats should raise specific concerns with regard to human rights in Iran.

Ultimately, the political fate of Iran is up to its people to decide, and we should take the lead from them. We should remain open to their calls for assistance.

In closing, Mr. Chairman, if history is any indication, Congress should be prepared to hand the President the leverage he needs to send a message to the Iranian regime that America cannot and will not accept an Iran with nuclear weapons. The administration needs all the tools at its disposal to increase pressure on the regime diplomatically, politically, and through more stringent economic sanctions.

I call on my colleagues in the Senate to listen to legislatures in so many States across the country who have passed divestment legislation. The American people do not want to do anything with investing in Iran's energy sector. We need to send a strong message to the regime and the international community that a nuclear-armed Iran is unacceptable.

Mr. Chairman, thank you very much.

Chairman DODD. Thank you very much, Senator, and I appreciate that very much.

We have been joined by a couple of our other colleagues here, and I want to turn to Senator Schumer. I see Senator Bayh, who is also one of the authors of one of the proposals that we hope to incorporate in this bill.

Just to notify my colleagues, I want to thank people like Senator Casey, Senator Brownback, Senator Lieberman, and others. We had planned on this hearing actually prior to the announcement of these talks that opened up on October 1, but I think it is very timely that we do so. I think the point is providing the tools necessary to go forward are essential.

So let me turn to Senator Schumer briefly. If I could ask my colleagues to be relatively brief with opening statements, we are going to have full statements in the record.

STATEMENT OF SENATOR CHARLES E. SCHUMER

Senator SCHUMER. I would ask unanimous consent that my entire statement——

Chairman DODD. You are excused, by the way. If you want to sit for a minute, we will have these opening statements, and then any questions we will ask you to hold up a minute.

Senator SCHUMER. I ask unanimous consent that my entire statement be read in the record, and thank you, Mr. Chairman, first, for holding these hearings. They could not come at a better and more important time, and I want to thank all of my colleagues, Senator Brownback, Senator Casey, Senator Bayh, Senator Lieberman, Senator Kyl, who worked so hard on this.

Look, we have to do something. This has been an issue important to me for about 10 years. I believe when it comes to Iran, we should never take the military option off the table, but I have long argued that economic sanctions are the preferred and probably the most effective way to choke Iran's nuclear ambitions.

The Obama administration has recently begun direct diplomatic negotiations with Iran, and the first round of these talks did yield some important concessions from the Iranians last week. These negotiations certainly continue, but they do not supplant the need for action by this Congress now.

Iran, when it is caught red-handed, has a habit of promising just enough to avoid a strong response from the international commu-

nity. Not this time. We should continue talks with the Iranians, but we should not trust them. The threat of new sanctions will only serve to strengthen the President's hand as we pursue a diplomatic solution. And as I mentioned, economic sanctions are the right way to go. I am going to try to summarize here in the interest of time.

The bill sponsored by Senators Bayh, Kyl, and Lieberman I think is exactly the right way to go. Gasoline is one of the few pressure points where, if we act unilaterally, we will have real effect on the Iranian economy. Most of the other things we have to do multilaterally. But that is one thing that we can do, and I am glad it is in the legislation.

Two other things that we can do unilaterally: First, Senator Graham and I introduced something called RICA, the Reduce Iranian Cyber-Suppression Act, and what it would do, it would bar companies that export sensitive communication technology equipment to Iran from applying or renewing procurement contracts with the U.S. Government. Many of the large ones, particularly in Europe, do this. It allows the Iranian secret police and others to spy and do other things against their citizens. We should stop them from selling it by using tough sanctions.

And another point in the bill, 27 of us last year called for the Iranian central bank—we blocked off the bank, the correspondent reactions of banks with one another, and that really hurt Iran. So what they did is they had their central bank move in, and now it does what commercial banks do. We should block, and I hope we will put it in this legislation, the Iranian central bank, called the Bank Markazi, from playing a role in helping other banks circumvent U.S. financial sanctions. We should treat them as a commercial bank and block them off.

Finally, one other point, Mr. Chairman, and that is that we need to enforce as well as put new tools to use sanctions. Our existing sanctions are riddled with leaks in the form of trading partners who funnel our exports through a back door to Iran. We send them exports, and then they send them to Iran. We can plug these leaks by increasing the amount of inspector we have stationed in the United Arab Emirates and other countries where black markets are serving to circumvent our sanctions.

A GAO report, for instance, found that enforcement is lacking particularly in the UAE, and so today at least I am asking the administration to deploy more inspectors to the UAE and other areas of vulnerability of sanctions.

It is a very good bill, Mr. Chairman. I hope we move it quickly. I ask that my entire statement be read into the record, and I thank my colleagues.

Chairman DODD. Thank you, Senator. It will be included.

Chairman DODD. Senator Bayh, any opening comments?

Senator BAYH. Just very briefly, Mr. Chairman. First, I would like to thank you for your leadership. With all the other issues you have on your plate, this is a clear signal of how seriously you take this matter, and so I want to thank you for that.

Also, for your willingness to incorporate the legislation I have worked on with Senators Lieberman and Kyl. We have 76 cosponsors of that legislation spanning both sides of the political aisle and running, frankly, the length of the ideological spectrum, from left

to right. So there is real consensus about the need to bring urgency to this issue because time is not our friend. Iran is moving aggressively down a nuclear path. If we don't take aggressive steps, 1 day, we will wake up to the unpleasant surprise of them having become a nuclear power, and at that point, it will be a much more difficult problem to deal with.

Also, on the issue that I focused on here, vulnerability to restricting imports of refined petroleum products. They recognize that vulnerability. They are moving aggressively to deal with it by increasing their refining capacity. So we have a window of opportunity here in the next year or two to act, to really raise the price that they have to pay for their nuclear ambitions and hopefully get them to change their minds.

The last thing I will just say, Mr. Chairman, is this legislation offers our best chance to avoid the very painful dilemma of having to choose between either a nuclear Iran, which is unacceptable, or military action to avoid that eventuality, which would be very difficult in and of itself.

So I thank you for your leadership, for including our approach. I want to thank our colleagues for focusing on this, as well. Frankly, we need to use the entire spectrum of sanctions to try and deter the Nation of Iran from pursuing these weapons.

Thank you, Mr. Chairman.

Chairman DODD. Thank you, Senator, very much.

Do any of our colleagues have questions for our two friends, Senator Brownback and Senator Casey? If not, you are both—I am sorry, Bob. Did you have——

Senator CORKER. I would just—first of all, I couldn't agree more with the opening statements and things that have been said about this. I absolutely believe that Iran obviously is pursuing a nuclear weapon and that is absolutely unacceptable.

I guess the question I would have for all of the sponsors, which it sounds like we have many of in the Senate, is are we looking at something that is enabling, that gives the administration tools that they can use should they decide it is appropriate to use them, or are we prescribing? I mean, to me, that is something that is of concern, especially with what has just occurred. I mean, we do have an opportunity, hopefully, to actually have sanctions in place that mean something for the first time in decades, and I wonder whether the Senate and House, acting in a prescriptive way, is actually helpful or harmful. I guess the question is, are we talking about enabling legislation or are we talking about directing, prescriptive type of legislation?

Chairman DODD. Do either one of you want to respond to that very briefly?

Senator BROWNBACK. Just briefly on ours, it is clearly enabling, because what we are doing is allowing State and local pension funds to divest, and right now, they have a questionable legal authority whether they can do that. So this is then their choice, but it is something a number of them will take advantage of.

Chairman DODD. Senator Casey, any quick comments?

Senator CASEY. No. I would agree with that assessment in terms of our legislation. But at the same time, if the other major piece, the Bayh-Kyl-Lieberman, were to pass, it does give the President

authority. It is not—in my understanding, it is not prescriptive, but I think it sends a very powerful message to the Iranian regime and to the world that the U.S. Congress is united on this. So I think it could be a combination of both empowerment in terms of the pension funds, but also giving the President authority that is unilateral.

Chairman DODD. Thank you very much. We thank both of you very much for your participation this morning. We look forward to working with you.

That was a very good question, Bob, and it is an important one, obviously. I think the enabling point is one, because we do need to modify some laws that would allow the administration to act, and thereby giving them those tools ahead of time—and I suspect that there are other ideas they have which probably will not be included necessarily in our legislation, as well. So it is an excellent question and one that we are sensitive to here, as well. I appreciate it very much.

Let me turn to our witnesses. Again, I thank you for being with us. Jim Steinberg is well known to many of us here. He is Deputy Secretary of State, the second highest official at the Department. He works closely with Secretary of State Clinton, our former colleague, and Under Secretary William Burns. By the way, I want to thank Secretary Burns. I talked to him over the weekend. He called and gave me a good briefing on the events as they unfolded on October 1 and was constructive and somewhat optimistic, although cautious, obviously, about progress. But I appreciate very much his doing so.

During the Clinton administration, Jim Steinberg served as Deputy National Security Advisor and Director of Policy and Planning at the State Department. And while I don't mention it here, he formerly sat behind these daises up here as a Senate staffer, so he knows our job as well as the job of the executive branch. Jim, welcome back to the Senate.

Stuart Levey is the Under Secretary for Terrorism and Financial Intelligence at the Department of Treasury, the first ever to hold this position. Appointed by President Bush, Mr. Levey has earned renown for honing U.S. sanctions policy and employing targeted financial measures against financiers of terrorism and weapons proliferation. You have a wonderful reputation. You have done a great job and we are delighted you are staying on to continue this effort, so thank you for being with us this morning.

I have already introduced Dan Hill, but let me just briefly give you a little background. Dan Hill is the Acting Under Secretary for Industry and Security at the Department of Commerce. In this capacity, he oversees policies for licensing exports of dual-use products, that is, goods and services that have both military and commercial applications. A senior career commercial official, Mr. Hill is playing a key role in the administration's review of U.S. export control systems. We thank you very much, Mr. Hill, for being with us.

I am going to ask you to try and keep your comments relatively brief, if you could. And again, your full statements and supporting documents will be a part of the record.

We will begin with you, Jim.

STATEMENT OF JAMES B. STEINBERG, DEPUTY SECRETARY OF STATE, DEPARTMENT OF STATE

Mr. STEINBERG. Well, thank you, Mr. Chairman, Ranking Member Shelby, and all the Members of the Committee. It is always good to be back in the Senate.

I want to express appreciation on behalf of the whole administration for the interest you, this Committee, and the entire Congress has expressed in this subject. It is an important issue for all of us and I am confident that we will have a very useful discussion this morning about how we can best achieve our common objective, which is how to address the challenge posed by Iran's nuclear programs. Strong Congressional interest in this issue is extremely valuable to us in our efforts and I am appreciative of all the work that you have already done on this.

I ask, obviously, that my full statement be part of the record, but I will just make a few points in summary.

I want to begin by being clear about our objective. Our goal is to prevent Iran from achieving a nuclear weapons capability, and we will work with our allies and partners toward that goal, as well as to counter Iranian actions that threaten to destabilize the greater Middle East and the rest of the world.

To that end, as you have observed, we pursued a dual-track strategy of economic sanctions and engagement. We think that only by using them together and coordinating them closely can we achieve this important objective.

Let me just take a minute to explain how we are implementing the strategy, including last week's meeting in Geneva, and I would be happy to take your questions when I am finished.

We understand Congress's concerns and sense of urgency that you have all expressed this morning and look forward to working with you and consulting with you on any legislative effort with the aim of maximizing our ability to pursue this two-track strategy to convince Iran to meet its obligations while preserving the President's flexibility to carry out the strategy successfully. This Committee and others have already provided crucial leadership and important work and we appreciate the importance of working with you in this shared objective.

I want to emphasize that we are pursuing engagement not because we believe in talking for talking's sake, but because we believe it will advance our goals. In the past, as we have attempted isolation without engagement, Iran has developed a growing mastery of the nuclear fuel cycle while flagrantly flouting its international obligations. Its leaders have neglected the rights of its citizens. Its government has continued to pursue a wide range of destabilizing activities abroad.

Now, we are realistic about the prospects of engagement. We are and we have forcefully presented our concerns to Iran's leaders and made clear the choices they have before them. But engagement not only increases the chances of achieving our goals through negotiations. As so many of you have observed, it also forges a strong consensus with others if negotiations do not produce the results that we seek.

Our objective is a positive outcome that successfully addresses the security concerns posed by Iran's nuclear program to the

United States, to Iran's neighbors, and to the international community. We are making clear the steps that Iran can take to help resolve our concerns and those of the international community and the benefits that that would bring in turn.

Iran must demonstrate through its actions the exclusively peaceful intentions of its nuclear program. That means allowing unfettered access to international inspectors, cooperating fully with the IAEA's investigation, and taking up the longstanding proposals of the P5+1, including a halt to uranium enrichment.

In response to the clear and unified message of the P5+1 in Geneva last week, Iran pledged to take several concrete steps along these lines, including IAEA inspections of the previously undisclosed facility at Qom, now scheduled for October 25, and an agreement in principle regarding a supply of low enriched uranium for the Tehran research reactor.

If implemented—and I stress, if implemented—this agreement would limit Iran's potential to achieve a short-term breakout in developing weapons grade highly enriched uranium, and in so doing would help demonstrate whether Iran is serious about proving its peaceful—exclusively peaceful intentions. But as Chairman Dodd noted in quoting President Obama earlier last week, he said this is a constructive beginning, but it must be followed by constructive action by the Iranian government. We will look for and judge by the constructive actions ahead of another meeting of the P5+1 with Iran, which we anticipate to take place later this month.

While we are beginning this diplomatic process, our patience is not limitless. We are sensitive to the security concerns of many countries in the region, and these concerns have heightened our sense of urgency. In the event that Iran passes up this opportunity, our engagement will make it possible to mobilize international action more effectively. By our openness to a negotiated resolution, we can clearly increase our ability to persuade others to stand by with us if more forceful action is needed. Our efforts to convince Iran to change course will be more effective if we act in concert with others.

Our efforts have already shown some signs of paying off. Three years ago, the United States was virtually alone in applying pressure on Iran. Now, a growing number of countries share our concern about Iran's negative policies and have signaled willingness to join our dual-track strategy. We have pursued a progressive tightening of U.N. sanctions on Iran with Resolutions 1737, 1747, and 1803. We have worked with our colleagues at Treasury and with the international financial community through the Financial Action Task Force. The European Union has adopted measures to delimit the granting of export credits. And as a result of sanctions and international efforts, the cost of doing business with Iran is going up.

I also want to note, as so many of you have done, that our concerns with Iran go beyond the nuclear issue. The Iran government's terrible repression of peaceful protesters, opposition politicians, and journalists following the elections reveal to the world much about the character of that government and has increased its isolation.

We are also deeply concerned about the American citizens held in Iran and urge the Iranian government to promptly return them

to their families. We have expressed those concerns directly to the Iranian government.

Tehran's aggressive foreign policy presents another threat. In recent years, Iran has benefited from and exploited instability in Iraq, Afghanistan, Lebanon, and the Palestinian Territories. Our strategy in the greater Middle East is aimed at bolstering security for our partners while reducing Iran's ability to exploit these challenges for its own gain.

We have been working with our regional partners, including Egypt, Jordan, Iraq, Israel, Lebanon, and the Gulf States, to develop cooperation that will enable us to manage the political, diplomatic, and security challenges that Iran poses. These efforts are beginning to show signs of success, including the GCC+3 Forum, inter-Arab cooperation to help address the political crisis in Lebanon, security and military talks with the Gulf States, and Arab governments' increasing support for Iraq. We are also working actively on a comprehensive Middle East peace process.

And some regional governments have chosen to conclude modeled nuclear cooperation agreements in partnership with the United States, thus disproving Iran's claims that the West seeks to block the pursuit of peaceful nuclear energy by countries.

Well aware of the regional and global consequences of a nuclear Iran, we will continue with our dual-track strategy. We in the international community very much hope that Iran will make the correct choices for itself, the region, and the world. Yet we will be prepared to move ahead swiftly and effectively with additional measures with the confidence that our engagement today will make such measures unified and effective.

So in conclusion, again, Mr. Chairman, thank you for your interest in this, for all the Members of the Committee, and we look forward to working with you in the days and weeks ahead.

Chairman DODD. Thank you very much, Mr. Secretary. We appreciate very much your approach. We will have some questions for you in a minute.

Secretary Levey, thank you again for joining us, and thank you again for your service.

STATEMENT OF STUART A. LEVEY, UNDER SECRETARY FOR TERRORISM AND FINANCIAL INTELLIGENCE, DEPARTMENT OF THE TREASURY

Mr. LEVEY. Thank you, Mr. Chairman, Members of the Committee. It is good to be back here again to discuss this critical issue. We appreciate your focus on this issue and the support you have given us at Treasury over the years.

Deputy Secretary Steinberg has already given an overview of our two-track strategy toward Iran, focused both on engagement and on being ready to impose clear consequences on Iran if that engagement does not yield the outcomes we seek. For that reason, we have been working with our colleagues across the U.S. Government to develop a strategy for imposing substantial costs on the government of Iran if the President determines that that is what is needed.

The plan we are developing is necessarily comprehensive. As many of you noted in your statements, no single sanction alone is

a silver bullet. We will need to impose measures simultaneously in many different forms in order to be effective. the plan we are developing also takes into account Iran's potential vulnerabilities and those activities that are likely to have the greatest influence on Iran's decisionmakers. We should be realistic about the ability of sanctions to achieve our political and security objectives with Iran. If, however, we accurately target the key vulnerabilities and fissures within Iran and then act together with a broad coalition of governments and key private sector actors, we can, at the very least, demonstrate to the Iranian government that there are serious costs to any continued refusal to cooperate with the international community.

Although we cannot describe the particulars of our planning in an open hearing, I would like to explain some of our thinking.

First, we will build to some extent on what we have done before and the efforts that you mention, Mr. Chairman. As this Committee knows well, beginning in 2006, we developed and implemented a strategy to target Iran's illicit activities. We used our authorities to designate more than 100 entities and individuals supporting Iran's nuclear missile enterprises, including the key organizations within Iran, scores of their front companies, Iran's major banks that finance their conduct, and Iran's major shipping line that handles illicit shipments for these dangerous enterprises. We also acted against the IRGC and several of its companies, as well as the Qods Force for its role in supporting terrorist organizations.

Many of our actions have been implemented internationally by the U.N. Security Council, and still others by the European Union and Australia. We combined those government actions with outreach to scores of banks and other private sector leaders around the world. We discussed the risks of doing business with Iran and shared information with them about Iran's illicit and deceptive practices.

As a result, the international private sector amplified the effect of our government actions as banks and companies around the world came to understand that if they are dealing with Iran, it is nearly impossible to protect themselves from being entangled in that country's illicit conduct. At this point, most of the world's major banks have cutoff or significantly scaled back their business with Iran, and Iran is increasingly dependent on an ever-shrinking number of trade and finance facilitators.

The second point I would make is that if we must increase sanctions, we will need to adjust our strategy to the current situation in Iran. Due to economic mismanagement, some experts estimate Iran's unemployment rate to be well over 20 percent, with the lack of jobs disproportionately affecting the young. Three out of four unemployed Iranians are under 30. Foreign investment in Iran has declined substantially.

The Iranian government's reliance on corruption and nepotism in business limits opportunities for all Iranians. The government awards no-bid contracts to companies associated with the IRGC. These companies operate under names that obscure their IRGC affiliation so that many unwitting non-Iranians are, in fact, doing business with the IRGC.

In the name of privatization, the IRGC has taken over broad swaths of the Iranian economy. The IRGC seeks to monopolize black market trade of popular items, funneling the proceeds from these transactions through a patronage system and then using them to help subsidize the government's support for terrorist groups.

There is now a broad acknowledgment that the Iranian government engages in deceptive financial and commercial conduct in order to obscure its development of nuclear missile programs and to facilitate its support for terrorism. International understanding of those practices have been underscored by the U.S. Security Council resolutions on Iran and by six warnings issued by the Financial Action Task Force about the risks Iran poses to the financial system. Secretary Geithner reinforced all of these concerns this week, meeting with his counterparts at the IMF in Istanbul.

Across the board, transactions with Iran are already handled differently than transactions with any other country, except perhaps for North Korea, engendering either heightened suspicion or outright refusal to engage in them.

The vulnerabilities in Iran could be compounded by the internal fractures resulting from the elections. As Secretary Gates recently stated, it is clear in the aftermath of the election that there are some fairly deep fissures in Iranian society and politics, and probably even in the leadership.

Finally, and I think most important, as the Deputy Secretary pointed out, we will need a united coalition. We are intensifying work with our allies and other partners to ensure that if we must strengthen sanctions, we will do so with as much international support as possible. I think that will be critical to our success.

Thank you, and I would be happy to answer your questions.

Chairman DODD. Thank you very much, Mr. Secretary.

Mr. Hill, we appreciate you being here, Mr. Secretary, as well.

STATEMENT OF DANIEL O. HILL, ACTING UNDER SECRETARY FOR INDUSTRY AND SECURITY, DEPARTMENT OF COMMERCE

Mr. HILL. Thank you, Mr. Chairman. Mr. Chairman, Senator Shelby, Members of the Committee, I welcome the opportunity to appear before the Committee today to discuss the Department of Commerce's role in administering and enforcing U.S. dual-use export control policies toward Iran. We work closely with our colleagues at the Department of State and the Department of Treasury as well as other agencies to implement the longstanding U.S. embargo on Iran.

All exports to Iran are subject to both the Export Administration Regulations and the Department of Treasury's Iranian Transaction Regulations. The Treasury is the lead agency for administering the embargo, including licensing activities, which features not only a prohibition on exports and reexports of items under our jurisdiction at the Department of Commerce, but also comprehensive restrictions on financial transactions and investments.

Commerce, however, is responsible for several aspects of the embargo of Iran. First, we provide critical technical assistance to Treasury on the proper classification of items proposed for export or reexport to Iran under a license.

Second, we play a vital role in enforcing the embargo by investigating transactions that may constitute violations of our regulations. An export or reexport of an item subject to our regulations without Treasury authorization would generally constitute a violation of law. The Bureau of Industry and Security at the U.S. Department of Commerce has approximately 100 Federal law enforcement agents in ten field offices around the United States. We have agents stationed at Main Commerce, as well.

We have had a number of significant cases involving Iran which have, in turn, led to successful enforcement actions. Currently, we have 235 open investigations involving Iran, which constitutes a little less than one-third of all the investigations we have of possible violations of our regulations. I have attached to my written testimony lists of recent enforcement cases for Iran that sheds light on our activities.

We also have Export Control Officers in five foreign locations: Abu Dhabi in the United Arab Emirates, one in Beijing, one in Hong Kong, New Delhi, and Moscow. We hope to add more to Singapore and a second one in Beijing in the coming year. These Export Control Officers conduct pre-license checks and post-shipment verification visits to verify that items will be and are being lawfully used and have not been diverted to prohibited users or uses within the country or illegally transshipped to another country, such as Iran.

We coordinate closely with the Department of State and other agencies as we work with other countries, including states that we have concerns that may be involved in transshipments to Iran, to establish and strengthen these states' export and transshipment control systems. This enables those countries to cooperate with us, build their export control system based on our best practices, and to cooperate with us on specific transactions, as well as take actions against parties in their own countries who are illegally exporting items.

We have a set of unique tools at the Department of Commerce to enforce the export controls. The first tool that I would like to talk about is our Temporary Denial Orders. A Temporary Denial Order is a legal order that can be issued quickly for 180 days at a time to prevent an imminent violation of the Commerce regulations.

For example, in 2008, we issued a Temporary Denial Order denying the export privileges of Balli Group PLC and related countries and individuals known as the Balli Group, Blue Airways, and Mahan Airways for 180 days. Evidence obtained by our agents showed that the parties knowingly reexported three U.S.-origin aircraft to Iran in violation of our regulations and they were preparing to reexport three additional aircraft to Iran in further violation of our regulations. Our Temporary Denial Order effectively precluded the United States or foreign parties from engaging in that activity, and ultimately, the Temporary Denial Order prevented the illegal reexport of the three commercial aircraft to Iran.

A second tool we have is what we call the Entity List. This is a list that can be used to prohibit the export or reexport of any item subject to our regulation to any listed entity. In 2008, for example, we added 75 foreign parties to the Entity List because of

their involvement in a global procurement network that sought to illegally acquire U.S.-origin electronic components and devices capable of being used to construct improvised explosive devices. These commodities have been used in IEDs and other explosive devices against our Coalition forces in Iran and Afghanistan. This network acquired the U.S.-origin commodities and illegally exported them to Iran.

As a consequence of the addition of these entities to our Entity List, no United States or foreign party may export or reexport any items subject to our regulations to these entities without a license. Exporting or reexporting of any items to the entities without the required license is a violation of law.

We maintain a robust outreach program to educate the private sector on our embargo on Iran and we have detailed guidance on our website. We focus on key companies, such as freight forwarders, integrators, air cargo carriers, and shipping lines with regard to the embargo of Iran. Our efforts are targeted toward educating exporters on vigilance in partnering with firms based in major transshipment hubs, not only in the Persian Gulf region, but also in Southeast Asia.

In conclusion, I have detailed the role the Department of Commerce plays in the administration's enforcement of the embargo on Iran and I would be happy to answer any questions at this time.

Chairman DODD. Thank you very much, Mr. Secretary. I appreciate very much your testimony. We will have some questions about that.

Let me just say to my colleagues, I will try and keep around that 5 to 6, 7 minutes if we can. There are ten of us—roughly ten of us here, so we don't want to keep our witnesses any longer than necessary.

Let me begin, if I can, Secretary Steinberg. Critics of the administration deride the government's current approach as rewarding Iran's misbehavior with just talks, in a sense. You get a flavor of that with some of the comments that are made. However, as you outlined, our strategy is more nuanced than that and it has a dual-track approach, as you pointed out, engagement backed by the threat of severe sanctions. How has that open-hand diplomacy disarmed our international critics and provided the United States with the cooperation that I think all of you in one way or another have mentioned here?

Obviously, you can go it alone, and then we have seen in the past—I recall the South African sanctions. We were almost alone in that process and had the positive impact, even though it would have been better had we had more cooperation. But certainly, I think, ultimately, we had an effect on what was occurring. But ideally, you get cooperation. If you are seeking success here, you need to achieve that. So I am curious as to whether or not this approach has helped in building that additional support that is necessary.

And then I would second like to know whether Iran is using the talks to make sincere commitments on nonproliferation or to stall severe multilateral sanctions. Again, we have a history here that raises concerns. You have raised them yourselves. We don't know the answer to that yet. Obviously, there is a history here which

would cause one to have deep concerns about how serious Iran is about complying here or just buying the time, as many of my colleagues have indicated in their statements.

So I would like to know what benchmarks that you are using to correctly judge Iran's commitments down the road. What are you looking at here specifically that will give you a stronger sense of whether or not we are on the right track with all of this. Why don't you begin with that, if you can.

Mr. STEINBERG. Well, thank you, Mr. Chairman. As you said, I think one of the keys and one of the important elements of our decision to deepen our engagement here is because it does strengthen our ability to get the international community to support our dual-track approach. When there is a recognition that we are going the last mile to seek a diplomatic resolution, there is greater understanding if we have to take other measures.

And I think you saw this coming out of the meetings that both the President and the Secretary had in New York and Pittsburgh over the last several weeks, the comments by President Medvedev, for example, a clear indication that they Russians understand in light of Iran's behavior and the fact that we have made a good effort to try to solve this that the Russians seem to be more open to additional sanctions. You are seeing a coming together of countries around the world to recognize that this is Iran's last opportunity, and if they fail to take it, there is a greater openness to this.

I don't want to underestimate the difficulty. It is very critical that we get the support of the Security Council, if we can, because that really strengthens the effectiveness. I, myself, was in Beijing last week to discuss this with very senior Chinese leadership to make clear that we view this as critical and a core interest of ours that is important to our relationship with China, that they work with us as we engage, that they be supportive of our efforts if we need to take stronger measures.

So I think that there is a strong sense that these efforts will pay off, and frankly, the spotlight now is on Iran. We have come to the table. Everyone is looking for their response. And I think by being able to focus that international spotlight now on these discussions, people will judge Iran by its actions, which leads nicely into your second question, which is I think we now actually do have some very concrete benchmarks that we can judge whether Iran is now beginning to get serious in light of this additional pressure and the global attention or whether this is a stalling tactic.

In particular, we have two very specific commitments that we are going to be following up on in just the coming weeks, the commitment to ship out the low enriched uranium for fabrication into fuel for their research reactor, and the commitment to provide the IAEA access to this previously undisclosed facility. We have meetings with the Iranians scheduled on October 19 to review the details of how to carry out this shipment out of the LEU and the inspections of the Qom site, the Fordu site are scheduled for October 25. So by the end of the month, we will have some very clear indications about what their intentions are.

Going beyond that, we have on the table, as you know well, Mr. Chairman, a proposal for a freeze for freeze that would begin us down the path of stopping their enrichment program, and so we

will expect a quick response by then, as well. So I think we do have a number of concrete benchmarks.

I think it is very important that by giving the Iranians the sense that the patience is not limitless that we have had some success. At the July G8 meetings in Italy, the G8 leaders made clear that they anticipated review where we were in September, and I think that giving them that sense of a time horizon had an impact on getting the Iranians to come forward.

The President has also made clear that his patience is not limitless on this. He sent a very strong message, both publicly and privately, that we expect a firm and clear response from Iran in the near future.

Chairman DODD. Let me ask both of you, quickly, a question that has been raised and that is certainly in the minds of many—I saw a small piece the other day—those who are objecting to this stronger set of sanctions, particularly when it comes to gasoline and petroleum issues, that this may have a counter effect within the population of Iran, that it could trigger a domestic backlash in Iran against the West. It has been pointed out that, obviously, the protests have been devastating, what has happened to people there, and yet highlighted for the world the repressive actions of the Iranian Government. But it has been a critical element—I think all of us in talking about additional pressures—that we not lose the support of the average Iranian in this process here who will obviously be affected by these policies we are talking about.

How do you address that question? It seems to me I recall other examples, having been here on the sanctions issues in South Africa and elsewhere, that those same criticisms were raised at the time, that this was going to have the reverse effect. It did not, of course, and we have now learned since how important those sanctions were to emboldening and encouraging the population that were living under a regime that was so repressive.

What is the answer here, in effect? Do you believe those criticisms are legitimate? And if so, how do we address them? Or do you believe the Iranian population themselves, those who are putting so much on the line, would welcome this approach that we are engaging in today?

Mr. STEINBERG. Mr. Chairman, how to impose sanctions and have them be effective is a matter of judgment and not science. We have had a lot of experience, as you said, over the years with sanctions. We know that sometimes they have an impact on the population, and the government is able to insulate itself from those sanctions. Other times they can provide leverage by putting additional pressure on the government.

So I think that is something that we are going to have to fine-tune as we go forward. I think it is important that we have a broad range of tools available to us, but I think we do need to have a more refined judgment about precisely how to exploit the kind of vulnerabilities that Under Secretary Levey talked about to see which are the smart sanctions that have the biggest impact.

So, for example, Under Secretary Levey talked about the role of the IRGC. That may be a place where we could be particularly effective. And I think we will want to work with you, working with the experts in this area, as we develop this toolkit to think about

how the targeting is most effective in both supporting those we want to support in Iran and putting the pressure on those who need to make the decisions to desist from the program that they are currently involved in.

Chairman DODD. Secretary Levey, do you want to quickly comment on that as well?

Mr. LEVEY. Well, I agree with what the Deputy Secretary just said. We have learned over the last few years how to do this better, and some of the lessons that we have learned are that, to the extent we can focus on illicit conduct of the government in Iran, we will have a better chance of not only getting better support within Iran, but getting a better multilateral coalition to impose the measures with us, which is my second point, that, you know, if we can do this with other countries, we are much, much better off than if we do it unilaterally. So as we go forward, as the Deputy Secretary said, we need to be very careful and craft this plan in as careful a way as possible to make sure we have the desired effect.

Chairman DODD. Are you concerned at all about the population—not that that should be the sole determining factor, but it is a critical element, it seems to me. You have had great courage being shown by huge populations that have responded to the elections, particularly in Iran. We have heard over and over again the continued support among large populations for what we are trying to do here and how we maneuver and handle that situation so it does not become a liability but a continuing asset for us in this effort.

Do you have any concerns about that?

Mr. STEINBERG. Mr. Chairman, as I said, I do think we always have to worry about the humanitarian impact and the political impact, because we want to take advantage of the dynamic there and not to undercut the opposition, not to hurt those who are being courageous, as you said.

And I think part of it will be a judgment call, as Under Secretary Levey has said, about whether there is a broad international consensus, whether this is seen as the international community taking an action so that it is not the United States alone singling them out, that I think will have an impact on the political dynamic within Iran. It may also depend on what other measures are taken and how obvious it is that Iran is refusing to take any kind of positive action.

So I think it is a delicate judgment. There may be other steps that we want to take first. We need to look at the full suite of tools that are available to us, both in terms of the sequence and how it applies in the circumstances.

Chairman DODD. I went way over the time, and I apologize. Senator Shelby.

Senator SHELBY. Thank you, Mr. Chairman.

Secretary Steinberg, why have we allowed the Iranians a month from the time the secret nuclear site was discovered to the time that the International Atomic Energy Agency inspectors will visit the site? There is a lag time there. It seems like a pretty good sized one.

Mr. STEINBERG. Thank you, Mr. Shelby. As you will recall, these meetings took place on October 1st, and the inspections are now scheduled on October 25th. We obviously need to do—we want the

IAEA to do the kind of work it needs to do to make sure that these inspections are effective. It is the kind of thing where it is not just a question of walking into the site, but actually doing the preparatory work, assembling the right equipment, materials, the background. They need to get briefings from those who may have some insight to make their inspections worthwhile.

There is a little bit of a danger than an unprepared inspection will not be a very effective inspection. We had asked for 2 weeks. It is going to take place in 3 weeks. Obviously, we would have preferred 2 weeks. But I think it is a short notice here. This is not an indefinite delay. It is within a matter of weeks of the disclosure. And I think the IAEA will be in a good position to determine what is going on there. It is our judgment that this is within the period of time that we will still get a good insight into what is going on.

Senator SHELBY. Mr. Secretary, did Iran enter into and then abandon a similar pledge to have Russia enhance its low-enrichment uranium in 2007?

Mr. STEINBERG. To my knowledge, Mr. Shelby——

Senator SHELBY. I know you were not doing that then.

Mr. STEINBERG. I do not believe that the discussions were similar to this particular understanding, which is to have the fuel fabricated for this research reactor. I would have to check, and I will give you the answer for the record. But I think the specifics of this arrangement are somewhat different than the past discussions, and I think this is a more concrete set of proposals as to how this would be handled, including the involvement of the French as fabricators of the fuel.

Senator SHELBY. The State Department—you are the Deputy Secretary there—continues to identify Iran as "the most active state sponsor of terrorism." Do you think that this raises the possibility that any nuclear weapon that Iran builds could find its way into the hands of terrorists?

Mr. STEINBERG. Mr. Shelby, I think these are all grave concerns. I think that there are so many different reasons why the potential possession of a nuclear weapon from Iran would pose a danger to us and to the region. We have the danger that it would be either deliberately or inadvertently transferred to a terrorist or a non-state actor. There is a very serious concern that it would be used to threaten its neighbors. There would be a concern that it would be used as a cover for it to engage in more aggressive behavior in the region.

We can think of so many reasons why this is such a grave danger that that is why we put such a high priority on preventing them getting it.

Senator SHELBY. Mr. Steinberg, Secretary Steinberg, in the past 10 days we have learned of both the secret enrichment facility and the International Atomic Energy Agency report that concludes that Iran has acquired "sufficient information to be able to design and produce a workable nuclear weapon."

Should these two revelations lead to a reevaluation of the 2007 U.S. National Intelligence Estimate on Iran, which stated then that Iran had a weapons program prior to 2003 but stopped it—in other words, update the estimate.

Mr. STEINBERG. Mr. Shelby, as you know well from your past service here in the Senate, there are aspects of this that I can only go into in closed session, and we obviously are prepared to do that.

This is something we constantly take a look at. It is constantly under review because of the urgency that it takes.

Senator SHELBY. In other words, you are saying you would not ignore the new revelations.

Mr. STEINBERG. Right. And the only thing I would say on that is that we have seen the reports, obviously; we have not seen the formal IAEA conclusions, so we will look forward to that. But we take this all very seriously. This is something that is not—you do not just kind of do the assessment once and then look again. This is something that we put a high priority on to keep under permanent review.

Senator SHELBY. Secretary Levey, you have been involved in this a long time, that is, dealing with terrorist financing. The United Nations blacklists three of the five Iranian banks explicitly sanctioned by the United States, and European Union only sanctions two of them that you are aware of. What would the effect be if the United Nations and the European Union worked with the United States in sanctioning all the Iranian banks? And because of the existing U.S. sanctions, banking within Iran is quickly, I understand, moving from government-run banks to private banks and unofficial banks. What are the difficulties there? First with the U.N. and with the European Union.

Mr. LEVEY. Well, Senator Shelby, as you indicate, even the unilateral designation of the Iranian banks by the United States has had a broad effect, not only because other governments take it seriously, but most importantly because banks around the world take it seriously. That effect is, no doubt about it, multiplied and is made much more effective to the extent it is done multilaterally.

So, to the extent we have had designations at the EU of Bank Melli, that has been greatly enhancing of the effect of our designation of Bank Melli; to the extent that the U.N. designated Bank Sepah, that was devastating to Bank Sepah.

So there is no doubt that the premise of your question is correct that the U.N. designation of these financial institutions that we have already designated would be extremely powerful.

Senator SHELBY. Secretary Hill, last week, Secretary Locke proposed to eliminate license requirements for dual-use exports to a large number of countries which are our allies and partner nations, so to speak. If original export license requirements are removed for items exported, for example, to the European Union, how will the United States be able to enforce its re-export license requirements? In other words, once it goes into the Union, what tentacles do we have there?

Mr. HILL. Thank you, Senator. As Secretary Locke clearly said in his address last week, any export control reform must be accompanied by a robust enforcement and compliance effort and ramping up our efforts there. I have met with the Secretary since his announcement, and he is very committed to that and has asked us to carefully consider the very question that you just raised as we craft our regulations to move that process forward.

We currently have for Iran a total embargo on exports and re-exports that would stay in effect, would not have any—there would be no impact from our export control reform. For other items that might be included in the export control reform, we are looking at ways to control those, including requiring re-export requirements out of those allied nations, including monitoring and notification.

We are looking at a broad range of issues. We think it is a very important issue that you have raised, and we intend to get it right.

Senator SHELBY. How is the administration ensuring that any proposal to decrease controls, which comes under the State Department—I mean, the Commerce Department, on sensitive U.S. equipment will not find its hands—ultimately, the equipment will not find it being in the hands of Iranians?

Mr. HILL. Thank you, Senator. Again, the answer remains the same. We need to be very diligent as we craft that regulation because we do not want that to happen, and a very robust enforcement and compliance effort to guarantee that going forward. We work today with allies. For example, we have had a team with the State Department that has visited the UAE once to twice a year over the past few years where we have helped them develop an export control system, and we are starting to see progress there. So we have that going on as well.

But, again, we are going to be very careful as we move forward on export control reform to ensure that the bad guys do not get the stuff. And, frankly, sir, some of the stuff they get is not all that sensitive stuff. The electronics that go into IEDs that end up on the battlefield hurting our young men and women are not the highest-tech items. But we are very conscious of that. Our enforcement efforts have been on that. We were able to disrupt the international Mayrow ring and put 75 entities on our Entity List.

Senator SHELBY. Mr. Chairman, I have one quick question, if I could, of Secretary Levey. In our July hearing, Mr. Secretary, reference was made to the notion that if one is doing business in Iran today, then they are probably doing business with the Islamic Revolutionary Guard Corps. In October of 2007, the Office of Foreign Assets Control that you are very familiar with listed the leading Iranian financial institutions, the IRGC, and other entities as specially designated global terrorist organizations.

At that time, or anytime thereafter, was there ever a list with a complete financial footprint of who is trading with Iran? And if there is no such list, then why do you suppose one was never created?

Mr. LEVEY. Well, as you indicate, Senator Shelby, we did do the very broad set of designations in 2007——

Senator SHELBY. But not specific, was it?

Mr. LEVEY. Well, it was a little bit more specific than you have laid out because we also subsequently have designated a number of companies that are owned or controlled by the IRGC.

As you indicate, that has an effect in the United States, of course. It freezes their assets and makes it a crime for anyone to do business with them. But it is a good signal to the rest of the world who really do not want to necessarily do business with the IRGC. If we can identify the companies for them that are IRGC

owned and controlled, then they can take steps themselves to avoid doing business with them.

So we have made an effort to continue to provide that guidance to the international business community and continue to take action ourselves to make sure that we are applying the appropriate sanctions.

Senator SHELBY. That is important, is it not?

Mr. LEVEY. I think this is a very, very important matter, yes.

Chairman DODD. Thank you very much.

Again, these are open hearings, and we invite people to come. The signs are blocking the view of some other people in the room from watching the witnesses, so I would ask them to lower them a bit if they would. Thank you very much.

Senator Reed.

Senator REED. Thank you, Mr. Chairman, and thank you, gentlemen.

Secretary Steinberg, you have just returned from China. We heard that the Russians were ready to stand with President Obama on the stage in Pittsburgh along with President Sarkozy and Prime Minister Brown, but the Chinese were reluctant. So it seems to me that they are the most critical element of pulling all the major powers together.

Can you comment on their position or what we are doing to get them to pull together with the rest of the major countries?

Mr. STEINBERG. Well, thank you, Senator Reed. It obviously is critical because of the value that we get from having the Security Council act in these cases. It gives a much more powerful international message as well as legal tools.

I think it is important to recognize that China did not stand in the way of the earlier Security Council resolution, so they have accepted in the past that these measures are necessary. And as you know, we have had some considerable success with China in connection with North Korea recently. And I think that is a very important step because the measures that we took most recently with North Korea are very powerful tools that are available to us and could be replicated in this context with Iran.

I think it is very clear to me from my discussions with them that the fact of our engagement strengthens our hands with them. They obviously see this as the preferable course, and to the extent that they see us seriously working in an attempt to solve this diplomatically, it increases the chance that they are going to do it.

They obviously have a number of economic interests there. That makes it more challenging to get their support. But the President has raised this at the very highest levels, and in his meeting just a few weeks ago with President Hu, he made clear that this is at the very top of our agenda in terms of our concerns. And I believe that that strong connection that the President has made will help us, should it become necessary, to seek additional measures through the Security Council.

Senator REED. One of the issues that concerns the Chinese is they have about 20 percent of their oil, I believe, comes from Iran. But do they understand that if this situation gets out of hand, one of the likely consequences is that oil prices boom up and that they

would suffer probably more than anyone else—or as much as anyone else?

Mr. STEINBERG. Well, Senator, I certainly made that point to them when I met with them, and I also made clear that, more broadly, as they become increasingly dependent on imported oil, imported energy, they have a huge stake in stability in the Middle East. And an Iran with nuclear weapons or nuclear capability would create deep instabilities in that region.

So I think in some ways, although their energy needs create ties with Iran and others, it also creates a recognition that they have a stake in this in ways that they may not have seen before. And I think this is one of the great challenges in our broader engagement with China, is to make clear that they now have a global stake in dealing with questions like this. They cannot simply stay on the side and say, "This is not our problem."

Whether that has successfully made it into their thinking, we will only see in the event. But we have certainly been making that explicit with them.

Senator REED. Let me switch gears to the domestic situation in Iran: unprecedented turmoil after their election, seems to be continually below the surface, and occasionally breaking through. What effect does this have on their deliberations, their negotiations, their view of how they should proceed with their nuclear program?

Mr. STEINBERG. Senator, it is in some ways the $64,000 question, and I think it really is ultimately somewhat a matter of speculation.

There is no question that this is a major factor, but whether this is leading the Government of Iran to be more open to a solution because it faces internal pressures or whether it is making it more defensive I think is really hard to judge at this point. And I think the only way we are going to be able to tell is by testing the proposition by making clear, including very clearly to the Iranian public, where the opportunities are and how either the government can deepen its isolation further—which is one of the arguments that the opposition made during the campaigns, is pointing to the behavior the government, which deepened its isolation and the costs it imposed on the Iranian people. So I think we have to keep focused on that aspect.

Senator REED. Secretary Levey, you mentioned in response to Senator Shelby that the IRGC has a significant economic role. I heard that they have just bought a major position in the telecom company in Iran. Is that correct?

Mr. LEVEY. Senator Reed, I have seen that report, and at this point we are trying to confirm it. But there are some indications to that effect, yes.

Senator REED. And I would presume it is not just that they have a good idea for a situation comedy, but they are looking to control actually access to the Internet, Twitter, and everything else.

Mr. LEVEY. That is certainly a possibility, and one is seeing the IRGC injecting itself into so many different areas, as I laid out in my testimony and as you pointed out. And as Secretary Steinberg said, this may well be an area where we can focus some attention

and have the ability to bring others along with us and make it more effective.

Senator REED. Is the IRGC becoming so powerful that they are a force unto themselves, that Ahmadinejad and the mullahs have less and less control of them? Or have they allied with Ahmadinejad as a front so that they can maintain their presence, their growing presence?

Mr. LEVEY. I think that there are different indications that we have in both directions on that. But at this point, it looks like the IRGC is certainly well connected to the Supreme Leader, and that is the assumption that we are going forward on.

Senator REED. Just a final question. How does the nuclear program get their money? Do they go get bank loans? Or how directly can we affect the funding of these specific programs through sanctions?

Mr. LEVEY. Well, Senator Reed, the issue here is this is a government-funded enterprise, obviously, so this is a regime—this is, you know, a country that has a lot of income from its natural resources. So we have to deal with that situation as we find it.

Just because they have the money, though, does not necessarily mean that they can easily engage in international business transactions. So by trying to raise the costs and make it more difficult and identify illicit transactions and get partners around the world to scrutinize it and be suspicious, we can slow them down and make it more difficult for them and that way even if it is a situation where we cannot stop Iran from having money that it gets from selling its oil.

Senator REED. Thank you very much.

Thank you, Mr. Chairman.

Chairman DODD. Thank you very much, Senator.

Senator Corker.

Senator CORKER. Mr. Chairman, thank you, and I thank each of you for your service and testimony, and we appreciate what you have said today.

Secretary Steinberg, is there any question in anybody's mind that during this period of time between now and October 25th that much of the facility that we are getting ready to inspect is being dismantled?

Mr. STEINBERG. Senator, as you can probably guess, what I could tell you about that I cannot tell you in open session. But I think that my broader point is that we are pretty confident that the period of time, the delay, is not going to have an impact, a significant impact on our ability to understand what was going on there. So I guess to get to what I think is underlying your question, which is, is this—they have acknowledged that this is an enrichment facility. This is not a case where we are accusing them of having a facility, they have denied it, and they are going to then go hide all the stuff to prove it was not. They have acknowledged that it is an enrichment facility, and so I think we believe that the period of time here is not likely to have an impact on our understanding.

More important, in addition to inspecting what is there, what we will achieve from this is making sure that this is put under safeguard so that if they want to continue to go forward with this facil-

ity, it will be fully safeguarded with monitors and all the equipment that the IAEA has.

So given the state of this—and it is at a very preliminary state—I think we feel confident that this delay is not one in which significant deception or activities will take place that would significantly impede our understanding of what was taking place.

Senator CORKER. And I have seen much of the classified—probably not as much as you have on a daily basis, and I do not think there is any question about that. I guess sometimes one might wonder, you know, would it make sense to have somebody on the ground immediately there and then let the inspectors come in once they are prepared. But I guess that is too rational of a thing to occur and just does not make sense in international diplomacy.

Mr. STEINBERG. Again, Senator, we obviously would have liked to have had a somewhat earlier engagement, but given what our understanding of the state of play is there, the slight delay beyond the 2 weeks that we had suggested in our judgment is not going to make a significant impact on that.

Senator CORKER. And I appreciate the answer.

Senator Dodd asked a good question about what might happen with the sanctions on refined product as far as the people go. As just a tool itself, do you think the keeping of refined product from actually coming in from other places to Iran is an effective sanction, period? I mean, is it an effective sanction? And the reason I ask, there have been a lot of people that say that they can easily get around it and they have subsidies in place that they could remove and that would contain, you know, the amount that would actually be utilized. There is a lot of smuggling that goes on to other countries which they could stop.

I mean, is it or is it not an effective sanction?

Mr. STEINBERG. Senator, I think we still have not reached a firm judgment on whether that would be the best way to go, in part because we need a better understanding of what the efficacy would be, in part because it would depend on the degree to which others participated in this. Obviously, this is a hard thing to do unilaterally.

Senator CORKER. Sure. But if everybody participated—I know right now China is the major assistor, if you will. But if everybody participated and the companies that have just recently stopped continue to stop, would it be an effective sanction or not?

Mr. STEINBERG. Again, I think we have not reached a firm conclusion about whether the net benefits and the net cost would have the efficacy. The challenge is always to try to translate the economic impact into what the political impact would be, and our goal, as we think about what we might want to do going forward, is to think, as Secretary Levey said, about how does the government make its calculation. What would have the biggest impact on them, whether it is transmitting through its impact on the people or whether it is directly affecting their own activities?

We found in many cases, for example, that the reason I think a lot of us are focused on the IRGC is if you can focus on kind of the cost/benefit calculation of the individuals who are making these decisions, sometimes that has a more targeted impact—sometimes

called "smart sanctions"—that things that have to work as a transmission belt through the pain they impose on the public.

But I do not think we want to take it off the table. I think it is one of the things that we need to——

Senator CORKER. Let me ask you this: Have you asked for Congress to act? And the reason I ask that, my guess is with all the testosterone, if you will, that shows itself as it relates to Iran and other kinds of things, if you asked for sanctions, they would be passed out of here in about 24 hours, maybe more quickly. So the question is: Have you asked for us to take any actions in Congress as it relates to sanctions?

Mr. STEINBERG. I think, Senator, the key for us will in part be timing, which is——

Senator CORKER. No, no. But have you asked yet? Just yes or no.

Mr. STEINBERG. We have not asked for additional measures.

Senator CORKER. Would you like for Congress to prescribe what needs to be done? Or would you like for Congress to enable you if you make decisions as it relates to sanctions?

Mr. STEINBERG. Certainly, Senator, the President would like to have the maximum flexibility in part because of his ability to——

Senator CORKER. He would like to be enabled.

Mr. STEINBERG. He would like to be enabled.

Senator CORKER. Then, in essence, just to get to the legislation we have before us, you would oppose then the Lieberman-Kyl bill that says you shall—you shall keep refined product from coming into Iran?

Mr. STEINBERG. Again, Senator, I think what we would like to do is work with the Committee to give the President the appropriate flexibility, and I know the Chairman and others have indicated some willingness to look at actually how——

Senator CORKER. So the answer—I am just going to say it for you since you are being diplomatic, as a diplomat—is that you oppose this legislation. And I guess, you know, it does worry me that we might get in the middle of your work right now.

But the counter to that—and this is my last question—some of my colleagues up here on the dais, you know, we whispered back and forth a little bit about, OK, what is different now? I mean, there have been talks that have been going on for some time. And, by the way, I am on the side of feeling that you guys do need some flexibility, that we do not need to be telling you guys what to do yet. OK? I mean, I think there is an opportunity for actions to take. I think, though, the world community is watching. I know many of us are watching. There has been a lot of talk going on by many administrations, and nothing has happened.

My final question is: What is different, in your opinion, this time that would enable you, if you had the freedom and you were not prescribed by others, what is different this time that will allow you to be effective as it relates to Iran?

Mr. STEINBERG. I think the most important thing is I think we have a better chance of getting broad-based sanctions, broad-based economic and political pressure because we demonstrated that we have made every effort to solve this through diplomacy and that the burden is clearly on Iran, that they have clearly rejected any attempt to solve this peacefully.

I think that is an enormous tool for us to get others to act, and at the end of the day—because not only are sanctions more effective when they are broad-based, but it also takes away the political argument that the Iranian government may try to make, which is that this is American hostility. This is clearly an international rejection of their unwillingness to be straightforward and open about their program, their unwillingness to prove that it is peaceful.

And so I think that affects not only our ability to get others to join us, but the dynamic that we have all been discussing today about how this plays within Iran itself. It becomes harder for them to try to use that line with their own people about why these painful measures are now being employed.

Senator CORKER. I thank you for your service and your answers, and Mr. Chairman, for the hearing.

Chairman DODD. Thank you very much, Senator.

Let me just point out, as I understand the legislation, by the way, there is waiver authority in the legislation for the administration. So it is not quite as prescriptive as my friend from Tennessee has suggested.

And second, and I say this respectfully over the years, that as a coequal branch of government, and obviously we delegate to the administration and the executive branch to conduct foreign policy, and you can't have 535 Members of Congress conducting foreign policy, I understand that point, but also, I think it is important on issues like this that the world understand, particularly the Iranian government understand, that our patience has run out, that this has gone on too long and that we are running a great risk if they acquire these weapons and pose a great threat to us and to our allies.

And so while we don't relish this choice, they are giving us no other choice at this point except for the one that we would all like to avoid, and that is the one that we are trying to avoid by what we are suggesting here. And so while it is painful and it may impose some difficulties, in the absence of doing so, there is the fear here collectively that the Iranian government is taking us to the cleaners on the issue and the end result would put us at great risk.

So I just think it is important to note that. This is not something that we enjoy doing, and obviously working with you—and I appreciate your response, Mr. Secretary—is exactly the mood that we intend to engage with you on.

Let me turn to Senator Bayh.

Senator BAYH. Thank you, Mr. Chairman.

Just following up on that, to my friend from Tennessee and the Chairman and our guests here today, the legislation does use the word "shall," but it also includes waiver authority, that the President on a finding that it is not in the national interest to impose the sanctions can waive the sanctions. So we are trying to strike the balance between creating a sense of urgency, clearly getting Congress on record as saying that this is something that we are interested in doing—I personally think it is the right thing to do—but maintaining the appropriate balance of powers between the legislative and the executive branch. We ultimately give discretion to the executive branch to exercise its judgment as it sees fit. So that is the balance that we were attempting to strike, between

being advisory and prescriptive, maybe a little of both. So that is just for the record.

Thank you all for being here today, and my first question, I guess, Mr. Steinberg—it is good to see you again—would be for you. We are now engaged in this accelerated diplomacy, but the clock is also running. And so my question for you would be, what should the deadlines for the diplomacy be and what should the consequences for failing to meet them be if the Iranians just are dragging this process out in an attempt to achieve a nuclear capability before the world can do anything about it?

Mr. STEINBERG. Well, thank you, Senator. I think there are some real opportunities here to test Iran's intentions and to get a sense of the accelerated time line. One of the reasons why we put such emphasis on this arrangement for shipping out most of the low enriched uranium to be reprocessed into fuel for the Tehran research reactor is that it has a real needed impact, which is it takes away from Iran LEU which could be fabricated into high enriched uranium, highly enriched uranium, and potentially into material for a nuclear weapon.

So a prompt action by Iran on that would be a very significant step. That is why we have put a lot of emphasis on it. We will have an opportunity in a matter of days——

Senator BAYH. How would you define prompt?

Mr. STEINBERG. We have a meeting on October 19 to discuss the details of this, and as I indicated earlier, we anticipate a meeting of the P5+1 with Iran by the end of the month. So we are really talking about a matter of days and weeks for the first two commitments that Iran made in the Geneva talks, as the inspection of the Qom facility and trying to reach an agreement on the shipping out of the LEU——

Senator BAYH. Is there any way for us to verify whether they have actually shipped out all the enriched uranium that they have?

Mr. STEINBERG. Well, I think we have a fairly good idea—not to the gram, but a fairly good idea—because the facility is under IAEA inspection, that within a reasonable tolerance, we have a pretty good idea of what their current LEU stockpile is——

Senator BAYH. So you are for prompt deadlines——

Mr. STEINBERG. Yes.

Senator BAYH. You are talking in terms of by the end of the month or——

Mr. STEINBERG. By the end of the month, I think we will have a clear indication of whether on the first two specific things that they apparently agreed to in Geneva, whether they are taking action to show they are serious.

Senator BAYH. It was, I guess, typical that they apparently agreed to things and then pretty quickly denied having agreed to those very things. They don't seem to be speaking with a unified voice. So the second part of my question is, if they appear to be dissembling or delaying, what should the consequences for that be?

Mr. STEINBERG. I think the President and the Secretary and others have made clear that if we see that they are unwilling to take action on the things that they have said they are going to do, that we are prepared to move to stronger actions, ideally through the Security Council and multilaterally, but we reserve the right to

take actions by ourselves. I think we have given them a good time horizon within which they have to do it, which is not years but has to be quite promptly.

Senator BAYH. I think you are quite right in judging them not by what they say, but by what they do, and my observation is that the Iranians tend to respect the strength and that seriousness of purpose or credibility is important here and a willingness to actually take steps forward. Interestingly, it maximizes the chance that you don't have to take those steps, so——

Mr. STEINBERG. I strongly agree with that, Senator.

Senator BAYH. My second question—and my clock must be on fast-forward, I am only going to have time for two here— I would be interested in all three of you, it seems to me at the bottom of all this is an assessment of the character of the Iranian regime, and it may be—it is obviously opaque and it may be somewhat internally divided. I think two of you have indicated that. But ultimately, will they act as a nation state, assessing their interests and acting in pursuant thereof, or will they be motivated by religious fervor or hatred toward Israel or the United States or the West, making decisions that we would consider to be irrational?

If it is the former, we can ratchet up economic, financial, diplomatic, cultural, all sorts of pressure, hopefully ultimately attaining a level that they determine it is just not in their interests to pursue nuclear weapons anymore. If, in fact, the ultimate arbiters are motivated by other factors, then perhaps not and that takes you down another line of analysis.

So my question to all of you gentlemen is, ultimately, if this regime as currently constituted were to obtain a nuclear weapon, what are the chances that they would misuse that weapon in a way that we would consider to be irrational?

Mr. STEINBERG. Senator, it is obviously—it is hard to know the answer to that question, but I think that is why we are—the dangers that it potentially poses is why we place such an urgency on preventing them from developing that capability in the first place. We have a variety of tools available to us. Nothing is off the table. We believe that there is a chance through diplomacy, but we recognize that that may not succeed and we may have to turn to other options. But we have made clear that we have a very clear goal, to prevent them to develop the capability to do that so that we can avoid the risk that you have identified.

Senator BAYH. Mr. Levey? By the way, thank you for our previous meetings over the years. You have done great work in this area, one of the few things that actually has ratcheted up the cost to the Iranian regime for their misbehavior, so I am grateful to you for continuing on.

Mr. LEVEY. Well, thank you, Senator, and I appreciate your interest in this and all the discussions that we have had about it over the years.

I think the answer to your question about what is the nature of this leadership in Iran is that while we don't know for sure, what we are trying to do now is probe that. The process that Deputy Secretary Steinberg laid out will give us—will put before the leadership in Iran a rational choice, either to engage and take the steps that they are being asked of, or face the consequences of not doing

so. And so we put before them the rational choice and we will be able to learn by what happens rather than by a prediction.

Senator BAYH. Mr. Hill, do you have an opinion about this?

Mr. HILL. Sure, but I think I will defer to my distinguished colleagues. I would just say, at Commerce, we are focused on preventing bad guys from sending things to Iran that will hurt us on the battlefield.

Senator BAYH. Well, if I could just make two final points, Mr. Chairman, my time has expired. It is possible that they are operating as if they were in a bazaar and there are ultimately rational decisionmakers at the end of the day, but we may not be able to raise the cost so high as to ultimately affect their decision about this, because even the reformers, as I understand it, are under agreement about the nuclear aspirations of the country. At least, they have been until recently. So there seems to be a broad consensus within Iran about this. That is number one.

Number two, even if you think there is a 95-percent chance that they are rational decisionmakers and will behave like a normal nation state, if there is only a 5-percent chance that they will not, is that a risk that you are willing to run, and that is a very hard question to answer.

So I encourage you in these efforts. We should ratchet up the cost as high as we can. Mr. Levey, as you say, perhaps we will then find out how they behave. Of course, then you always have the question of will they comply with that, but that is perhaps the subject for another hearing on another day. Thank you, gentlemen. Thank you.

Senator REED. [Presiding.] Thank you, Senator Bayh.

Senator Merkley?

Senator MERKLEY. Thank you very much, Mr. Chair, and I appreciate your testimony today.

The question I want to ask you all to help us have insights on, to the degree you can do so in unclassified fashion, is certainly there is no long-term benefit to China and Russia to having a nuclear-armed Iran, and yet they have been somewhat reluctant to come to the table and join in the international effort, multilateral sanctions. Can you give us a little insight into how Russia and China have thought about this issue, weighing their short-term trade deals against the long-term risk, and how their perspectives are changing and how we are working to continue to help them see the importance of this effort?

Mr. STEINBERG. Thank you, Senator. It is always a little bit perilous to try to peer into the internal decisionmaking of other countries, and particularly in these cases where it is not so transparent, perhaps, as in our own, where you can read about it in the newspapers.

It seems to me that the biggest challenge that we have is that both Russia and especially China have a firm conviction that the best results are achieved through diplomacy and they are, frankly, more skeptical than we tend to be about the efficacy of economic sanctions and the like. They aren't opposed to them. As I said earlier, we have had the support of Russia and China on three Security Council resolutions that affect Iran, so they have recognized that at the end of the day, you may have to take these measures,

and again, most recently with North Korea, we have opted to take some very strong measures.

So I think they are slower to come to the conclusion. They are more likely to conclude that the threat is counterproductive than we often feel where the threat actually is incentivizing to a country to negotiate. But as I say, I think that it is not because there is a fundamental disagreement about the objective, nor, I think, increasingly, is there as much of a difference about how dangerous a nuclear Iran would be. I think there is a growing acceptance among all of the five that this is something that is of paramount importance.

So that is why the engagement strategy has been so important, because it helps us convince countries like Russia and China, which are more inclined to put stock in diplomacy and negotiation, that we have seriously pursued that and we are not just kind of rushing over it to get to other kinds of actions.

They obviously have economic interest there. Europeans have economic interest there. And those must have an impact on their overall calculation. But I think at the end of the day on these issues, they understand of what paramount importance this is.

Again, you can never know for sure, but in my earlier service during the Clinton administration, we worked with China to end their direct support for Iran's nuclear program in the mid-1990s, and again, they had an involvement with the zero power reactor in Iran and the like, and they were reluctant to do it, but over time, they did end that involvement. So I think the record would suggest that if you work this hard enough, there is no guarantee, but there is at least some prospect that they will come around to the view that we share.

Senator MERKLEY. Let me ask this question. When Iran's government looks around the world, they see Pakistan now as a nuclear power, despite sanctions that were applied at one point. They see certainly North Korea as a nuclear power and they see how reluctant foreign nations are to mess with nations that are nuclear powers. Is there a certain logic to their pursuit, especially if you throw in national prestige? Are these things so deeply rooted, their vision of kind of the protection that a nuclear weapon provides them, and their national prestige? Can sanctions be reasonably expected, even in a multilateral, serious format, be expected to counteract those two powerful forces?

Mr. STEINBERG. Senator, I think we have to disrupt that logic, if you take each of the elements. I think you have raised some good questions there.

With respect to prestige, I think it is possible, and I think this gathering of international consensus is how we do it, is to actually reverse the calculation, that it isolates it, that it makes it more of a pariah state. That rather than gaining prestige and influence, it becomes less welcome in the international community, less able to achieve its objectives. So I think we have the ability to break that logic.

In terms of security, I think we can also show that they are less secure, that they are uniting all of the countries in the region to be concerned about them, to strengthen their military ties with each other and cooperation with us.

So each of these potential logics are what we have to work on and to demonstrate to them that if they think that is what they are achieving, they are actually not going to achieve it. They will achieve the opposite. They will be less secure, less prestigious, less able to achieve their objectives by going down this road. And here, the strong international consensus, I think, is a critical part of that effort.

Senator MERKLEY. And to change that international environment, we really have to have full cooperation of major powers around the world, and I understand that that is the foundation of your efforts and we all hope that those are successful.

Mr. STEINBERG. I agree.

Senator MERKLEY. Thank you.

Senator REED. Senator Bunning?

Senator BUNNING. Thank you, Mr. Chairman.

Mr. Steinberg, since the enactment of the Iran Sanctions Act of 1996, approximately how much have foreign countries invested in Iran's energy sector?

Mr. STEINBERG. I would have to provide that for the record, Senator. I don't have that.

Senator BUNNING. I would appreciate that very much. Since you do not know that answer, I happen to be aware that the figure that you would give us does not include $70 billion in pending transactions that are known about, most of which are long-term contracts to purchase Iranian gas and oil, is that correct? Do you know about those?

Mr. STEINBERG. Senator, obviously, there are some long-term contracts and there are—I mean, there are legal issues with respect to investment and the coverage of the Iran Sanctions Act as opposed to purchases and long-term contracts.

Let me just say, because I know of your interest in the Iran Sanctions Act, that you have to look at this not only from transactions that have taken place, but transactions that have not taken place. And one of the powerful tools and one of the ways that we work with the Iran Sanctions Act is to use this as leverage to discourage people from investing in Iran. Again, from my previous service, I know how powerful that can be, and I know that the previous administration also used it as a way to discourage actors, particularly Europeans, but others, as well, from making these investments. And I think there is no question——

Senator BUNNING. Well, in that regard, then, under the Iran Sanctions Act, how many of these countries that are in violation of our sanctions, how many more countries—in other words, does the State Department actually consider these countries in violation of our sanctions?

Mr. STEINBERG. We obviously look at each transaction that comes to our attention, Senator, and if we find a violation, we would obviously impose measures on this——

Senator BUNNING. Do you rule on it? Does the State Department then impose the ruling that is in the Iran Sanctions Act?

Mr. STEINBERG. We would impose sanctions if we found there was a violation of the Sanctions Act.

Senator BUNNING. You would? This is for the same gentleman. Recent excerpts from the International Atomic Energy Agency

Annex confirms foreign intelligence reports that Iran has restarted work on a nuclear warhead design. Does it remain the position of the administration that Iran has not restarted this design?

Mr. STEINBERG. Senator, you are citing press reports. To my knowledge, that IAEA report has not been completed or sent to us, so I can't comment on the specifics of the IAEA report.

With respect to Iran's nuclear program, that is something that we continue to keep under advisement and review. The details, obviously, we would be happy to review in a classified session.

Senator BUNNING. Thank you. Mr. Levey, are you aware of foreign banks that continue to conduct business with sanctioned Iranian entities? If so, why have these banks not been sanctioned?

Mr. LEVEY. Well, Senator Bunning, the question is, whose sanctions are they violating?

Senator BUNNING. Yes.

Mr. LEVEY. If they are violating——

Senator BUNNING. I am speaking about ours.

Mr. LEVEY. Right. So we have acted against the Iranian banks that——

Senator BUNNING. What about the other foreign banks?

Mr. LEVEY. They are not permitted to use our financial system——

Senator BUNNING. That is correct.

Mr. LEVEY.——to do the business with any Iranian bank.

Senator BUNNING. So if you find them in violation of that, then you do sanction?

Mr. LEVEY. There would be consequences for any foreign bank that was using our financial system to do business with an Iranian bank.

Senator BUNNING. Thank you. What role do large financial clearinghouses, such as Euroclear, EBA, and the Asian Clearing Union, play in allowing Iran to circumvent sanctions?

Mr. LEVEY. Well, Senator, as you know, those are all major institutions that have to abide by not only U.N. Security Council resolutions that apply to Iran, but also kind of the financial rules of the road in terms of legitimate financial activity. That said, there is—and we have engaged with the institutions that you have mentioned to make sure that they are aware of the risks of doing business with Iran, as I laid out in my testimony—some of the institutions that you mention, we do engage with very closely to make sure that they are not being used as a way for Iran to obscure the underlying parties to a transaction, and that is a concern that we continue to have and engage on actively.

Senator BUNNING. Mr. Steinberg, outside of the Qom facility, how confident is the administration that there are no other secret Iranian facilities?

Mr. STEINBERG. Senator, this is obviously something that the very fact of the Qom facility has to raise questions about whether there are things that we don't know about. This is something we obviously put as among our highest priorities in terms of the intelligence community. I think this is something that, while we have no specific evidence of other facilities, it is not something that we take for granted, the fact that we don't——

Senator BUNNING. In other words, there could possibly be?

Mr. STEINBERG. By definition, there could be, and I think we have to take very seriously the possibility that there might be.

Senator BUNNING. OK. This will be my last question, since my time is running out. For Mr. Steinberg, the P5+1 talks have been described as slow and a constructive beginning. Will Russia and China agree to the next steps if the negotiations fail to show progress?

Mr. STEINBERG. Senator, I obviously will have to see in the event, but I think that certainly with respect to Russia, the comments of President Medvedev are encouraging in terms of his recognition, of explicitly recognizing the role of sanctions in this case, and I am hopeful that with the Chinese, as well, given their past practice, which is ultimately coming along with supporting Security Council resolutions, that we can persuade them, as well. But I can't obviously guarantee it at this point.

Senator BUNNING. Do you know if Russia will commit to stopping anti-aircraft system sales to Iran?

Mr. STEINBERG. It is certainly something we have raised repeatedly with them. They have indicated that they understand the concerns that we have, but we are not resting our laurels on this one.

Senator BUNNING. Thank you very much, gentlemen, for being here.

Senator REED. Thank you, Senator Bunning.

Senator Menendez?

Senator MENENDEZ. Thank you, Mr. Chairman.

Secretary Steinberg, in your opening statement, you basically said the Iranians can either negotiate in good faith or they can face increasing international isolation and pressure. And my question is, up to now, do you think the Iranians have negotiated in good faith?

Mr. STEINBERG. Senator, I think this is, frankly, the first concrete evidence that we have had during this administration of serious negotiation. I am an outsider with respect to the earlier negotiations and whether those who are involved felt that there was any progress made at that point. But I certainly think that during the first months we were in office, we were not seeing the signs of responsiveness at all from them, and I think it has been both a growing focus of the two tracks of our strategy that has brought the intense scrutiny on them and the possibility of additional pressure, so——

Senator MENENDEZ. Let me ask you this. Their first day of talks seemed to produce a potentially positive first step that Iran's agreement supposedly to ship most of its low enriched uranium out of the country. Now, I have read press reports that they are denying they made that commitment. Which one is it?

Mr. STEINBERG. Senator, as I mentioned before, we have a meeting with them on October 19 and I think we will see. I think that——

Senator MENENDEZ. But did they or did they not make that commitment on the first——

Mr. STEINBERG. They made a commitment to proceed with this program.

Senator MENENDEZ. All right. So they made a commitment. Now they said they don't, which is an example to me of what they have

traditionally done as they have moved along in these negotiations, you know, give you one step forward and then two steps backward.

Let me ask you this. We can only sustain a process with measurable, practical results, is your testimony. Well, my question is, then, what is that? That is rather amorphous to me. The President said by the end of the year, we should be able to assess whether the talks hold real promise. What is the time line you all have in mind? How will we know if the Iranians are serious? How will we be able to palpably have a sense of benchmarks in which we measure real progress versus illusory progress?

Mr. STEINBERG. I think the issue that we have just been talking about is an important first step. The agreement, if they implement it—and I agree we have to make sure they implement it, although I don't think we should draw a lot of conclusions from the press statements they make about it. I think we put a lot more emphasis on what they actually agree to when we come back together again.

But if they, in fact, move forward, not just agreeing, but actually move forward, actually shipping out the LEU, that would be a tangible sign of progress. It doesn't end the problem. It is just the beginning of the process. But it would be a very tangible step because it would reduce dramatically in the near term their ability to move forward with enriching the LEU to a high enriched uranium. That is significant. It is a tangible, substantive step.

Similarly, putting the Qom facility under full IAEA safeguards is important. We have a number of steps they need to take. They need to implement the additional protocol to the NPT. That is an important step that will give us significantly greater confidence about what is going on in the rest of the country. They need to suspend enrichment. That has been the requirement of the Security Council and remains the requirement of the Security Council.

So we have a number of steps beyond these preliminary steps that they have to take and we have a very, I think, forced march to this process to make sure that they are doing it.

Senator MENENDEZ. You have listed about four significant items that need to be pursued. What is the timeframe that we need to see that happening?

Mr. STEINBERG. Again, I think the President has made clear that we need to continue to see tangible steps as we move forward through the fall.

Senator MENENDEZ. If, in fact, we come to December and those four items have not been achieved, is that satisfactory?

Mr. STEINBERG. I think we have to look at the state of play at that point to see what has been accomplished, what has not, and what the prospects are for moving it forward.

Senator MENENDEZ. How long do we continue with these talks before we see a verifiable suspension of Iran's enrichment program?

Mr. STEINBERG. That is the requirement of the Security Council and it is the priority in our negotiations.

Senator MENENDEZ. I know, but—I understand it is a priority, but it has been our priority for how long now?

Mr. STEINBERG. Again, Senator, what we are——

Senator MENENDEZ. Would you quantify for me, how long has it been the priority for?

Mr. STEINBERG. It has been a priority since the Security Council imposed these provisions, and I——

Senator MENENDEZ. And how long has that been?

Mr. STEINBERG. Again, I think we need to make sure——

Senator MENENDEZ. Mr. Secretary, how long has that been?

Mr. STEINBERG. When was——

Senator MENENDEZ. Roughly?

Mr. STEINBERG. Two-thousand-six.

Senator MENENDEZ. Two-thousand-and-six. We are near the end of 2009 and the clock is ticking. And so I am trying to get from this administration what is a sense of time. Is this open-ended in our pursuit? I mean, I hope you are successful, believe me. I think we all hope you are successful. But, you know, we have to have some quantifiable timeframe. You don't want the Congress to pursue the legislation, but at the same time, you don't give us a timeframe. That makes many of us very uneasy.

Mr. STEINBERG. Senator, I share your concern about this not being either a cover for continuing the program or an unlimited process, and the President has been very clear publicly about the fact that he will not tolerate that. We set a timeframe of September for a comprehensive review at the G8 and what we got was the agreement to the October 1 meeting and some in principal commitments to some steps. So it shows that, at least in theory, we may be making some progress.

We don't want to interrupt that progress because we don't know for a fact that sanctions will necessarily be effective if we can make progress through negotiations. But we also don't want to drag this out indefinitely. We will have some very clear indications that either the decision to send out the LEU or to not do it is a very powerful indication of what their intentions are. It is an important step because it has an impact on the ticking clock. That is to say, if they don't have these stores of LEU, then their ability to move quickly to break out to a nuclear capability is delayed.

So we understand very strongly, and I think the countries in the region, as you know, understand as strongly as we do about the danger of the ticking clock. The clock needs to stop ticking. We have made it clear to the Iranians that that is what we are looking for right now, because we recognize that it may take some time to get a comprehensive settlement, but they need to stop the clock ticking so that the danger doesn't grow, and that is what we are focused on in the near term.

Senator MENENDEZ. Well, I certainly hope that you succeed, but I want you to know that I and I am sure others feel very passionately that this is not a chess game where each get to, after you make your move, you stop the clock. The clock is continuously ticking, and regardless of what is said, what we need is real action. Thank you, Mr. Chairman.

Senator REED. Thank you, Senator Menendez.

Senator Schumer?

Senator SCHUMER. Thank you, Mr. Chairman. Thank you to the witnesses.

My first question is for Mr. Hill. Mr. Hill, as I mentioned in my opening statement, black markets around the world have been serving to circumvent our sanctions against Iran, and until we ad-

dress the illegal funneling of goods, any new sanctions could be easily skirted, as well, at least some of them. The UAE in particular has been a major hub for illegal transshipments of goods to and from Iran. We have seen reports that Dubai has now been working to prevent these transshipments from going through, but those activities have merely shifted to other countries. Malaysia and Oman continue to be key intermediaries for Iran to illegally acquire U.S. technology.

A 2007 GAO report found fault with our enforcement of illegal transshipments of goods to and from Iran. It cited that only one inspector from each Treasury and Commerce were stationed in the UAE. Would more inspectors on the ground in this region make a difference in our ability to enforce existing sanctions?

Mr. HILL. Thank you for the question, Senator, and of course, more resources are always welcome as we work with the Congress and with the administration——

Senator SCHUMER. That wasn't quite my question. They are always welcome, but would more inspectors make a difference here?

Mr. HILL. I would have to say, yes, probably. We have——

Senator SCHUMER. Thank you.

Mr. HILL.——a focus on Iran and around the world we are trying to enhance our bootprint, our footprint for enforcement, and the Secretary is very focused—Secretary Locke is very focused on that.

Senator SCHUMER. How many U.S. officials are currently working on the ground in these countries to investigate the diversion of U.S. goods?

Mr. HILL. We have five agents stationed—we have five posts overseas. In my testimony, I reference those——

Senator SCHUMER. How many agents?

Mr. HILL. We have 100 agents here in the United States focused on this issue.

Senator SCHUMER. How many overseas?

Mr. HILL. There are five.

Senator SCHUMER. Just five, one in each place?

Mr. HILL. One in each.

Senator SCHUMER. OK. Well, I certainly think you need more, and certainly, I guess, you agree we need more and we should try to get you those, OK. I hope we will.

Could you describe the cooperation between Commerce, Customs, FBI, OFAC, the State Department, in stopping and prosecuting illegal export schemes?

Mr. HILL. Thank you, Senator. It truly is a good story to tell. It has been a remarkable collaborative effort on the case that I described in my oral comments where we added 75 names to the Entity List, which interrupted an international smuggling chain that was eventually ending up in components being shipped to Iran to put in IEDs and ended up in Afghanistan. It was an effort led by Commerce, but we were strongly supported and worked closely with Justice, Customs, ICE, and all those.

I think—you know, I remember back in the 1980s—I have been around for a while—where relations weren't so good. Relations are good today and we work well with our sister agencies.

Senator SCHUMER. OK. Next, I think I will ask this to Mr. Levey, Mr. Steinberg, but any of you could answer it. I am always looking

for places where the United States, we can act unilaterally and have some real economic effect on Iran, and it seems to me that the legislation that had been introduced by Senators Bayh and Kyl and Lieberman would do that, because gasoline was a weak pressure point. What is your view as to the effectiveness of that legislation, without commenting specifically? I don't know if in your testimony you support it or not. Does the administration support the legislation?

Mr. STEINBERG. Senator, as I said to the Chairman, I think we want to work with the Committee in terms of how we would craft an overall package coming out of the Congress——

Senator SCHUMER. But the concept. I am not asking you for language. I am asking, would the administration support the concept of putting pressure on oil companies that sell gasoline to Iran and making it virtually untenable for them to do that by not selling here?

Mr. STEINBERG. Again, Senator, I think we have to—in terms of which of the potential measures of sanctions, whether they are more targeted on individual entities in Iran as opposed to a broad-based thing that would affect the Iranian economy like that, I think we have not reached a judgment as to which of those might be the most effective, in part because not only do we want to have the impact on the economy, we want to make sure that that is going to affect the decisionmaking in Iran and not target the wrong people in Iran, and similarly to make sure that we maximize the chance of getting international support for these things because there is obviously a risk in these things, that if we do not have international support, that there will be diversions, there will be work-arounds, and the efficacy of the sanctions will not nearly be as effective.

Senator SCHUMER. But it seems to me with gasoline, where there are not that many large refiners and sellers, and most of the large ones need a U.S. market, as well, that that is a place that has real possibilities.

Let me ask you about Central Bank. I was very active in preventing Iranian banks from being co-respondents—this is to Mr. Levey and now their Central Bank has taken over some of those roles. I do believe the one effective thing we have done economically unilaterally was when we put pressure on their banking industry. Would the administration support a move, which I have already urged the Chair to put in this legislation, to extend that in whatever way we could to the Central Bank of Iran, who is now, as I said, assuming the same functions that the commercial banks did?

Mr. LEVEY. Well, Senator, without commenting on what action we might take in the future, let me just tell you what we have done already with respect to the Central Bank because we have publicly expressed some concerns about just what you have mentioned, which is that they have engaged in certain deceptive conduct and have assisted banks that are under unilateral sanctions by the United States.

But what we did do is we cut off all Iranian financial institutions, their commercial banks, their state-owned banks, their private banks, and the Central Bank of Iran from all access to the

United States financial system. And at this point, that is the state of affairs with respect to the Central Bank of Iran, as well as with all other Iranian financial institutions.

So the question now is getting—trying to broaden that to what other countries can do——

Senator SCHUMER. Correct.

Mr. LEVEY.——and having the desired impact within Iran.

Senator SCHUMER. I guess I share the frustration expressed by my colleague, Senator Menendez. I don't trust the Iranians one bit. If you look at past history, whenever they are squeezed a little bit, they feint, and then they back off. I am not saying we shouldn't pursue these negotiations, but I find it troubling that the administration is not looking at the same time to be supportive of the toughest sanctions possible. It is great that the Russians have finally said something, but again, seeing will be believing there.

As you know, Mr. Steinberg, I worked really hard to try and persuade the previous administration to look at the Russians and the interconnection of the missiles in Eastern Europe and sanctions in Iran, got nowhere, and I am glad that this administration—I know the two are not related officially, but I am glad you are pursuing both separately.

Tell us if you think there is a real chance that the Russians will—I mean, to me, Putin sees Iran as leverage over us and he doesn't want to give up that card very easily. Tell me, is there any reason that you have some optimism that this time it will be different?

Mr. STEINBERG. Senator, as I think you have said, I mean, I think we will see in the event—I mean, I think whether we are optimistic or not, we will see in the event. We are encouraged by the words of the public and the private words, but especially the public words, because I think President Medvedev has put himself out there in ways that I think creates some credibility issues there.

But I also think that—I mean, for reasons that you understand, the specifics of some of the things we are looking at, we don't particularly want to bring up, but there is a very intensive internal effort to examine precisely the questions you are asking here. Would refined products be the right thing to do? Are there other measures?

We are working very hard on this, because we recognize, as Senator Menendez and you have said, that we may have to move very promptly if we don't get a response in the next couple of weeks on these things to take measures. We will be ready and we will be coming back to you to tell you what we want to do, but I think at this stage, for us to sort of kind of go through publicly and precisely what we are doing——

So you are raising the right questions. We are very, very focused and we welcome your thoughts about which of this whole suite—because we have a lot of tools and a lot of things that we might take as the next step as to what is going to be the most effective, because there is no science in this. It is a judgment call as to which of these various tools, what is the sequence, do you do them all at once, do you do them in a series, how do you sequence this with the international action, unilateral, Security Council, otherwise.

But we recognize we need to be ready quickly, and the President has asked us to be in a position to take measures, strong measures, quickly if we don't see very prompt response to the kinds of things that the Iranians have said that they are prepared to do.

Senator SCHUMER. Well, I would recommend, just in conclusion—and I thank the Chair—as tough of measures as possible that are efficacious. You don't want to do what the Bush administration did—this is my judgment, not yours—sounded tough and did very little. You want to really be tough, but I wouldn't back off any longer.

Thank you, Mr. Chairman.

Senator REED. Do any of my colleagues have additional questions? Senator Merkley?

Senator MERKLEY. Thank you, Mr. Chair.

I want to address this to Mr. Hill. In your testimony, you lay out the export controls on U.S.-origin devices and the efforts you go to enforce that. Have you done any sort of evaluation of the impact that this has in terms of the Iranian economy?

Mr. HILL. I am not aware of any internal evaluation we have done. Again, our focus is to prevent the bad guys from getting stuff to Iran and we haven't evaluated what that means to the Iranian economy that I am aware of.

Senator MERKLEY. OK. It strikes me as very strange that you wouldn't have such an evaluation. Could you get back to us on whether you think this has had any impact?

Mr. HILL. I certainly would be happy to do that, sir.

Senator MERKLEY. One of the things that has limited its impact is U.S. corporations have been allowed to set up foreign subsidiaries to do business with Iran. Doesn't that just create a huge loophole that almost makes the export controls irrelevant?

Mr. HILL. Thank you, Senator. Under our regulations, any U.S. item that is exported or reexported by any entity in the world is under our regulations and has no effect if it is a foreign sub or not.

Senator MERKLEY. No, but it does mean a U.S. company can set up a foreign subsidiary to engage in trade with Iran, and while the items can't be U.S. origin, isn't that basically the only limitation?

Mr. HILL. Our regulations go to U.S.-origin items that contain U.S. parts, made with U.S. technology, or they are in their entirety U.S. origin.

Senator MERKLEY. So getting back to us in terms of evaluating the effectiveness of the sanctions, if you could address this issue of whether the ability of U.S. corporations to set up foreign subsidiaries to do business with Iran has undermined the effectiveness of trade factors, that would be helpful.

I noticed in your testimony, for example, you talked about three plans that—and you don't list what type of plane, or if you did, I missed it, but three planes that were not reshipped to Iran due to the efforts, and I think this was involving the Balli Group, three U.S.-origin aircraft to Iran in violation of the EAR, and I wondered, well, so Iran turns around and can buy them from a U.S. company that has a foreign subsidiary, not U.S.-origin planes but planes produced in some other nation.

Mr. HILL. Well, again, just be clear, they cannot export or reexport any U.S.-manufactured planes. They cannot export or reexport

any foreign-made planes that incorporate U.S. parts and components, and most of the major airlines and aircraft today incorporate significant U.S. parts. And so they would be prohibited from export or reexport to Iran under our current regulations.

Senator MERKLEY. With anything with U.S. parts.

I wanted to turn to the effort to address the actions of foreign companies, and particularly under the Iran Sanctions Act. How many companies have been assessed penalties under the Iran Sanctions Act?

Mr. STEINBERG. Senator, there has only been one finding under the Iran Sanctions Act. That was in 1998, but the sanctions were waived at that time.

Senator MERKLEY. Is the answer zero?

Mr. STEINBERG. That is correct.

Senator MERKLEY. OK. I believe that that Act, if you think of the three components, investment, trade, and sales of equipment, that of those three, the Act only addresses investments. It doesn't address trade purchases, if you will, or sales of equipment to Iran. And then, indeed, the investment portion, we have had reason to not implement sanctions when we found them, and so the kind of—or penalties, so is essentially the ISA toothless and perceived as such around the world?

Mr. STEINBERG. Senator, I think, as I mentioned earlier in talking to Senator Bunning, I think one of the things that is hard to judge, although I think we can give some impressions about it, is the amount of investment that has been deterred as a result of the Iran Sanctions Act. There have been a number of companies which have indicated an intention, a number of European countries and East Asian countries that have made very explicit initial plans to make investments, and those investments did not go forward because of the result of our investigations.

I recall some explicitly when I was last in office where we had conversations with the foreign governments, made clear that we were prepared to impose what was then the Iran-Libya Sanctions Act, and they desisted from those investments. So it is one of those things that it is not always the case that you can judge the efficacy of the legislation by the number of times the sanctions have been imposed. It has been a deterrent. It has been a substantial deterrent, and I will try to get the Committee more details about what we think may have been the impact in terms of other investments which at least were mooted about and didn't take place. But I am aware of several.

And so I think that just the fact that it hasn't been imposed doesn't mean that it was toothless in terms of its impact. And as the sponsor said at the time, the goal was not to impose the sanctions. The goal was to get other countries to join with us in doing this, and what we tried to do was to try to develop an international consensus around trying to discourage investment.

And, in fact, one of the biggest problems Iran has had is the difficulty that it has had in attracting investment. It is way behind in its technology. Its output is much less. Its technology is much less forward leaning and effective because of our concerted diplomacy backed by the ISA to stop those investments. So I think—I just don't want you to be drawing the conclusion—the fact that

sanctions were not imposed doesn't mean that the Act in its deterrent value didn't have an effect.

Senator MERKLEY. Can I follow up for a moment here, Mr. Chair? Am I correct in thinking that Total SA, the French company that was found in violation, proceeded with investments and is still proceeding with investments today?

Mr. STEINBERG. I would have to get back with you on the specifics on that, Senator. But clearly, we keep these all under review, and so in our judgment, there are no investments that we are aware of that are in violation of the Act.

Senator MERKLEY. I will conclude with just this notion, and that is that the loopholes limited the impact of U.S. sanctions, but the biggest hole is the lack of multilateral action. I know the administration is pursuing that aggressively, because no matter what the United States does on their own, if the rest of the world isn't with us, as my colleague—my assistant said earlier today, it is like building a dam halfway across the river. You don't stop the water from flowing. And so we have to build that dam all the way across the river, and thank you for your efforts in that regard.

Thank you, Senator.

Senator REED. If there are no further questions, thank you very much, gentlemen, for your testimony and your service.

The hearing is adjourned.

[Whereupon, at 11:50 a.m., the hearing was adjourned.]

[Prepared statements and responses to written questions follow:]

PREPARED STATEMENT OF CHAIRMAN CHRISTOPHER J. DODD

Welcome.

Today we confront a serious threat to our nation's security and global stability: the prospect of a nuclear-armed Iran.

If Iran were to acquire a nuclear weapons capability, it would pose a serious threat to peace and security in the Middle East, especially to our close ally Israel.

At our last Iran hearing in July, Senator Shelby and I agreed to hear from the Obama administration before moving forward on sanctions legislation. Much has happened in that time.

Last week in Geneva, after revealing another covert uranium enrichment facility in Iran, the Administration held its first diplomatic meetings with Iran and the other permanent members of the U.N. Security Council and Germany.

Under Secretary of State William Burns met one-on-one with Iran's chief nuclear negotiator.

This dialogue demonstrated the United States' commitment to pursuing every avenue to push Iran to come clean on its nuclear program and abide by international non-proliferation commitments.

President Obama described the talks as a "constructive beginning": participants agreed to follow-up talks later this month, the International Atomic Energy Agency is to be granted access to Iran's uranium enrichment site at Qom, and Iran has indicated a willingness, in principle, to export low-enriched uranium to Russia and France for processing for medical uses.

Whether Tehran will keep these commitments—or if they will prove to be yet another stall tactic to avoid tougher sanctions—remains to be seen.

And, the situation is increasingly urgent—over the weekend, the New York Times reported that IAEA scientists believe Iran has enough sensitive data to assemble a nuclear weapon.

Ultimately, we will only succeed if Iran's leaders are persuaded to cooperate or face sustained, progressively intensifying multilateral economic and diplomatic pressure on their government—including tougher sanctions.

They must make a clear choice: come clean on their nuclear program, suspend enrichment, and stop supporting terrorists around the world—or continue to deepen their international isolation.

Increased international pressure and the specter of biting sanctions are clearly what have brought Iran to the table for substantive talks.

Worldwide condemnation of Tehran's secret enrichment activities, its human rights abuses and post-election crackdown have unified the international community to intensify the pressure on Iran's leaders.

We must not let up now.

I intend to bring move forward in this Committee this month on comprehensive sanctions legislation. I am committed to ensuring that this Congress equips President Obama with all the tools he needs to confront the threats posed by Iran.

Just as last year, we will incorporate the best of our Senate colleagues' contributions into one original Committee bill, including: penalties on companies that support Iran's import of refined petroleum products or bolstering its domestic capacity, advanced by Senators Bayh, Lieberman, and Kyl; and authorization for state and local governments to divest from companies involved in critical business with Iran, sponsored by Senators Brownback and Casey. In addition, our legislation will further tighten our trade embargo on Iran; enhance Treasury's mandate to freeze assets tied to Iran's terrorist and proliferation activities; and help cutoff Iran's access to the most sensitive and advanced technology available, through tougher export controls on these products sent to Iran through its blackmarket trading partners.

I hope our legislation will complement and reinforce ongoing diplomatic efforts, and send a clear signal to Iran's leaders of what's in store if they continue to defy the will of the international community.

We are fortunate to be joined today by some of the Administration's chief architects of Iran policy. Deputy Secretary of State James Steinberg will elaborate on ongoing diplomatic efforts to curb Iran's nuclear ambitions, assess our chances for success, and survey policy options.

Under Secretary of the Treasury Stuart Levey joins us once again. A welcome hold-over from the Bush Administration, he will discuss the tough targeted financial measures employed against Iran and explore with us other pressure points in the global financial system that could be employed against Iran's government.

And finally, we will hear from Acting Under Secretary of Commerce Dan Hill. It has been over 2 years since the Bush Administration proposed restricting export licenses to countries where sensitive technology flows to rogue nations such as Iran

via third countries, combating blackmarket proliferation networks which flourish throughout Asia and the Middle East.

But first, we will hear from two of our colleagues, Senator Casey and Senator Brownback, who will describe their legislation currently under review by the Committee on the role of divestment from firms doing business in Iran's energy sector. We welcome them to the hearing.

PREPARED STATEMENT OF SENATOR RICHARD C. SHELBY

Thank you, Mr. Chairman.

Recent developments in Iran underscore the importance of this morning's hearing.

Last month, we learned that Iran has a secret uranium enrichment facility. Last week, the Iranians announced that they had reached a last minute deal to send their supplies of low-enriched uranium to France and Russia for further enrichment.

Just yesterday, news reports revealed that senior staff at the International Atomic Energy Agency or IAEA have concluded that Iran has acquired "sufficient information to be able to design and produce a workable" nuclear weapon.

Although Iran denies that it is trying to develop nuclear weapons, they have taken no credible steps to prove otherwise.

Iran's troubling conduct is not limited to its pursuit of nuclear weapons.

Iran has the dubious distinction of being "the most active state sponsor of terrorism" for ten years running according to our State Department.

Because of its extensive financing of terrorism around the globe, the Treasury Department has referred to it as the "Central Banker" of international terrorism. There should be no doubt that Iran remains a serious and growing threat to the entire Middle East region, our European allies, and the interests of the United States.

The issue is not whether we must take action to check Iran's hostile ambitions, but rather, how to maximize the effectiveness of the actions we take.

Unfortunately, there is a long history of failed policies designed to reign in Iran. As Secretary Gates noted last October: "Every administration since 1979 has reached out to the Iranians in one way or another and all have failed."

I hope this hearing will provide greater insight into the most effective way forward.

PREPARED STATEMENT OF SENATOR CHARLES E. SCHUMER

Thank you, Mr. Chairman and Ranking Member Shelby.

And welcome to our esteemed witnesses who have agreed to testify at this important and timely hearing, including my colleagues Senator Bob Casey and Senator Sam Brownback. Mr. Chairman, I would like to thank you for calling this hearing, and I commend you for putting forth a comprehensive plan to arm the administration with the tools they need to put a stop to Iran's rogue nuclear program.

I believe that when it comes to Iran, we should never take the military option off the table.

But I have long argued that economic sanctions are the preferred and probably most effective way to choke Iran's nuclear ambitions.

The Obama administration has recently begun direct diplomatic negotiations with Iran, and the first round of these talks did yield some important concessions from the Iranians last week. These negotiations should continue, but they do not supplant the need for action by this Congress. Iran, when it is caught red-handed, has a habit of promising just enough to avoid a strong response from the international community. Not this time.

We should continue to talk to the Iranians, but we should not trust them. The threat of new sanctions will only serve to strengthen the President's hand as we pursue a diplomatic solution.

By giving the administration the capability to impose crippling sanctions on Iran should they continue to pursue a nuclear weapons program, this Committee today is exploring a tough and smart plan to address the real threat Iran poses to the United States and our allies, particularly Israel.

First, Mr. Chairman, I want to commend you for including in that plan key provisions of the Iran Sanctions Enhancement Act of 2009, a bill introduced by Senator Evan Bayh of which I am an original cosponsor.

This bill sanctions companies that export gasoline to Iran. This is one of the few pressure points where we can act unilaterally and have a real effect. The world knows that Iran does not currently have the refining capacity to meets its domestic gasoline needs and is dependent on imported gasoline. So *now* is the time to reduce

Iran's energy supply if they fail to suspend their nuclear enrichment program as called for in several U.N. Security Council resolutions.

I am also glad that we will be strengthening export controls to stop the illegal export of sensitive technology to Iran. During the recent Iranian elections we witnessed the Iranian regime go as far as to block the Internet and mobile phone communications of their own citizens.

That is why I and Senator Lindsey Graham introduced "The Reduce Iranian Cyber Suppression Act" or "RICA", a bipartisan bill that would bar companies that export sensitive communication technology to Iran from applying for or renewing procurement contracts with the U.S. Government. I look forward to working with you to make sure that the key provisions of this bill are also included in our plan.

Our comprehensive plan will also address the role that global financial institutions play in enabling Iran to develop a nuclear program. Mr. Chairman, I have long argued that financial sanctions are one of the most effective way to crack down on the dangerous Iranian regime. But we have to make sure that they are designed effectively.

Last year, 27 Democrats joined me and called for the Iranian central bank, known as Bank Markazi, to also be included in our economic sanctions, as they have been heavily involved in terrorism and helping finance acquisitions of nuclear and conventional weapons technology. The central bank has also played a role in helping other Iranian banks circumvent U.S. financial sanctions. We should also include the central bank in the sanctions plan we are developing in this Committee.

All of these actions will go a long way to strengthen global security and reverse Iran's dangerous course. Yet unless we have a fool-proof enforcement regime in place, any new tools we deploy will be less than effective.

Our existing sanctions are riddled with leaks in the form of trading partners who funnel our exports through a backdoor to Iran.

We can help plug these leaks by increasing the amount of inspectors we have stationed in the United Arab Emirates and in other countries where black markets are serving to circumvent our sanctions.

A 2007 GAO report found that enforcement is lacking, particularly for products that are sold to the UAE. At the time of that report, Treasury and Commerce Departments each only had one inspector stationed in the UAE.

To increase the effectiveness of any new sanctions, we must authorize the Commerce and Treasury Departments to enhance their manpower on the ground in UAE and other black market areas to ensure that Iran is not skirting our sanctions. That is why today I am calling on the administration to deploy more inspectors to the UAE and other areas of vulnerability in our enforcement of sanctions.

I hope these proposals are given serious consideration and I look forward to working with the Chairman to passing this important.

PREPARED STATEMENT OF SENATOR SAM BROWNBACK

A U.S. SENATOR FROM THE STATE OF KANSAS

OCTOBER 6, 2009

Thank you, Senator Dodd, and Senator Shelby. I am grateful for the opportunity to testify today before this distinguished Committee regarding the grave threats we face from the regime in Tehran, and how Congress can, and must, confront these threats.

This Committee plays a critical role in shaping our nation's Iran policy, and I thank the Chairman and Ranking Member for holding this hearing and for being willing to move forward with legislation that would impose meaningful sanctions on the Iranian regime.

Iran is the leading state sponsor of terrorism worldwide, the foremost exporter of extremist ideology, and the primary source of instability in the Middle East. The regime's leaders have brutally oppressed their own citizens, and have threatened to commit genocide against the State of Israel, the region's only full-fledged liberal democracy. The regime's radicalism and brutality not only harms our interests and threatens our national security, but also challenges our moral obligations.

It simply would be unconscionable to allow the mullahs to acquire nuclear weapons. Were they to achieve this goal, they would possess a trump card to ensure the continuation, and augmentation, of all of these dangerous and destabilizing actions.

We must do everything in our legislative power to prevent this from occurring.

This means crafting robust and effective sanctions that pull the plug on the regime's ability to pursue nuclear enrichment, support international terrorism, and

oppress the Iranian people. Our goal must be to make it so that pursuing these hostile actions would be existentially threatening to the regime itself.

To that end, divestment can play a key role in any sanctions proposal that this Committee will consider. Divestment is part of a broad political and economic strategy to force the Iranian regime to reevaluate its dangerous and oppressive policies.

But the benefits of divestment extend beyond its effect on the targeted regime. Divestment also is a wise financial decision. As a major study last year indicated, companies with links to regimes that violate human rights make poor investments. Not only that, but divestment serves as a way of fulfilling our minimum moral obligation toward the victims of oppression from brutal regimes, like that in Tehran.

Divestment is not the sharpest diplomatic tool, but nor is it ineffective. Indeed, as we know from the successful movement against apartheid in South Africa, divestment can play a key role in a government's decisionmaking, especially if that government depends on large amounts of foreign investment for economic stability.

Less than 2 years ago, this Committee passed Sudan divestment legislation that was ultimately signed into law by President Bush. In that divestment model, the Federal Government authorized states and local governments to divest their pension funds from companies that were effectively subsidizing the genocide in Darfur.

Following that lead, several states have already passed divestment laws targeting Iran. But in doing so without explicit Federal authority, these legislatures have opened up their divestment laws to potential constitutional challenges under the doctrine of Federal preemption on matters of foreign affairs. Moreover, the fund managers that seek to carry out divestment could be subject to legal action, reducing the incentive and efficacy of the measure.

It is for these reasons that earlier this year Senator Casey and I introduced the Iran Sanctions Enabling Act, S. 1065, which authorizes states and local governments to divest from companies that invest in Iran's energy sector, and provides safe harbor for fund managers that divest according to the bill's guidelines. At this time, S. 1065 has 32 bipartisan cosponsors, and a companion bill has already passed through committee in the House. And lest any of my colleagues worry about where our President stands on this, you can rest easy. In the last Congress, then-Senator Obama and I introduced almost this very same bill. At that time, Senator Obama said this:

> The Iranian government uses the billions of dollars it earns from its oil and gas industry to build its nuclear program and to fund terrorist groups that export its militaristic and radical ideology to Iraq and throughout the Middle East. Pressuring companies to cut their financial ties with Iran is critical to ensuring that sanctions have their intended result. All Americans can play a role in pressuring companies to cut their ties with the Iranian regime, a state sponsor of terror that is a threat to our allies in the region and international security, as a means of convincing Iran to fundamentally change its policies.
>
> —Senator Barack Obama, May 15, 2007

I could not have said it better than the President. In that spirit, and in the context of the Chairman and Ranking Member's intention to markup comprehensive Iran sanctions legislation, I urge this Committee to include the Brownback-Casey divestment bill in the final package.

One final word on sanctions: enforcing sanctions is as important as legislating them. American products often end up in Iran in spite of our sanctions, often because we are not able to deter third parties from re-exporting U.S. origin items to Iranian companies.

I hope that we can provide a small increase to the budget for export enforcement during this week's floor consideration of the FY10 Commerce Justice Science appropriations bill. And, I look forward to working with the administration and my Senate colleagues to ensure that we have the means to enforce both existing sanctions and any additional sanctions that may emerge from this panel and ultimately be signed into law.

I wish to make one other point today about our duty and ability to confront the threats from Iran, and that is that we must not view sanctions as the only tool at our disposal. We cannot ignore the power of promoting liberty and confronting the violation of human rights, wherever it occurs.

When it comes to foreign policy in general, I believe that human rights should be the first of our concerns and the last of our concessions, not the other way around. My belief stems from a recognition of the inextricable link between a regime's domestic repression and its aggression abroad.

We must make human rights the cornerstone of our Iran policy. For too many years, the suffering of the Iranian people—the executions, the arbitrary

imprisonments, the religious repression, and the suffocating censorship—has taken a backseat to everything else. The Iranian people are our natural ally, and we have let them get crushed under the weight of the mullahs' theocracy.

Instead of perpetuating this shortsighted policy, we should broaden our scope and raise the profile of Iranian human rights in every statement, every diplomatic meeting, and at every international forum, both public and private.

The message should be simple and clear: We cannot continue to look the other way as the Iranian people are starved of their basic human rights and freedoms.

This approach makes good policy sense. Leaders of oppressive regimes disdain criticism because it pushes back against the fiction of success they peddle to the masses. As the fiction crumbles, their grip on power dissolves. Like in the Polish Solidarity movement, the defiance of the people eventually cracked the defiance of the government.

In previous sessions of Congress, I have introduced legislation requiring the President to appoint a special envoy for human rights in Iran, and I would hope that the members of this distinguished Committee would join me in introducing a similar measure in the near future.

We must also focus our efforts on promoting the freedom of information, specifically Internet freedom.

In the past few months, one of the key battles inside Iran has taken place on the Internet—on blogs, on Facebook, and on Twitter—as Iranians struggle to tell their story while the regime fights back with the instruments of censorship.

One thing is clear: while physical brutality will always be the tool of oppressors, twenty-first century authoritarianism has already been defined by the lengths to which autocrats will go to limit online access to information.

The Iranian dictatorship, like the Chinese Communist Party, the Burmese junta, and the Castro regime, derives a large share of its power through media suppression and rigorous Internet censorship.

These dictators not only shield their populations from their own brutality, but also block information about the basic freedoms enjoyed by millions worldwide.

As individual information exchanges become effortless through wireless communication, authoritarian regimes must devote ever more resources to maintain their electronic wall.

We must ensure that Iranians, and all closed society residents for that matter, have free and open access to the Internet. This is the surest, and most costeffective, way to jumpstart liberty. To that end, I would urge the members of this panel to support funding in the State and Foreign Operations Appropriations bill that would go toward technology that allows residents of closed societies to break through the stifling firewalls and access open information.

We must also ensure that Radio Farda remains a key source of information for the Iranian people by supporting additional reporters and transmission capacity, and providing Farda with the technical means to overcome the regime's jamming efforts. The surrogate broadcasts provided through Radio Farda worked very well even when the regime tried to block the free flow of information during the street demonstrations earlier this year.

Indeed, the more Iranians understand the nature of their regime, the more effective will be the sanctions this Committee prepares, and the more power Iranians will have to determine their own future.

And this, in turn, will transform Iran from one of the lead sources of global instability to a prosperous nation once more, in the great Persian tradition of innovation, justice and magnanimity.

I thank you again for giving me the opportunity to testify at this important hearing.

PREPARED STATEMENT OF SENATOR ROBERT P. CASEY JR.

A U.S. SENATOR FROM THE STATE OF PENNSYLVANIA

OCTOBER 6, 2009

Chairman Dodd, Senator Shelby, thank you for inviting me to speak on U.S. policy options toward Iran. This is a timely and important hearing and I appreciate your efforts to explore the options before us.

As we all now know, Iran has agreed to inspections of its uranium enrichment facility in Fordu starting October 25th. The Iranians have agreed to talks on October 19th regarding the shipment of uranium abroad for enrichment and use for medical research purposes. The international community has responded with guarded optimism. I support the Administration's continued call for a *freeze* in Iran's nu-

clear enrichment and encourage my colleagues to back up these diplomatic efforts with sanctions.

While the prospects for progress grew with last Thursday's meeting in Geneva, we should not be under any illusions about this *regime.* Let me be clear. This is a *regime* which refused to recognize the will of the Iranian people in last June's

election. This is a regime that repeatedly disregarded U.N. resolutions on its nuclear program. And this is a regime that previously agreed to send uranium abroad for enrichment only to later renege on the deal. This regime continues to threaten our ally *Israel.* And finally, Mr. Chairman, this regime continues to directly threaten the *national security interests* of the United States.

Iran has repeatedly claimed that its nuclear program is only for peaceful purposes, but the facts, especially in recent weeks, simply don't add up. The U.N. says Iran violated international law by *not notifying* the IAEA when construction on the Fordu site started more than 3 years ago. Why are international inspectors invited only after the regime is caught misleading the world again?

So what are our concurrent/parallel tracks moving forward? I believe that we have three.

First, the *negotiations* conducted by the Administration are important and should continue. At a minimum, this international effort will help to restore America's long held reputation of an honest broker, of a country that values diplomacy, and of a country that values relationships with allies and welcomes new ones. Internationally, the United States is on better footing than it has been in years. Ties with traditional allies in Europe have been strengthened. Those on the fence, like Russia and China, are showing signs of cooperation on issues that are critical to our national interests.

It is clearly in Russia's security interests to prevent Iran from acquiring a nuclear weapon capability, but that has not stopped Russian leadership in the past from engaging in commercial and military trade with the regime. As we work to build confidence with the Russian government, however, I believe that cooperation on issues like Iran can continue to improve. *President Medvedev's* comments at the University of Pittsburgh during the G20 meeting indicated *a willingness* to consider sanctions and were an *encouraging* first step.

While *China* relies on Iran for a substantial fuel imports, I trust that they are carefully weighing their need for energy against Iran's increasingly erratic and irresponsible behavior. The political and actual cost of doing business with Iran has risen considerably and may now be too high a price to pay. I hope that the Chinese will support international efforts to pressure this regime at this critical time with the understanding that these efforts could ultimately result in a more stable business and diplomatic partner in Tehran.

In short, the Administration's diplomatic efforts have put us into a position where we have a strong coalition throughout these important negotiations.

The onus will now be on the Administration to maintain and strengthen this coalition as we move forward. In the past, Iran has sought to *drag out negotiations* with the goal of weakening the resolve of the international community. The dynamics have changed somewhat as our French, German and British allies have been increasingly vigilant in their efforts to expose threats from Iran. *The question now comes down to the Russians and Chinese,* whom we hope will play an enhanced role in pressuring the regime in Iran.

Second, I believe that *the Senate* should do its part in providing the Administration all the tools it needs to put pressure on the Iranian regime. Iran's leaders need to know that if they decide to renege on their commitments, as has been done in the past, the United States is prepared to impose a series of *tough sanctions,* including measures that would allow *state pension funds* to *divest* from Iran and restrict petroleum imports.

The Iran Sanctions Enabling Act, which Senator Brownback and I introduced last May would allow state and local government *pension funds* to divest from companies that do more than $20 million in business with the Iranian energy sector. The measure is modeled on similar legislation passed in response to the genocide in Sudan. Eighteen state legislatures have passed individual Iran sanction measures and our legislation would bring these state efforts into line with Federal law. When President Obama was in the Senate, he introduced an earlier version of this legislation. It was right in 2007, and it is right now.

Analysts have estimated that Iran requires *$20 billion* annually in investments for its oil and natural gas sector. That sector directly provides funding for Iran's nuclear program as well as its support for international terrorism. Iran will only cease its illicit nuclear program, end its support for Hamas and Hezbollah and stop arming militant groups in Iraq when it is compelled to pay an economic price.

Third and finally, I believe that we need to be prepared to *support democratic voices and human rights activists* in Iran. This is not about regime change, but a genuine commitment to democratic values. In his speech before the U.N. General Assembly, President Obama said that:

> There are basic principles that are universal; there are certain truths that are self-evident—and the United States will never waver in our efforts to stand up for the right of people everywhere to determine their own destiny.

Our long held *commitment to human rights* should not fall off the table during these important deliberations on Iran's nuclear program. In fact, these should be fully addressed and our diplomats should raise specific concerns with regard to the human rights situation in the country. Ultimately, the political fate of Iran is up to its people to decide and we should take the lead from them. We should remain open to their calls for assistance.

In closing Mr. Chairman, if history is any indication, Congress should be prepared to hand the President *the leverage* he needs to send a message to the Iranian regime that America *cannot* and *will not* accept an Iran with nuclear weapons. The Administration needs all the tools at its disposal to increase pressure on the regime, diplomatically, politically and through more stringent economic sanctions. I call on my colleagues to listen to legislatures in so many states across the country who have passed divestment measures. The American people do not want anything to do with investing in this regime. Let's send a strong message to this regime and the international community that a nuclear-armed Iran is unacceptable.

PREPARED STATEMENT OF JAMES B. STEINBERG

DEPUTY SECRETARY OF STATE, DEPARTMENT OF STATE

OCTOBER 6, 2009

Mr. Chairman, Ranking Member Shelby, and Distinguished Members of the Committee:

Thank you for the opportunity to appear before this Committee today. The challenge posed by Iran to U.S. interests, to our friends and allies in the greater Middle East, and to the wider international community is one of the Obama administration's central foreign policy concerns.

First, let me be clear about our objective: our goal is to prevent Iran from achieving a nuclear weapons capability and we will work with our allies and partners toward that goal as well as to counter Iranian actions that threaten to destabilize the greater Middle East and the rest of the world.

To that end, the Obama Administration has embarked on a dual-track strategy that presents a clear choice to Iran's leaders: they can negotiate in good faith, prove their willingness to address the concerns of the international community, and in turn improve Iran's standing in that community, or they can face increasing international isolation and pressure. We see these two tracks as complementary rather than contradictory, with the understanding that engagement and pressure used in coordination offer the best and most likely path to our objective. We also understand the Congress's interest in taking action, and look forward to consulting fully on any legislative effort, with the aim of maximizing our ability to pursue this two track strategy.

The goals of engagement

Upon taking office, President Obama made clear that the United States was prepared to join our P5+1 partners as a full participant in future talks with the Islamic Republic of Iran. This marks a significant departure from previous approaches. We are engaging not because we believe in talking for talking's sake, but because the strategy of refusing to engage failed to achieve our vital goals. During the time when we refused direct engagement, Iran developed a growing mastery of the nuclear fuel cycle while flagrantly avoiding complying with its international obligations and responsibilities. The Iranian government failed to respect the rights of its citizens, and its support for terrorist organizations continued.

We are realistic about the prospects from diplomacy, particularly given Iran's repeated intransigence and deception, most recently demonstrated by the previously undisclosed uranium-enrichment facility at Qom. We will state our concerns unequivocally and make clear to Iran's leaders the choice they have before them. Engagement not only opens up the prospect of better outcomes, but also strengthens our position in negotiations—or in forging a strong consensus with others if engagement does not produce the results we seek.

More concretely, engagement serves three purposes:

1. By leading with diplomacy and communicating directly, Iran will know precisely what we expect and what we are prepared to do if they take the necessary acts: they cannot hide behind false or misleading accusations about our positions or point to the lack of engagement as an excuse for inaction on their part. We in turn will be better placed to judge whether Iran is willing to seriously address our concerns.
2. As Secretary Clinton has said, engagement also opens up the possibility that dialogue will persuade Iran to alter its policies. Given the gravity and urgency of the situation, it is important that we employ all the tools available to us.
3. Engagement also allows us to mobilize international action if Iran refuses to respond positively to our efforts. By demonstrating our openness to a negotiated resolution of differences, the United States is significantly bolstering the willingness of other nations to stand with us if additional pressure should be necessary.

Early returns

Our dual-track strategy has led to some important steps in recent months.

In last week's talks in Geneva, intensive multilateral and bilateral engagement with our partners in the P5+1 and others laid the groundwork for potential progress. After the talks, President Obama explained that the meeting allowed the international community to convey a clear and unified message to the Iranian government: "Iran must demonstrate through concrete steps that it will live up to its responsibilities with regard to its nuclear program." He stated that the day's meeting "was a constructive beginning, but it must be followed by constructive action by the Iranian government." As Secretary Clinton emphasized, "We are not involved in a process just to say that we can check a box on process. We want to see concrete actions and positive results."

The test of Iran's seriousness in the coming weeks will be the practical steps it takes. Iran agreed in principle in Geneva last week to an international approach for supplying fuel for the Tehran Research Reactor by shipping out Iran's low enriched uranium (LEU) to other countries for further enrichment and fabrication. If implemented this would significantly reduce Iran's current LEU stockpile, a major source of anxiety in the region and beyond and demonstrate support for an exclusively peaceful nuclear program. This step, if implemented, would be a useful interim confidence building measure, allowing more time and diplomatic space for negotiations on a resolution of the more fundamental problems of Iran's nuclear program. Additional discussions regarding the technical details are needed and are scheduled to take place under IAEA leadership in Vienna on October 19. Iran also agreed to allow the IAEA access to the previously undisclosed enrichment facility near Qom on October 25, which must be the first step toward full cooperation with the IAEA's investigation.

As we have always said, Iran's compliance with its international obligations will lead to more constructive relations with the international community and improved cooperation on security, economic, and other matters, as outlined in previous offers made by the P5+1. We anticipate another meeting between the P5+1 and Iranian officials before the end of October. This is bound to be a very difficult and uncertain process, and we will continue to build unity among our international partners consistent with our dual track strategy, which the P5+1 Ministers strongly reaffirmed in New York on September 23. We are prepared to give this process a chance, but we are not interested in engaging in talks for the sake of talking or an open-ended process. We can only sustain a process with measurable, practical results.

A united front

In this regard, the importance of a broad and united international coalition cannot be understated. With wide international support, sanctions regimes can be enforced, pressure can be sustained, and Iran's leaders are less able to shift the blame from themselves to the United States for the pain caused by their behavior.

Three years ago, the United States was virtually alone in imposing pressure on Iran. Now, a growing coalition shares our concerns about Iran's negative policies, and has made clear the necessity for Iran to change course. As the United States has shown its commitment to engaging in serious, good-faith talks, we are also working together to lay the groundwork for concerted and effective international action to pressure Iran to change its policies if negotiations do not produce the necessary results.

Multilaterally, we have pursued a progressive tightening of United Nations Security Council sanctions on Iran through the adoption of resolutions 1737, 1747, and 1803. These resolutions have sent a powerful message to Iran that the international community will not allow Iran to break the rules that everyone else must live by.

We have also worked with our colleagues at Treasury and with the international financial community through the Financial Action Task Force. As a result of sanctions and international efforts, the cost of doing business with Iran is going up.

Consistent with the U.N. Security Council's call on member states, the European Union has also adopted measures to limit granting of export credits. As a result, a number of European countries have worked successfully to reduce their export credit exposure to Iran, making it more difficult for Iran to finance its international trade.

Iran's nuclear program

The disturbing revelation of the previously undisclosed enrichment facility at Qom provides yet another example of why Iran's credibility is so low in the international community. For years, in contravention of its international obligations and responsibilities, Iran has frustrated IAEA efforts to address the international community's serious concerns with Iran's nuclear program, including Iranian efforts to develop a nuclear warhead. Tehran has defied U.N. Security Council resolutions and continued to enrich uranium.

While the United States, along with the international community, has acknowledged Iran's right to pursue a peaceful nuclear program, with those rights comes a crucial responsibility to prove "convincingly," as President Medvedev put it last month, the exclusively peaceful purposes of Iran's program.

President Obama stated this clearly last month at the United Nations: if the government of Iran chooses to

> ignore international standards; if they put the pursuit of nuclear weapons ahead of regional stability and the security and opportunity of their own people; if they are oblivious to the dangers of escalating nuclear arms races in. the Middle East—then they must be held accountable. The world must stand together to demonstrate that international law is not an empty promise, and that treaties will be enforced.

Beyond the nuclear issue

There are other important areas of significant concern to the United States and the rest of the international community.

The United States and the broader international community remain gravely concerned about the Iranian government's repression of its own people. The internal turmoil and terrible repression of peaceful protestors, opposition politicians, and journalists that followed the June 12 elections in Iran revealed much about the character of the government. Its use of unwarranted arrests, prolonged detentions, and violence against ordinary citizens was condemned by our government at the highest levels, including by the President, as well as by counterparts in the international community. As President Obama affirmed,

> The Iranian people have a universal right to assembly and free speech. If the Iranian government seeks the respect of the international community, it must respect those rights, and heed the will of its own people. It must govern through consent, and not coercion.

It is still too early to tell what lasting impact the government's focus on stamping out internal debate will have on Iran's internal dynamics, or on Iran's destabilizing international and regional behavior, but prospects for reform remain uncertain.

The post-election repression is part of a broader international concern with Tehran's record of human-rights abuses, which has grown significantly worse in the past year. As documented in our annual human rights report on Iran, the government regularly uses torture and other forms of inhumane treatment against its own people. The government also severely restricts basic freedoms of expression, press, religion, and assembly to discourage political opposition, and manipulates Iran's electoral process, particularly through the mass disqualification of candidates.

We are also deeply concerned for the fate of American citizens currently detained or missing in Iran. Following on the recent consular visit by the Swiss, we urge the Iranian government to promptly return Shane Bauer, Sarah Shourd, and Josh Fattal to their families. We also call on the Iranian authorities to release immediately American citizens Kian Tajbakhsh and Reza Taghavi, and we ask Iran to use all of its facilities to determine the whereabouts and ensure the safe return of Robert Levinson.

Regional stability

Tehran's aggressive foreign policy also constitutes a threat to both regional stability and broader U.S. interests. Iran's claim to have its voice respected in the region depends on Iran's willingness to play a positive and constructive role. Today,

Iran is the leading state sponsor of terrorism, providing financial and other support to Hizballah, Hamas, Palestinian Islamic Jihad, certain Iraqi militant groups, and the Taliban. The role of the Islamic Revolutionary Guard Corps-Qods Force in supporting foreign militants continues to pose a threat to regional stability.

As the international community is engaged in efforts to promote dialogue between Israel and the Palestinian Authority, Iran is supporting those who deny Israel's right to exist, refuse to renounce violence, and work to sabotage efforts to re-launch negotiations that would establish an independent Palestinian state. President Ahmadinejad's inflammatory statements against Israel tarnish Iran's international standing and undermine the interests and aspirations of the Palestinian people.

Many governments in the region have grave and legitimate fears about Iran's policies and aggressive posture. These concerns contribute to our sense of urgency in making clear to Iran the need to resolve tensions and reassure Iran's neighbors and the wider international community.

In recent years, Iran has contributed to instability in Iraq, Afghanistan, Lebanon, and the Palestinian territories. The Obama administration's strategy in the greater Middle East has begun to significantly reduce Iran's ability to exploit conflict for its own gain.

Our broad engagement with regional partners has strengthened our position relative to Iran. The President's June 4 speech in Cairo conveyed a clear message to Muslim communities in the Middle East and around the world: the United States is committed to a "new beginning" to our relations, based on the principles of mutual respect and mutual interest. We are also working actively and intensively to bring a comprehensive resolution to the conflict between Israel and its Arab neighbors.

Regional governments threatened by Iran's activities are working more energetically to counter and diminish Iran's negative influence. As the Iraqi government continues to establish more capable and effective institutions, Iran's destabilizing activities have encountered new obstacles. Iraq and Iran share deep historic ties, but as the Iraqi government's capacity and confidence grows, it has chosen to assert its own sovereignty and speak out against Iranian influence. Iraq's increasing reintegration into the region and the greater international community reduces Iran's ability to manipulate and exacerbate differences among its neighbors.

We are working with the Gulf nations to increase cooperation to address security issues of mutual concern. These states support the responsible and transparent development of civilian nuclear energy but have publicly declared their opposition to the pursuit of nuclear weapons and emphasized their grave concerns about Iran's nuclear intentions. They also protest Iran's meddling in the affairs of others. Some regional governments have signed arrangements with the United States on nuclear-energy cooperation that provide strong guarantees of peaceful intention by relying on the international market for nuclear fuel services without the development of an indigenous fuel cycle. The UAE–U.S. nuclear cooperation agreement, signed by both governments and currently in the congressional review process, contains a commitment on the part of the UAE not to pursue domestic enrichment or reprocessing activities. These efforts by other countries disprove Iran's assertions that the West seeks to block the pursuit of nuclear energy for peaceful purposes.

We have been working with our regional partners to help them develop the kind of cooperation that will enable them to better manage the political, diplomatic, and security challenges Iran poses. Examples include the GCC+3 forum to address Iran; inter-Arab cooperation to help address the political crisis in Lebanon; security and military talks with the Gulf states; and the increasing efforts on the part of Arab governments in working with and supporting the Government of Iraq. We are also supporting Lebanon's legitimate state institutions, in part so that the Lebanese do not turn to Hizballah for the provision of services or for security.

We continue to support military, law enforcement, and regulatory mechanisms and promote robust anti-terrorism cooperation with our Gulf partners to stem extremism and deny safe haven for terrorists throughout the broader region. With our important allies Egypt and Jordan, the only two Arab countries that currently have peace treaties with Israel, we are working on a broad range of shared initiatives, including promoting a comprehensive Middle East peace, countering terrorism, and promoting good governance, human rights, and economic prosperity. All these efforts work to constrain Iran's destabilizing policies in the region and build support for the United States in confronting and attempting to change those policies.

Conclusion

With our international partners, the United States will continue with our dual-track strategy with Iran. We are sincere in our desire to see Iran live up to its international obligations and responsibilities and play a positive and constructive role in

the international community. We and the international community very much hope that Iran will make the needed choices for itself, the region, and the world at large. Yet we will remain vigilant and judge whether Iran is willing to negotiate in good faith. If it is not, we will be prepared to move ahead swiftly and effectively with additional pressure and sanctions—with the confidence that our engagement will make such measures broad-based and effective. We appreciate Congress' interest in making sure that we have the tools we need to meet the challenge posed by Iran's nuclear program.

We believe that we have the authorities necessary to take strong action—alone and together with our international partners, should that prove necessary. We look forward to consulting with Congress on how best to use these as events develop.

Thank you. I look forward to answering any questions you have.

PREPARED STATEMENT OF STUART LEVEY

UNDER SECRETARY, OFFICE OF TERRORISM AND FINANCIAL INTELLIGENCE
U.S. DEPARTMENT OF THE TREASURY

OCTOBER 6, 2009

Chairman Dodd, Ranking Member Shelby and other distinguished members of the Committee, thank you for this opportunity to update you on our efforts involving Iran. I welcome the Committee's ongoing focus on this important issue, and, more broadly, your continued support for our efforts to protect the integrity of the international financial system.

Less than a week ago, the five permanent members of the U.N. Security Council and Germany—the P5+1—met with Iran in Geneva. As the President said, that meeting was a constructive beginning to our dialogue, but much work remains to be done. He was clear that,

> [i]f Iran does not take steps in the near future to live up to its obligations, then the United States will not continue to negotiate indefinitely, and we are prepared to move toward increased pressure.

Deputy Secretary of State James Steinberg has outlined to the Committee our overall two-track strategy toward Iran, focused on both engagement and clear consequences if Iran declines to take concrete steps.

Even as the Administration focuses on diplomacy, we have also been working with our colleagues across the U.S. Government to develop a strategy for imposing substantial costs on the government of Iran if the President determines that is what is needed to affect Iranian policies.

The plan we are developing is comprehensive. It takes into account that no single sanction is a "silver bullet"—we will need to impose measures simultaneously in many different forms in order to be effective. It also takes into account Iran's potential vulnerabilities and those activities that have the greatest influence on Iran's decisionmakers. As we consider various measures, we are particularly mindful of potential unintended consequences on the people of Iran, and the internal dynamic now playing out in that country.

Because financial measures are most effective when imposed as part of a broad-based effort with the support of the largest possible international coalition, we are working closely with our allies as we put together this strategy. We believe that by consulting with them closely and pursuing engagement genuinely we have a better chance to generate the coalition we will need if dialogue does not lead to demonstrated progress.

We should be realistic about the ability of sanctions to achieve our political and security objectives with Iran. If, however, we accurately target the key vulnerabilities and fissures in Iran and then implement our plan with a broad coalition of governments and key private sector actors, we can at least demonstrate to the Iranian government that there are serious costs to any continued refusal to cooperate with the international community. Although we cannot describe the particulars of our planning in an open hearing, I would like to explain some of our thinking.

Financial Measures

Beginning in 2006, we developed and implemented a strategy to target Iran's illicit conduct. We took formal action against many of the specific banks, government entities, companies, and people involved in Iran's support for terrorism and its proliferation activities. We did so using two powerful Executive Orders, E.O. 13382 and E.O. 13224, that allow us to designate proliferators of weapons of mass destruction,

terrorists, and their supporters, freezing any assets they have under U.S. jurisdiction and preventing U.S. persons, wherever located, from doing business with them. We have designated more than 100 entities and individuals supporting Iran's nuclear and missile enterprises, including the key organizations within Iran, scores of their front companies, Iran's major banks that finance their conduct, and Iran's major shipping line, the Islamic Republic of Iran Shipping Lines, that handles illicit shipments for these dangerous enterprises. We have also acted against the Islamic Revolutionary Guard Corps, or the IRGC, and several of its companies for proliferation, as well as the IRGC's Qods Force for its role in supporting terrorist organizations.

As a result of the State Department's intensive diplomatic efforts, the U.N. Security Council resolutions on Iran contain many of the same designations we have implemented here in the United States. The European Union and Australia have gone beyond implementing the Security Council's list, joining us in other designations, such as that of Iran's Bank Melli. These actions are particularly powerful in that they give us an opportunity to explain publicly our reasons for acting, thereby exposing the illicit conduct of those we have designated.

Importantly, we combined these government actions with unprecedented, high-level outreach to scores of banks, banking associations, and other private sector leaders around the world. We discussed the risks of doing business with Iran and shared information about Iran's illicit and deceptive practices. As a result, the international private sector has amplified the impact of government actions, as banks and companies around the world have come to understand that, if they are dealing with Iran, it is nearly impossible to protect themselves against becoming entangled in that country's illicit conduct.

We have seen firsthand that the financial measures applied by the United States and the international community on Iran since 2006 have had an impact. At this point, most of the world's major banks have cutoff or significantly scaled back their business with Iran because of the reputational risks involved. Iran is increasingly dependent on an ever-shrinking number of trade and finance facilitators. Many foreign companies have pulled back from business deals with Iran, including investment in Iran's energy sector. Iranian businessmen face greater inefficiencies, higher operating costs, and increased difficulty finding business partners and banks to provide them with financing.

Iran's foreign borrowing has sharply declined since 2006, a significant change from 2002 to 2005, when foreign credit growth to Iran outpaced that of the wider Middle East. External credit to Iran fell 18 percent between September 2006 and September 2008, in stark contrast to the 86 percent rise in external credit to the Middle East region during the same period. And, to the extent that Iranian firms have been able to replace lost credit with domestic credit, they are likely doing so at a much higher cost.

Iran's Economic Vulnerabilities

The Iranian government's mismanagement of the Iranian economy, its increasingly corrupt business practices, its ongoing threatening and deceptive conduct, and its handling of the recent elections have fostered dissatisfaction, divisions, and discord within Iran and have made Iran an even less attractive business partner.

Some experts estimate Iran's unemployment rate to be well over 20 percent, with a lack of jobs disproportionately affecting the young—three out of four unemployed Iranians are under 30. Inflation remains high at about 13 percent. The banking sector is unhealthy and reliant on government support. Iran is ranked 137th out of 183 countries on the World Bank's Doing Business report, in terms of ease of doing business, and 165th in terms of protecting investors. And, as a result of the Iranian government's economic mismanagement and its self-isolating conduct, foreign investment in Iran has declined. All of this results in decreased opportunities for the people of Iran.

The Iranian government's reliance on corruption and nepotism in business further limits opportunities for all Iranians. The Transparency International Corruption Perceptions Index of 2008 ranked Iran 141st out of the 180 countries. The Iranian government has increasingly awarded no-bid government contracts to companies associated with the IRGC—a group that counts Iranian President Ahmadinejad and many senior government officials as former members. These companies, some of which have been designated by the United States and the U.N. Security Council for their role in Iran's illicit missile program, operate under names that obscure their IRGC affiliation, so many unwitting non-Iranians are in fact doing business with the IRGC.

In the name of "privatization," the IRGC has taken over broad swaths of the Iranian economy. Former IRGC members in Iranian ministries have directed millions

of dollars in government contracts to the IRGC for myriad projects, including developing the South Pars gas field, managing the Imam Khomeini International Airport in Tehran, and expanding Tehran's metro system. Furthermore, the IRGC seeks to monopolize black-market trade of popular items, funneling the proceeds from these transactions through a patronage system and using them to help subsidize the government's support for terrorist groups.

There is broad acknowledgment that the Iranian government engages in a range of deceptive financial and commercial conduct in order to obscure its development of nuclear and missile programs and facilitate its support for terrorism. International understanding of these practices—underscored by the U.N. Security Council resolutions on Iran and six warnings issued by the Financial Action Task Force about the risks Iran poses to the financial system—has been brought about in part by our efforts to share information about Iran's deception with governments and the private sector around the world.

These deceptive practices taint all Iranian business because they make it difficult to determine whether any Iranian transaction is licit. Iranian banks request that their names be removed from transactions so that their involvement cannot be detected; the government uses front companies and intermediaries to engage in ostensibly innocent commercial business to obtain prohibited dual-use goods; and Iran's shipping line, the Islamic Republic of Iran Shipping Lines, or IRISL, repeatedly manipulates bills of lading to shield prohibited cargo from scrutiny.

To a greater extent than ever, private companies across industries are now alert to these kinds of risks. Banks worldwide have been repeatedly warned by regulatory and standard-setting bodies to regard Iranian transactions with caution. Traders and shippers know that transactions with innocent-sounding Iranian counterparts can expose them to risk—both reputational and legal. Energy companies have put Iranian investments on indefinite hold, cautious of the political risk of investing too heavily in Iran. And exporters of sensitive and dual-use technologies know that supplying Iran can lead to severe sanctions and even prosecution. Across the board, then, transactions with Iran are already handled differently than transactions with any other country—except perhaps for North Korea—engendering either heightened suspicion or outright refusal to engage in them.

Finally, the vulnerabilities in Iran could be compounded by the internal fractures resulting from Iran's elections of 2009. As Secretary of Defense Gates recently stated:

> It's clear in the aftermath of the election that there are some fairly deep fissures in Iranian society and politics and—and probably even in the leadership . . . [T]his is one of the reasons why I think additional and especially severe economic sanctions could have some real impact . . . [W]e know that the sanctions that have already been placed on the country have had an impact.

United Coalition Necessary To Exploit Iran's Economic Vulnerabilities

This Administration has demonstrated that it is committed to a diplomatic resolution of the international community's issues with Iran. The world is now united in looking to Iran for a response. If Iran does not live up to its obligations in this process, it alone will bear the responsibility for that outcome.

Under these circumstances, the United States would be obliged to turn to strengthened sanctions. We are intensifying work with our allies and other partners to ensure that, if we must go down this path, we will do so with as much international support as possible. For the less united we are in applying pressure, the greater the risk our measures will not have the impact we seek. This challenge will be difficult, but not impossible. Over the past 3 years, the U.N. Security Council has adopted three unanimous Chapter VII resolutions against Iran. Those resolutions now represent the baseline. If Iran chooses to defy the international community yet again, and not live up to its obligations, these resolutions as well as other steps taken to date have laid the groundwork for a concerted and meaningful international response.

Conclusion

The Administration remains committed to the dual-track strategy and views last week's developments as a step forward. We will now wait to see whether Iran follows its constructive words with concrete action. If it does not, and if the President determines that additional measures are necessary, we will be ready to take action, ideally with our international partners.

I would be happy to answer your questions.

PREPARED STATEMENT OF DANIEL O. HILL

ACTING UNDER SECRETARY OF COMMERCE FOR INDUSTRY AND SECURITY
DEPARTMENT OF COMMERCE

OCTOBER 6, 2009

Mr. Chairman, Senator Shelby, Members of the Committee:

I welcome the opportunity to appear before the Committee today to discuss the Department of Commerce's role in administering and enforcing U.S. dual-use export control policies toward Iran. We work closely with our colleagues at the Departments of State and the Treasury, as well as other agencies, to implement the longstanding U.S. embargo on Iran effectively. The United States has had a trade embargo on Iran since May 1995. The United States took these steps because of Iran's continued active support for terrorism and concerns that it is pursuing weapons of mass destruction.

All exports to Iran are subject to both the Export Administration Regulations (EAR) and the Department of the Treasury's Iranian Transactions Regulations. Treasury is the lead agency for administering the embargo, which features not only a prohibition on exports and reexports of items under the Commerce Department's jurisdiction, but also comprehensive restrictions on financial transactions and investments under the jurisdiction of the Treasury Department.

Commerce, however, is responsible for several aspects of the embargo of Iran. First, Commerce provides technical assistance to Treasury on the proper classification of items proposed for export or reexport to Iran under a Treasury license. The Iran Iraq Arms Non-Proliferation Act of 1992 (Note to 50 U.S.C. 1701) generally requires BIS to deny licenses, absent a Presidential waiver, for the export or reexport of items on the Commerce Control List (CCL) to Iran. In considering an application to export an item to Iran, Treasury must know whether the item is on the CCL and thus prohibited for export to Iran without a waiver. Commerce determines whether the item is on the CCL and informs Treasury.

Second, Commerce plays a vital role in enforcing the embargo by investigating transactions that may constitute exports or reexports to Iran in violation of the EAR. An export or reexport of an item subject to the EAR without Treasury authorization will generally constitute a violation of the EAR. The Bureau of Industry and Security (BIS) has approximately 100 Federal law enforcement agents in ten field offices throughout the United States. The field offices are located in Boston, New York, Washington, Miami, Chicago, Dallas, Los Angeles, San Jose, Houston; and the Washington, DC area. Additional BIS agents are based in main Commerce here in Washington. These agents are on the frontlines of the effort to prevent illicit transfers of items which would do us harm if they fell into the wrong hands.

In addition, Commerce has export control officers (ECO) in five foreign locations—Abu Dhabi, United Arab Emirates; Beijing and Hong Kong; New Delhi; and Moscow. In Fiscal Year (FY) 2010, BIS has authorization to post an ECO in Singapore and a second ECO in Beijing. These ECOs are Bureau of Industry and Security enforcement agents temporarily assigned to the U.S. & Foreign Commercial Service. The ECOs conduct pre-license checks and post-shipment verification visits to verify that items will be, or are being, lawfully used and have not been diverted to prohibited users or uses within the country or illegally transshipped to another country such as Iran.

The Commerce Department closely coordinates with the Department of State and other agencies to work with other countries, including states that may be involved in transshipments to Iran, to establish and strengthen those states' export and transshipment control systems. This enables those countries to cooperate with us on specific transactions as well as take actions against parties in their own territory who are illegally exporting items to countries such as Iran.

Commerce also can bring to bear unique tools to enforce U.S. export controls on Iran. These tools include Temporary Denial Orders (TDO) and the Entity List. A TDO is a legal order that can be issued quickly, for 180 days at a time, to prevent imminent violations of the EAR. For example, in 2008, we issued a TDO denying the export privileges of Balli Group PLC and related companies and individuals ("Balli Group"), Blue Airways, and Mahan Airways for 180 days. Evidence obtained by our agents showed that the parties knowingly reexported three U.S.-origin aircraft to Iran in violation of the EAR and were preparing to reexport three additional U.S.-origin aircraft to Iran in further violation of the EAR. The TDO effectively precluded United States or foreign parties from engaging in any activity related to the aircraft. Ultimately, the TDO prevented the illegal reexport of three commercial aircraft to Iran.

The Entity List is a regulatory tool that can be used to prohibit the export, or reexport, of any item subject to the EAR, including items not on the CCL, to any listed entity. In 2008, the Bureau of Industry and Security added 75 foreign parties to the Entity List because of their involvement in a global procurement network that sought to illegally acquire U.S.-origin electronic components and devices capable of being used to construct Improvised Explosive Devices (IEDs). These commodities had been used in IEDs or other explosive devices against Coalition Forces in Iraq and Afghanistan. This network acquired U.S. origin commodities and illegally exported them to Iran. As a consequence of the addition of these entities to the Entity List, no United States or foreign party may export or reexport items subject to the EAR to them without a license. Exporting or reexporting an item to any of these entities without the required license would constitute a violation of the EAR.

In addition, Commerce has led investigations of a number of significant cases involving Iran which have in turn led to successful enforcement actions. Commerce currently has 235 open investigations involving Iran which constitute about 29 percent of all open investigations of potential violations of the EAR. I have attached a summary of prosecutions concluded in 2008 for illegal exports to Iran.

The Commerce Department's authority to enforce our dual-use export controls is based on the Export Administration Act of 1979 (EAA). This statute, however, has been in lapse since 2001. While the EAA is in lapse, the U.S. dual-use export control system has been maintained under the authority of the International Emergency Economic Powers Act (IEEPA). Most recently, the president renewed Commerce authority under IEEPA in August 2009.

Cooperation with our sister law enforcement agencies has been paramount to the success of our efforts to prevent unauthorized exports to Iran and obtain sanctions against those making such exports. We work in concert with the Federal Bureau of Investigation, U.S. Immigration and Customs Enforcement, and several other agencies, including by participating in several FBI-led Joint Terrorism Task Forces, which focus on export control violations, including those involving Iran's support of international terrorism and violations of the Iran sanctions.

Finally, the Commerce Department maintains a robust outreach program to educate the private sector on the embargo on Iran. We have detailed guidance on our website for exporters to follow. We also focus on key companies such as freight forwarders, integrators, air cargo carriers, and shipping lines with regard to the embargo of Iran. Our efforts are targeted toward educating exporters on vigilance in partnering with firms based in major transshipment hubs, not only in the Persian Gulf region but also in Southeast Asia, which might result in illegal transshipments of U.S.-origin goods to Iran.

In conclusion, the Department of Commerce plays a key role in the administration and enforcement of the embargo on Iran. At this time I would be happy to answer any questions you may have.

Summaries of Recent Commerce Enforcement Cases involving Exports or Reexports to Iran

- On January 30, 2009, James Gribbin, former sales manager for Oyster Bay Pump Works, was sentenced to 3 years of probation and a $100 special assessment in connection with an attempted export of laboratory equipment, valued at approximately $300,000, to Iran via the United Arab Emirates. On May 1, 2008, Patrick Gaillard, President of Oyster Bay Pump Works, was sentenced to 30 days in prison, a $25,000 criminal fine, 3 years of probation, and a $300 special assessment for his part in the attempted export.
- On June 11, 2009, Traian Bujduveanu, the owner and operator of Orion Aviation, was sentenced to 35 months in prison followed by 3 years of supervised release for his role in the illegal export of civilian and military aircraft parts to Iran Defense Industries Organizations.
- On December 10, 2008, Nicholas Groos was sentenced to 60 days in prison, 1 year supervised release, a $249,000 criminal fine, and a $400 special assessment for his part in a scheme to transship U.S.-origin fire fighting equipment to Iran using his position as Director of the Viking Corporation subsidiary located in Luxembourg.
- On August 28, 2008, Desmond Frank was sentenced to 23 months in prison, a $500 criminal fine, and a $600 special assessment for his part in the export of defense articles to Iran and China.
- On August 7, 2008, James Angehr and John Fowler, owners of Engineering Dynamics Inc., were sentenced to 5 years of probation for their part in an attempt to export software to Iran via Brazil. Angehr was additionally sentenced to 6 months of confinement in a halfway house, and Fowler was sentenced to 4

months of confinement in a halfway house. Each defendant was fined $250,000, and ordered to forfeit $218,583. On May 22, 2008, Nelson Galgoul was sentenced to 13 months in prison, 3 years of supervised release, a $100,000 criminal fine, and a $109,291 forfeiture for his part in the conspiracy.

- On February 8, 2008, Mojtada Maleki-Gomi was sentenced to 18 months in prison and a $200,000 criminal fine for exporting textile goods to Iran without the required export licenses, and Babek Maleki was sentenced to 12 months probation for making false statements related to the same export.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR VITTER FROM JAMES B. STEINBERG

Q.1. Are you confident that Iran is not buying time for continued enrichment of weapons-grade nuclear material by merely pretending to engage in serious negotiations on this issue? If so, why are you confident of this?

A.1. President Obama came into office willing to test whether dialogue would yield more positive results with Iran, with full awareness that dialogue might not achieve the results we seek. This is exactly why we are employing a range of tools for dealing with Iran including implementing existing UNSCR and U.S. sanctions, together at the same time we seek to achieve our goals through the engagement approach.

The results of engaging in this dialogue are clear: the P5-plus-l is united, and we have an international community that has reaffirmed its commitment to non-proliferation and disarmament. The Iranian government heard a clear and unified message from the international community in Geneva: Iran must demonstrate through concrete steps that it will live up to its responsibilities with regard to its nuclear program. This message was reinforced by the IAEA Board of Governors' adoption of a resolution on 27 November 2009 condemning Iran's construction of the Qom enrichment facility as inconsistent with Iran's safeguards agreement and demanding Iran's full compliance with its international obligations without further delay.

Going forward, we've made clear the necessity for Iran to take swift action. If Iran does not take steps in the near future to live up to its obligations, then we are prepared to move toward increased pressure. If Iran takes concrete steps and lives up to its obligations, there is a path toward a better relationship with the United States, increased integration with the international community, and a better future for all Iranians.

The burden of meeting these responsibilities lies with the Iranian government, and they are now the ones that need to make that choice.

Q.2. In your opinion, how likely is it that Iran's nuclear enrichment activities will result in weapons-grade material? If this comes to pass, when do you think it will happen?

A.2. Our goal is to prevent Iran from acquiring a nuclear weapons capability. The same technology that is used in centrifuge-based enrichment for reactor fuel is used for producing HEU and Iran has made significant advances in its enrichment program. Iran's refusal to comply with its international obligations over the past twenty years adds to the concern that Iran's intent is to—at a minimum—preserve the option to acquire nuclear weapons. Iran needs to take steps to address the questions raised by the international community, and suspend its proliferation-sensitive nuclear activities as required by the United Nations Security Council.

We defer to the intelligence community for an update on Iran's nuclear program, a timeline of possible HEU-production scenarios, and any indication of a weapons program.

Q.3. Are the upcoming talks with Iran being conducted with a sense of urgency appropriate to the situation, given the wide evi-

dence of Iran's enrichment activities in violation of UN Security Council resolutions, along with the very real possibility that Iran is "running out the clock" while it pursues its nuclear ambitions?

A.3. Our whole approach is predicated on an urgent need to prevent Iran from obtaining a nuclear weapons capacity. That is why a united P5+1 has presented Iran with a very plain choice: prove to our satisfaction that its program is, as they claim, for peaceful purposes and open up its facilities to inspections, freeze its uranium enrichment program, and follow through on the agreement to provide fuel for enrichment outside of the country or face real pressure and consequences.

This message was reinforced by the IAEA Board of Governors' adoption of a resolution on 27 November 2009 condemning Iran's construction of the Qom enrichment facility as inconsistent with Iran's safeguards agreement and demanding Iran's full compliance with its international obligations without further delay. We—in coordination with our partners—will be taking stock of where things stand in the coming weeks, and we will make appropriate judgments about the next steps, including the option of imposing additional pressure.

Q.4. Can you provide some concrete examples of potential steps the Iranian regime could take that you would consider "progress" as a result of the current negotiations?

A.4. The October 1 meeting in Geneva, as well as Iran's acceptance of an initial inspection in Qom, offered a cumulative set of options. We regret that Iran has not followed through. As a result, the IAEA Board of Governors' adopted a resolution on 27 November 2009 condemning Iran's construction of the Qom enrichment facility as inconsistent with Iran's safeguards agreement and demanding Iran's full compliance with its international obligations without further delay.

The P5+1 has made clear that Tehran must agree to another P5+1 political director level meeting, focused on the nuclear issue. We have stressed the need for continued cooperation regarding the Qom enrichment facility, including access to personnel and documents. And we have called upon Iran to implement the IAEA's Tehran Research Reactor proposal to which it agreed in Geneva on October 1. Iran must demonstrate through these concrete steps that it will live up to its responsibilities with regard to its nuclear program.

We have conveyed to Iran that, if it expects the world to believe in the exclusively peaceful nature of its nuclear program, then Iran must engage fully and immediately with the IAEA to address all outstanding issues surrounding its nuclear program. As set forth in numerous resolutions of the IAEA and the U.N. Security Council, Iran must fully implement its IAEA Safeguards Agreement and bring into force its Additional Protocol.

Additional confidence building measures would include Iran's full implementation of its UN Security Council obligations as well as answering the IAEA's outstanding questions, particularly with regard to the possible military dimensions to Iran's nuclear program. These steps are clearly outlined in U.N. Security Council resolutions 1737, 1747 and 1803 as well as in the plethora of IAEA Direc-

tor General's reports from the past 7 years. Iran knows what it needs to do to restore international confidence in the exclusively peaceful nature of its nuclear program. Now is the time to take advantage of an historic opportunity to constructively engage and find a diplomatic resolution to the nuclear issue.

Q.5. How confident are you that United States intelligence-gathering operations are providing an accurate picture of Iran's nuclear capabilities, given the recent failure to detect the scope of operations at the Qom facility?

A.5. Due to the sensitive nature of our intelligence programs, we will address this question in a separate, classified submission to the Committee.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR VITTER FROM STUART A. LEVEY

Q.1. What is your assessment of the current set of sanctions against Iran? In what ways are these sanctions succeeding and in what ways do they fall short of achieving our objectives in this situation?

A.1. In addition to the broad country sanctions the United States has in place against Iran, the Treasury and State Departments launched an effort in 2006 to target Iranian illicit conduct and, specifically, Iranian entities' and individuals' use of the international financial system to support proliferation and terrorism. This effort combined formal government measures against the specific Iranian banks, companies, and people involved in this conduct with unprecedented high-level outreach to scores of banks, banking associations, and companies around the world.

Our strategy of targeting illicit conduct has resulted in broad international support. In terms of formal government actions, the U.N. Security Council resolutions on Iran contain many of the same designations we have implemented here in the United States. The European Union and Australia have gone beyond implementing the Security Council's list, joining us in other designations, such as that of Iran's Bank Melli. On the private sector side, banks and companies around the world have come to understand that, if they are dealing with Iran, it is nearly impossible to protect themselves against becoming entangled in that country's illicit conduct.

Government and private sector actions have increased pressure on Iran. These mutually reinforcing actions have not only had an impact on Iran's ability to use the international financial system to support its illicit activities, but have also put Iran at a competitive disadvantage in the world marketplace due to its increasing financial and commercial isolation. Iran is increasingly dependent on an ever-shrinking number of trade and finance facilitators. Many foreign companies have pulled back from business deals with Iran, including investment in Iran's energy sector. Iranian businesses face greater inefficiencies, higher operating costs, and increased difficulty in finding business partners and banks to provide them with financing.

We are working to build on this effort by developing a comprehensive plan aimed at imposing additional substantial costs on the government of Iran, and we are coordinating this plan with our international partners. As the President recently stated:

> [T]he dual-track approach requires Iran to get a clear message that when it fails to take advantage of these opportunities [offered by the P5+1], that in fact it is not making itself more secure, it's making itself less secure.

Q.2. What steps are being taken to target the efforts of foreign financial institutions and foreign governments, such as Venezuela, which have assisted Iran in evading the full impact of the sanctions?

A.2. The United States takes very seriously its obligation to protect the international financial system from abuse. The Treasury and State Departments have taken domestic action against specific banks, entities and individuals complicit in Iranian illicit activity. We have also acted against the subsidiaries of the banks we have targeted. For example, on October 22, 2008, we designated Banco Internacional de Desarollo, a subsidiary of the Export Development Bank of Iran (EDBI) located in Venezuela, under Executive Order (E.O.) 13382 for being owned or controlled by, or acting for or on behalf of, EDBI. More recently, on November 5, 2009, we designated First East Export Bank (FEEB), a Bank Mellat subsidiary located in Malaysia, under E.O. 13382 for being owned or controlled by Bank Mellat. Through the designation of over 100 entities and individuals supporting Iran's nuclear and missile enterprises, the United States has not only cutoff illicit actors from the U.S. financial and commercial systems, but has also highlighted publicly the risks of doing business with Iran and Iran's efforts to evade sanctions.

In addition to the formal actions we have taken, the Treasury Department has also engaged bilaterally with its foreign government partners and the private sector around the world to share information about Iran's illicit and deceptive conduct. Where releasable information has been available on specific foreign financial institutions or entities supporting Iranian proliferation efforts, the United States has actively worked to inform the host government and request assistance in disrupting the activity.

Finally, we have worked through the Financial Action Task Force (FATF) to build awareness of the risks stemming from Iran's deceptive practices and lack of an adequate anti-money laundering and counterterrorist financing (AML/CFT) regime. In October 2009, the FATF issued its seventh statement on Iran, reiterating its call for jurisdictions to apply effective countermeasures to protect their financial sectors from these risks.

Q.3. In what ways would sanctions targeting companies that assist Iran in importing refined petroleum help to discourage those companies from continuing those activities? Would these sanctions, in your estimation, succeed in increasing economic pressure on Iran?

A.3. Sanctions by their very nature create a disincentive to engage in the activities against which they are targeted. However, the effectiveness of any specific measure needs to be considered in the context of our overall package of sanctions and our broader policy and objectives. If desired, I would be pleased to provide a more detailed briefing in a closed setting.