

**Statement of
Mark Foulon
Acting Under Secretary of Commerce for Industry and Security**

before the

**Committee on Banking, Housing, and Urban Affairs
United States Senate**

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

Thank you for the opportunity to appear before the Committee today to discuss U.S. export control and sanctions policies towards Iran. I am pleased to be here today with my colleagues from the Departments of State and Treasury, with whom we work closely to implement the President's policies with regard to trade with Iran.

The United States has maintained sanctions against Iran since 1979, with a reinforcing trade embargo starting in May 1995. Iran has been designated as a state sponsor of terrorism since 1984, and because of Iran's continued active support for terrorism and concerns that it is pursuing weapons of mass destruction, U.S. sanctions were gradually increased until a comprehensive embargo was put in place. Consistent with these authorities, the Departments of Commerce and Treasury prohibit virtually all exports of U.S.-origin goods to Iran.

The Department of Commerce does not have primary jurisdiction for export licensing to Iran. Because of the comprehensive nature of the U.S. embargo on Iran, the Treasury Department has

been designated as the lead agency in this area. Within Treasury, this function is performed by the Office of Foreign Assets Control. This approach has been used when the broad nature of a U.S. embargo requires not only a prohibition on exports and re-exports of items under the Commerce Department's jurisdiction, but also comprehensive restrictions on financial transactions and investments under the jurisdiction of the Treasury Department.

Virtually any export of U.S.-origin goods to Iran must therefore be authorized by the Treasury Department. The Commerce Department's primary role in the licensing process, as part of the Administration's overall sanctions program, is to provide technical assistance to Treasury on the proper classification of goods proposed for export or re-export to Iran under a Treasury license.

The Commerce Department also plays an important role in the enforcement of the Iran sanctions regime by investigating for possible prosecution and penalties violations of the Export Administration Regulations. These investigations are conducted by the Commerce Department's Bureau of Industry and Security's Office of Export Enforcement (OEE), which has approximately 100 federal agents in ten locations throughout the United States. These locations include field offices in Boston, New York, Washington, Miami, Chicago, Dallas, Los Angeles, and San Jose; one resident office in Houston; and the Washington, DC, headquarters. More than 20 percent of OEE's current open investigations – over 150 – involve Iran.

Since October, 2004, investigations by OEE, at times working with U.S. Immigration and Customs Enforcement (ICE) or other law enforcement agencies, have resulted in 13 criminal

convictions related to illegal exports of dual-use items to Iran, with five more cases pending sentencing. A sample of these successful prosecutions includes the following:

- On November 30, 2006, Juan Sevilla, sales director of United Calibration Corporation, was sentenced to five years probation, six months home confinement, 100 hours of community service, and a fine of \$10,000 for attempting to export machinery and calibration software to measure the tensile strength of steels; one use of such items would have been to test the chemical properties of metals that could be utilized for manufacturing nuclear materials.
- On December 7, 2004, Ebara International, Inc., was sentenced to a \$6.3 million criminal fine, and one corporate officer was sentenced to three years probation and a \$10,000 criminal fine, for exporting industrial natural gas pipeline equipment to the National Iranian Gas Company; and industrial pumps and valves to the South Pars Gas Field Project.
- On December 13, 2006, Ernest Koh was sentenced to 52 months in prison for exporting parts for C-130 military transport planes and P-3 naval aircraft. The parts were diverted to Malaysia and then illegally transshipped to Iran. The investigation also found that the guilty party had laundered millions of dollars from bank accounts in Singapore through accounts in the United States to promote the illegal scheme;

· In September, 2005, Mohammed Farajbakhsh was sentenced to seven months in prison and two years probation for his role in a conspiracy to export computer goods and satellite equipment via the United Arab Emirates to an entity affiliated with Iran's ballistic missile program.

Violators of the Iran sanctions regulations can also face Administrative penalties. Last year, OEE investigations led to such penalties in 16 cases, totaling \$1.6 million in fines.

I would like to make one additional point with regard to the prosecutions. While the Export Administration Act is in lapse, as it has been since 2001, the U.S. dual-use export control system has been maintained under the authority of the International Emergency Economic Powers Act (IEEPA). IEEPA penalties are substantially less than the penalties under the EAA.

I would also like to emphasize the value we place on cooperation with our sister law enforcement agencies. Indeed, many of our enforcement investigations are conducted jointly with the Federal Bureau of Investigation, U.S. Immigration and Customs Enforcement, or other agencies. In addition, Commerce actively participates in 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.

As the examples I cited illustrate, enforcement of our comprehensive embargo against Iran involves more than just stopping direct shipments from the United States. The Administration is

also focused on interdicting and disrupting the illegal transshipment of U.S. goods through third countries to Iran and other embargoed destinations. This takes two major forms.

First, in coordination with the Department of State, Commerce works with other countries to identify foreign entities that seek to evade U.S. export control laws to divert U.S.-origin goods to Iran. We encourage these countries to prevent companies located within their borders from undertaking such illegal activities, focusing first on government-to-government cooperation as well as cooperation and information-sharing with the private sector.

Second, to strengthen government-to-government cooperation, the Administration works to develop or strengthen foreign government export control regimes; to promote information and data exchanges with foreign export control and customs authorities; and to cooperate on enforcement. Specific initiatives to develop export control capabilities have included technical assistance in drafting export control laws and licensing procedures, enforcement training, and industry outreach. Through programs like the Export Control and Related Border Security Assistance (EXBS) Program, the Departments of Commerce and State have been able to work with countries, including those of transshipment concern, to help them develop and implement effective export and border controls.

To strengthen cooperation and facilitate enforcement, the Commerce Department also has posted export control officers to five foreign locations – Abu Dhabi, Beijing, Hong Kong, New Delhi and Moscow. These export control officers are OEE agents temporarily assigned to the U.S. & Foreign Commercial Service. While they do not have overseas investigative authority, they do

support the effort to prevent illicit transshipments. Pursuant to an existing Memorandum of Understanding between OEE and ICE, ICE's 56 Attaché offices are responsible for conducting ICE and OEE investigative activities overseas.

Commerce's export control officers conduct post-shipment verification visits to verify that items are being properly used – and have not been diverted to illicit users or uses within the country or illegally transshipped to another country such as Iran. The export control officer in Hong Kong has broader regional responsibilities, reaching to other transshipment countries such as Malaysia, Singapore, and Indonesia.

As part of our efforts in this regard, the Commerce Department has worked to educate the private sector, especially key companies such as freight forwarders, integrators, air cargo carriers, and shipping lines. With regard to Iran, we have targeted our education and outreach on major hubs that might be used to illegally transship U.S.-origin goods to Iran, not only in the Persian Gulf region but also in Southeast Asia.

One recent successful example of Commerce's efforts to stop dangerous transshipments involves Mayrow General Trading, a company located in the United Arab Emirates. In June 2006, the Commerce Department imposed strict sanctions on transactions with this firm and its related corporate entities, because Mayrow is believed to have acquired U.S.-origin components capable of being used to construct Improvised Explosive Devices or other devices that have been, and may continue to be, used against coalition forces in Iraq and Afghanistan. In addition, as a result

of information provided by the United States government, the United Arab Emirates initiated an investigation of Mayrow that led to it being shut down.

In an effort to increase the options at our disposal for combating illicit transshipment to Iran and elsewhere, Commerce published last month an advance notice of proposed rulemaking that would amend the Export Administration Regulations by adding a new group – Country Group C. This group would be reserved for countries that pose a diversion concern based on criteria such as transit and transshipment volume and the adequacy of export controls. At this time, this is an idea in the preliminary stages of consideration, and therefore it is premature to discuss to which countries these requirements might apply. However, Commerce believes that this approach could be an effective tool to increase our ability to prevent illicit diversions of U.S. goods to countries like Iran.

As our presence here today demonstrates, Mr. Chairman, the Iran sanctions program encompasses many agencies of the U.S. Government that work together to ensure that the sanctions are being implemented and enforced to the fullest extent possible under existing laws and regulations. We at the Commerce Department are pleased to be a part of the Administration's Iran sanctions team. At this time I would be happy to answer any questions you may have.