



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

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**Before the Senate Committee on Banking, Housing, and Urban Affairs
Washington, DC**

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

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

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

We are in now in a particularly crucial moment. The United States, the United Kingdom, France, Germany, Russia, and China have presented a package of incentives and disincentives to Iran to resolve the problem posed by the Iranian nuclear weapons program. As the President and Secretary of State have said, we are dedicated to resolving

this issue diplomatically and will exhaust the diplomatic channel accordingly. But if the diplomatic path is not successful, the international community has a range of options to make clear that Iran's pursuit of nuclear weapons will come at the cost of its own isolation.

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

The Threat Posed by the Iranian Regime

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

Nuclear Weapons Development and Missile Technology

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

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

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

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

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

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

Support for Terrorism and Violence

Iran also actively sponsors terrorism and violence across the Middle East. The Islamic Revolutionary Guard Corps (IRGC) and Ministry of Intelligence and Security (MOIS) – both Iranian government bodies – are directly involved in the planning and support of

terrorist acts by non-state actors and continue to sponsor and train a variety of violent groups that act as surrogates on Iran's behalf.¹

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

Broad Sanctions Against Iran

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

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

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

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

¹ Country Reports on Terrorism.

Certain assets related to claims before the Iran-United States Claims Tribunal remain blocked in the United States and consist mainly of diplomatic and consular property.

Private Sector Reaction

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

- In the international banking community, UBS ceased its activities with Iran. Credit Suisse announced that it would no longer establish new business relations with Iran. ABN Amro and HSBC have also curbed their dealings with Iran.
- Energy firms Baker Hughes, ConocoPhillips, and BP PLC have reportedly suspended dealings with Iran.
- In May, the Organization for Economic Cooperation and Development (OECD) downgraded Iran's credit rating for official credits and now assesses Iran at the same level of risk as countries with active insurgencies, such as Colombia and Sri Lanka.

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

Conclusion

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