

**Iran Sanctions**  
*Strategy, Implementation and Enforcement*

**Congressional Testimony**

**Hearing before the  
House Committee on Foreign Affairs**

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Washington, DC  
May 17, 2012

## ***Introduction***

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

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

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

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

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

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

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<sup>1</sup> "Clinton Says U.S. Will Keep Sanctions on Iran," *Reuters*, April 16, 2012.

(<http://www.reuters.com/article/2012/04/16/us-iran-usa-clinton-idUSBRE83F1CJ20120416>)

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

<sup>3</sup> Mohammad Davari, "Iran Wants Sanctions Eased, Hints On Enrichment," *Agence France Presse*, April 16, 2012. (<http://www.google.com/hostednews/afp/article/ALeqM5i4II44E8IBXF4V-ta-cUrjdXw30Q?docId=CNG.b3a51da26e7e858e1c7f73c604cd63e3.6b1>)

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

<sup>5</sup> Bill Spindle, Benoit Faucon, & Farnaz Fassihi, "Iran Cracks Down on Dollar Trades," *The Wall Street Journal*, January 17, 2012.

(<http://online.wsj.com/article/SB10001424052970203735304577164640064408710.html>)

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

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

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

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

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

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

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<sup>6</sup> Thomas Erdbrink, “Iran Sees Success in Stalling on Nuclear Issue,” *The New York Times*, May 14, 2012. (<http://www.nytimes.com/2012/05/15/world/middleeast/iran-sees-success-in-stalling-on-nuclear-issue.html>)

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

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

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

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

### ***Sanctions Relief in the Shadows***

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

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

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

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

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

reduction” in Iranian oil purchases, which would justify an exception to sanctions on the Central Bank of Iran (“CBI”).<sup>11</sup>

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

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

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

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

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

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

<sup>11</sup> The White House, Press Release, “Briefing on U.S. Sanctions on Iranian Oil-Related Transactions,” April 1, 2012.

(<http://iipdigital.usembassy.gov/st/english/texttrans/2012/04/201204013093.html#axzz1uqzqTWrb>)

<sup>12</sup> Indira Lakshmanan, U.S. Lawmakers Target Iran Energy Sector for Expanded Sanctions, *Bloomberg*, March 29, 2012. (<http://www.bloomberg.com/news/2012-03-29/lawmakers-target-iran-s-energy-sector-for-expanded-sanctions.html>)

<sup>13</sup> “Payments System SWIFT to Expel Iranian Banks Saturday,” *Reuters*, March 15, 2012.

(<http://www.reuters.com/article/2012/03/15/us-nuclear-iran-idUSBRE82E15M20120315>)

<sup>14</sup> Society for Worldwide Interbank Financial Telecommunication, *SWIFT Annual Review 2010*, page 29.

[http://www.swift.com/about\\_swift/publications/annual\\_reports/annual\\_review\\_2010/SWIFT\\_AR2010.pdf](http://www.swift.com/about_swift/publications/annual_reports/annual_review_2010/SWIFT_AR2010.pdf)

<sup>15</sup> “Payments System SWIFT to Expel Iranian Banks Saturday,” *Reuters*, March 15, 2012.

(<http://www.reuters.com/article/2012/03/15/us-nuclear-iran-idUSBRE82E15M20120315>)

<sup>16</sup> Clare Baldwin & Osamu Tsukimori, “Marine Insurance: the Stranglehold on Iran?” *Reuters*, April 17, 2012. (<http://uk.mobile.reuters.com/article/stocksNews/idUKLNE83G00G20120417>)

quarter of 2012, largely as a result of this measure and related oil market and financial sanctions.<sup>17</sup>

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

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

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

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

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

<sup>17</sup> James Herron, "2nd UPDATE: Iran Oil Exports Fall In April As Sanctions Tighten-IEA," *The Wall Street Journal*, May 11, 2012. (<http://online.wsj.com/article/BT-CO-20120511-708007.html>)

<sup>18</sup> Alison Leung, "Exclusive: China Mulls Guarantees for Ships Carrying Iran Oil," *Reuters*, April 30, 2012.

(<http://news.yahoo.com/exclusive-china-mulls-guarantees-ships-carrying-iran-oil-053802319--business.html>)

<sup>19</sup> "Japan eyes guarantees for ships carrying Iranian oil -- Nikkei," *Reuters*, May 7, 2012.

(<http://af.reuters.com/article/energyOilNews/idAFL4E8G749V20120507>)

<sup>20</sup> "Iran's Main Ship Insurer Will Meet Western Claims, Despite Sanctions," *The Maritime Executive*, March 2, 2012. (<http://www.maritime-executive.com/article/iran-s-main-ship-insurer-will-meet-western-claims>)

<sup>21</sup> Ewa Krukowska and Jonathan Stearns, "EU Permits Three-Month Insurance Exemptions For Tankers To Iran," *Bloomberg*, March 23, 2012. (<http://www.bloomberg.com/news/2012-03-23/eu-permits-three-month-insurance-exemptions-for-tankers-to-iran.html>)

Greece, Italy and Spain, for example, to defy the oil embargo by offering price discounts or relaxed payment terms.<sup>22</sup>

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

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

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

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

*Permit sanctionable transactions to take place through barter trade*

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

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

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

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

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



agreed to exchange Iranian oil for commitments to help Iran develop its petroleum resources, a sanctionable activity under U.S. law.<sup>26</sup>

*Delay sanctions against critical elements of the Iranian oil supply chain*

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

*Provide less rigorous enforcement of shipping sanctions*

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

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

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

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

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

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

<sup>29</sup> "Factbox - Iranian Ships Now Flying Bolivian Flags," *Reuters*, April 18, 2012. (<http://uk.reuters.com/article/2012/04/18/uk-iran-ships-irisl-idUKBRE83H10020120418>)

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

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



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

### ***Sanctions Relief in the Daylight***

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

#### **Recommendations:**

##### *1. Exercise the National Interest Waiver*

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

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

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

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

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

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

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

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

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

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

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

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

<sup>33</sup> "Interview: U.S. Nuclear Official Samore Discusses Iran Nuclear Talks," *Radio Free Europe Radio Liberty*, April 17, 2012.

([http://www.rferl.org/content/interview\\_us\\_nuclear\\_official\\_samore\\_iran\\_nuclear\\_talks/24551477.html](http://www.rferl.org/content/interview_us_nuclear_official_samore_iran_nuclear_talks/24551477.html))

<sup>34</sup> Karen DeYoung and Scott Wilson, "Public Ire One Goal Of Iran Sanctions, U.S. Official Says," *The Washington Post*, January 10, 2012. ([http://www.washingtonpost.com/world/national-security/goal-of-iran-sanctions-is-regime-collapse-us-official-says/2012/01/10/gIQA0KJsoP\\_story.html](http://www.washingtonpost.com/world/national-security/goal-of-iran-sanctions-is-regime-collapse-us-official-says/2012/01/10/gIQA0KJsoP_story.html))

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

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

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

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

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

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

- (a) impose an insurance embargo on Iran for any company providing insurance or reinsurance services for any sanctionable activity;
- (b) declare Iran's energy sector a zone of proliferation concern, prohibiting any energy-related transaction except those permissible under section 1245 of the NDAA;
- (c) declare Iran's telecommunications and technology sectors as zones of electronic repression, to crack down on companies providing technologies and services that do not promote open and secure communications for the Iranian people;
- (d) require international financial institutions maintaining correspondent accounts in the U.S. to disclose to the U.S. Department of Treasury any and all transactions with Iranian financial institutions; and,
- (e) impose sanctions on any company, including SWIFT and Clearstream, which provides services to an Iranian financial institution.

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

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

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

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

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

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


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

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

United States House of Representatives  
Committee on Foreign Affairs

**“TRUTH IN TESTIMONY” DISCLOSURE FORM**

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee require the disclosure of the following information. A copy of this form should be attached to your written testimony and will be made publicly available in electronic format, per House Rules.

<b>1. Name:</b>  Mark Dubowitz	<b>2. Organization or organizations you are representing:</b>  Foundation for the Defense of Democracies
<b>3. Date of Committee hearing:</b>  May 17, 2012	
<b>4. Have <u>you</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?</b>	<b>5. Have any of the <u>organizations you are representing</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?</b>
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>6. If you answered yes to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.</b>	
	
<b>7. Signature:</b>	

*Please attach a copy of this form to your written testimony.*