U.S. House Committee on Foreign Affairs

"Iran Sanctions: Strategy, Implementation, and Enforcement"

May 17, 2012

The Honorable Mark D. Wallace

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Testimony for the Record

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Thank you.

United States House of Representatives
Committee on Foreign Affairs

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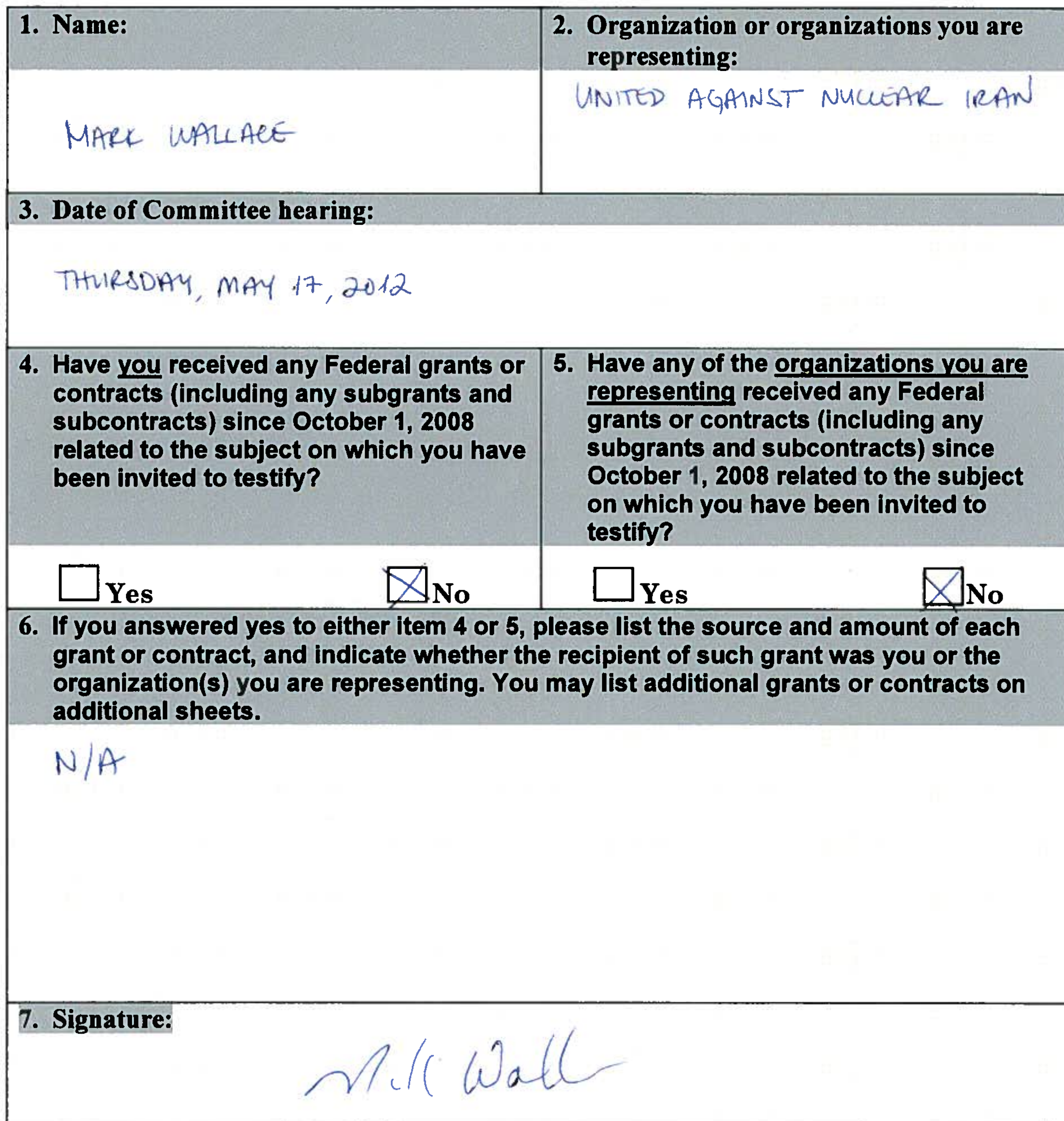

1. Name:

MARK WALLACE

2. Organization or organizations you are representing:

UNITED AGAINST NUCLEAR IRAN

3. Date of Committee hearing:

THURSDAY, MAY 17, 2012

4. Have you 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?

☐ Yes ☒ No

5. Have any of the organizations you are representing 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?

☐ Yes ☒ No

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.

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