

WRITTEN STATEMENT
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SENATE BANKING COMMITTEE HEARING
“Addressing Potential Threats from Iran: Administration Perspectives on
Implementing New Economic Sanctions One Year Later”
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Chairman Johnson, Ranking Member Senator Shelby, Distinguished

Members of the Committee: thank you for inviting me to appear before you today to discuss the Obama Administration’s strategy to address the continued threat posed by the Iranian regime’s nuclear ambitions, its support for international terrorism, its destabilizing activities in the region, and its human rights abuses at home.

I would like to begin by dedicating this testimony to Philo Dibble, Deputy Assistant Secretary for Near East Affairs, who passed away unexpectedly two weeks ago. Philo was an exceptionally well-respected career member of the Foreign Service who devoted most of his career to the Middle East. For the past year, he dedicated his deep regional expertise and knowledge to advancing our policy on Iran. The loss of his wisdom and leadership is a profound one for the Department and for our country.

The world today is unified to an unprecedented degree in its concern that a nuclear-armed Iran would undermine the stability of the Gulf region, the broader Middle East, and the global economy. In defiance of U.N. Security Council and IAEA Board of Governors resolutions, Iran has continued to expand its sensitive nuclear activities, and refuses to cooperate with the IAEA, raising strong, legitimate concerns about the purpose of the nuclear program. Beyond the nuclear issue, Iran continues its longstanding support to terrorist organizations such as Hizballah, Hamas, and Palestine Islamic Jihad (PIJ), as well as by its support to newer proxy militia groups in Iraq.

But, these efforts belie a regime that is actually far more vulnerable and weakened than it would like to project. 2011 has been a harsh wake-up for the Islamic Republic of Iran. Iran's government has failed in its efforts to co-opt uprisings in the Arab world and claim its 1979 revolution as inspiration. No popular movement in the region has looked to Iran as a model for change; the only entity that turned to Iran was another autocratic regime in Syria trying desperately to hang on to power. Iran has further undermined its standing among Muslims and further strained its bilateral relations in the region by helping the failing regime of Bashar al-Asad to brutally crack down against Syrian citizens. Misreading the stark warning message from the Arab Awakening, Iran's government continues to arrest, imprison, and persecute Iranians who dare to ask for accountability and

transparency from their government, as well as just and fair treatment for ethnic and religious minorities.

To address the multifaceted challenges posed by Iran's regime – its flouting of its nuclear obligations, its nuclear weapons ambitions, its support for terrorism, its destabilizing activities in the region, and its human rights abuses at home – the U.S. has led a sustained and broad international campaign to exact steep costs for the regime and to complicate its ability to pursue these policies. Iran today faces tough economic sanctions and broad diplomatic pressure, and though it aspires to regional and even global leadership, its current policies have made it an outcast among nations.

American policy regarding Iran remains unambiguous. First and foremost, we must prevent Iran from acquiring nuclear weapons. Its illicit nuclear activity is one of the greatest global concerns we face, and we will continue to increase the pressure until the Iranian regime engages the international community with seriousness and sincerity and resolves its concerns. But pressure is not an end unto itself. It may provide the impetus to Iranian action, but does not prescribe the measures that are necessary to build international confidence in Iranian nuclear intent. To that end, we have offered to meet with Iran and have proposed confidence-building and transparency arrangements that offered practical

incentives. Unfortunately, Iran has failed time and again to reciprocate and to take advantage of these opportunities. As a consequence, more than ever, world pressure is mounting on Iran. Last year, the United States led a successful effort in the UN Security Council to adopt Resolution 1929, which led to the toughest multilateral sanctions regime Iran has ever faced. The resolution strengthened previous UN resolutions and provided a platform upon which the European Union, Norway, Australia, Canada, South Korea, Switzerland, and Japan implemented strict domestic measures to bolster the measures of UNSCR 1929.

The efforts made by the Congress, by all of you, have also effectively sharpened American sanctions, particularly against Iran's energy sector and the regime's human rights abuses. When President Obama signed into law the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA, which amended the Iran Sanctions Act of 1996) in early July, 2010, the Administration and the Congress sent an unmistakable signal of American resolve and purpose, expanding significantly the scope of our domestic sanctions and maximizing the impact of new multilateral measures. Since then, the Administration has imposed sanctions on a growing list of individuals and entities responsible for Iran's expanding scope of unauthorized activities, and these sanctions are raising the cost, time, and energy required for Iran to pursue its current policies.

In September 2010, Secretary Clinton imposed the first sanctions any administration had ever imposed under the Iran Sanctions Act. To date, the State Department has sanctioned 10 foreign companies for doing business with Iran's energy sector. Further, CISADA's "special rule" has worked exactly as intended: it gave us the flexibility and leverage to persuade multinational energy firms Shell, Statoil, ENI, Total and INPEX to withdraw from all significant activity in Iran. The companies also provided clear assurances that they would not undertake any sanctionable activities in Iran's energy sector in the future, and in doing so, forfeited billions of dollars of investments. In addition, Repsol abandoned negotiations over several phases of the South Pars gas field.

Other successes under CISADA include the fact that major energy traders like Russia's Lukoil, India's Reliance, Switzerland's Vitol, Glencore, and Trafigura, Kuwait's Independent Petroleum Group (IPG), Turkey's Tupras, France's Total, and Royal Dutch Shell have stopped sales of refined petroleum products to Iran. Iran has had to redirect production facilities from valuable petrochemical export production in order to manufacture refined petroleum for domestic sale. Furthermore, Reliance, India's largest private refiner, announced in 2010 it would not import Iranian crude.

Investment in Iran's upstream oil and gas sector has dropped dramatically, forcing Iran to abandon liquefied natural gas projects for lack of foreign investment and technical expertise, after Germany's Linde, the only supplier of gas liquefaction technology to Iran, stopped all business with it. South Korea's GS Engineering and Construction cancelled a \$1.2 billion gas processing project in Iran. Outside of Iran, British Petroleum chose to shut down production from a North Sea platform co-owned with the Iranian Oil Company, to ensure compliance with EU sanctions. Trans-Adriatic Pipeline (TAP) partners announced that the pipeline, once constructed, would not be used to transport gas from Iran.

Iran's national airline, Iran Air, is also paying the price for having its aircraft misused for proliferation purposes, and providing services to the IRGC. Most major fuel providers have terminated some or all of their Iran Air contracts, including British Petroleum, Royal Dutch Shell, Total, OMV, and Q8. Iran Air is finding it difficult to find sources to replace these suppliers, not to mention places to land.

Iran is increasingly isolated from the international financial system, as Under Secretary of Treasury Cohen's testimony describes in detail. Virtually all of the

world's first-tier banks have concluded that the Iranian market is not worth the reputational risk posed by deceptive Iranian practices. They understand the consequences of both willfully and inadvertently facilitating an illicit transaction, and have severely curtailed their interactions with Iranian banks. The Administration is looking very closely at further measures that will drive home the message that any bank doing business with banks that do business with terrorists puts its own reputation at risk of international sanction and condemnation.

Iran's shipping is also under international pressure. Large shipping companies such as Hong Kong-based NYK are withdrawing from the Iranian market, and reputable insurers and reinsurers such as Lloyd's of London, no longer insure Iranian shipping. Iran's shipping line IRISL, has been exposed for its complicity in the shipment of goods in violation of Security Council resolutions, as noted by the UN's Iran Sanctions Committee. IRISL has been sanctioned by the United States, the EU, Japan, South Korea, and others. Difficulty in repaying loans and maintaining insurance coverage has led to the detention of at least seven IRISL ships. Major shipbuilding companies are refusing to build ships for IRISL. As a direct result of the international pressure we helped build, IRISL ships have a harder time finding ports of call, particularly in Europe.

Other major companies have voluntarily opted out of the Iranian market,

including automotive firms Daimler (German), Toyota (Japanese), and Kia (South Korea), as well as Germany's ThyssenKrupp. Caterpillar prohibited its non-U.S. subsidiaries from exporting to Iran. Switzerland's ABB Ltd., Ingersoll-Rand Plc, and Huntsman Corp. have ended business with Iran.

The result of our strategy is an Iran that is isolated economically and finding dwindling options for doing business internationally. But, importantly, Iran is facing these problems because of *targeted* sanctions and the voluntary decision by international firms to exit the Iranian market. Our sanctions approach continues to seek to undermine Iran's ability to engage in illicit conduct, with measures against Iran's energy sector removing an invaluable source of funding that Iran could apply to that conduct. In spite of the high price of Iranian crude on world markets, Iran's aggregate economy also seems to be weakening. These effects will increase as sanctions implementation continues to improve, especially if the recent decline in the price of crude oil continues.

These efforts are directed toward achieving our goals of persuading Iran to comply with its international obligations to prove the exclusively peaceful nature of its nuclear program and to engage constructively with the P5+1. On September 21, I participated in a meeting of the P5+1 countries in New York, where we and our partners, including Russia and China, reiterated longstanding and grave

concerns about Iran's installation of centrifuges at the formerly-covert enrichment plant at Qom, about its stepped up production of 20% enriched uranium, and about the possible military dimension of Iran's program (a concern notably shared by the IAEA). We also reconfirmed the dual-track strategy of engagement and pressure. It was a strong and unified statement. It concluded that the P5+1 would be willing to hold another meeting with Iran, but only "if Iran is prepared to engage more seriously in concrete discussions aimed at resolving international concerns about its nuclear program." If, however, Iran simply seeks to buy time to make further progress in its nuclear program, it will face ever-stronger pressures and ever-increasing international isolation.

We will continue to work with Congress as we implement both tracks of the dual-track policy. We believe that, in the short term, further improvements in international implementation, based on our current authorities, offer the best way to increase pressure on Iran. As Congress considers additional authorities, we would like to work with you to ensure that any additional steps we take will strengthen the international consensus and global pressure against Iran's nuclear program. The most effective sanctions are those taken by a large portion of the international community, which requires close coordination with friends and allies, as well as a targeted approach. Convincing them to take action will require us to carefully calibrate our outreach to the individual circumstances of specific

countries and sectors. It will also require flexibility to find creative and proactive tools to convince Iran that it cannot continue to pursue its nuclear ambitions.

Sanctions are doing more than raising the cost of continuing illicit nuclear activity; they are finally shining a spotlight on some of the individuals and entities perpetrating egregious human rights abuses against Iranian citizens. Using CISADA, we have designated 11 individuals and three entities for human rights violations, and we continue to compile more information and evidence that will allow us to identify more murderers, torturers, and religious persecutors. We have taken a firm stand on the Iranian regime's violations of human rights, including the repression of religious minorities as exemplified by the death sentence that might have been imposed on Pastor Youcef Nadarkhani simply for following his own chosen religion had it not been for the immediate condemnation from world leaders, religious groups, and NGOs. At the same time, we are offering capacity-building training programs, media access, and exchanges to help Iranian civil society strengthen their calls for accountability, transparency, and rule of law. The Iranian opposition's desire to operate without financial or other support from the United States is clear. We are committed to using available and effective diplomatic tools to assist those who want our assistance in speaking out and defending fundamental rights and freedoms. The United States will always support the Iranian people's efforts to stop government-sanctioned harassment,

detention, torture, imprisonment, and execution of anyone who dares express ideological, religious, or political differences from the regime's repressive, totalitarian vision.

We engage regularly with like-minded countries to develop shared approaches to increase the pressure for a change in the Iranian government's behavior. In July, the United States and United Kingdom, with the support of Canada, imposed visa restrictions on Iranian government officials and other individuals who were responsible for or participated in human rights abuses, including government ministers, military and law enforcement officers, and judiciary and prison officials. We welcome the European Union's announcement this week of more than two dozen additional travel bans. There is absolutely no cause for allowing petty tyrants to trot around the globe while suffering and repression continues unabated inside Iran. International pressure and condemnation on this point is growing: We worked with Canada to pass a UN General Assembly resolution last year condemning Iran's human rights abuses. This condemnation attracted a larger margin than any similar resolution in the past eight years. It may seem small, but every pro-regime vote we strip away on resolutions like this is one fewer fig leaf for the Iranian regime to hide behind as they murder and torture their own people, and we will continue to press measures large and small at every opportunity.

We were leaders in an effort in the UN Human Rights Council in March to create a Special Rapporteur on Iran, the first country-specific human rights rapporteur since the Council's creation. Special Rapporteur Ahmed Shaheed, a former foreign minister of the Maldives and respected human rights advocate, will serve as an independent and credible voice to highlight human rights violations by the government of Iran. All of these multilateral efforts reinforce our strong domestic actions that prove that Iran's attempts to undermine universal rights and deceive the world only further isolate it from the global community.

In my new role as Under Secretary for Political Affairs, I look forward to working closely and transparently with members of Congress to prevent Iran from acquiring nuclear weapons, curtail its support for terrorism, make it more difficult for Iran to interfere in the region, and deter the regime from committing human rights abuses against its own people.