

Congressional Testimony

Iran's Power Projection Capability

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Chairman DeSantis, Ranking Member Lynch, members of this subcommittee on national security, on behalf of the Foundation for Defense of Democracies and its Center on Sanctions and Illicit Finance, thank you for the opportunity to testify.

I will focus my testimony today on Iran's ability to project power through the financing of its proxies around the Middle East, including terrorist groups, destabilizing insurgencies, and rogue regimes. To be clear, Iran has long maintained these capabilities. Deploying these dangerous forces has been a crucial source of regional power for the Islamic Republic dating back to its founding. More recently, this strategy has figured prominently in Iran's plans for regional hegemony.

The Joint Comprehensive Plan of Action (JCPOA), signed by Iran and six world powers over the summer, will now provide Iran with deeper pockets to pursue this activity. To make matters worse, the agreement will significantly hobble Washington's ability to target Iran's illicit actors with financial sanctions as long as the JCPOA is in place. I will address these issues and conclude with some recommendations.

Iran and the JCPOA

Mr. Chairman, Iran is the number one terrorist-sponsoring country in the world. The U.S. Department of State labeled Iran a State Sponsor of Terrorism in 1984.¹ Three decades later, the designation is still apt. The regime backs a wide range of terrorist groups, including Hamas, Hezbollah, Palestinian Islamic Jihad, the Houthi rebels in Yemen, Shi'ite militias in Iraq, and militants in Afghanistan. Iran also maintains its own terrorism apparatus: the Islamic Revolutionary Guard Corps (IRGC).

In recent years, Iran's ability to support the IRGC and these other terror proxies has diminished somewhat, thanks to the sanctions that the United States and its allies imposed on Iran's illicit financial activities, with a particular focus on Tehran's attempts to build a nuclear weapon. Most of these were not strictly "nuclear sanctions," but rather hybrid sanctions linked to Iran's support for terrorism, proliferation, and human rights violations.

But those sanctions have been eroded in recent years. Even before the JCPOA was inked, pursuant to the interim nuclear agreement known as the Joint Plan of Action, the international community ceded some \$12 billion to Iran in cash transfers.² This does not include other forms of sanctions relief and tens of billions of dollars in indirect economic gains.³ Some of these funds undoubtedly found their way to terrorist groups.

Now, more cash is on the way. Under the sanctions regime, an estimated \$90 to \$120 billion in Iranian oil sales was withheld in semi-restricted accounts in China, India, Japan, South Korea,

¹ State Sponsors of Terrorism," *U.S. Department of State*, accessed April 10, 2015. (<http://www.state.gov/j/ct/list/c14151.htm>)

² Mark Dubowitz & Jonathan Schanzer, "Cheap Oil Won't Stop Iran," *The National Interest*, January 27, 2015. (<http://nationalinterest.org/feature/cheap-oil-wont-stop-iran-12128>)

³ Paul Domjan, Mark Dubowitz, Jennifer Hsieh, & Rachel Ziemba, "Sanctions Relief: What Did Iran Get?" *Foundation for Defense of Democracies & Roubini Global Economics*, July 2014. (<http://www.defenddemocracy.org/content/uploads/general/RoubiniFDDReport.pdf>)

and Turkey.⁴ Now, thanks to the nuclear deal signed this summer, those funds could be remitted directly back to Iran over time.⁵ With this huge windfall, the Islamic Republic's theocratic leaders could have the flexibility to disperse the funds they receive from the nuclear deal as they see fit, and that will almost certainly include funding terrorist groups.

To make matters worse, Iran will soon be able to sell its oil on the open market. Iran is believed to have 30 million barrels of oil in floating storage.⁶ It is likely that Iran, which currently sells one million barrels per day under heavy restrictions, will be able to return to pre-sanctions levels of 2.2 million barrels per day within a year or so.⁷

The math is simple: An extra one million barrels per day at \$50 per barrel is \$50 million per day, or \$18 billion annually, which could flow to terrorists' coffers. And that doesn't include the aforementioned escrowed oil revenues of \$120 billion. Add to that the ability for Iran to access banks around the world according to the terms of the JCPOA, and it will be easier for Iran to bankroll its proxies worldwide.

Iran's Proxies

One obvious beneficiary of Iran's windfall is the Palestinian terrorist group Hamas. In May 2008, for example, *Asharq al-Awsat* reported that Iran was set to provide Hamas with \$150 million. The following year, Egypt's then-intelligence chief Omar Suleiman claimed that Iran provided Hamas with \$25 million per month.⁸ After a political spat over the Syrian civil war and a recent rapprochement, it is currently unclear how much financial support Hamas receives.

Iran also smuggles rockets to Gaza via Sudan. In March 2011, Israeli authorities boarded the *Victoria* and seized numerous Iranian weapons, including anti-ship missiles, destined for Hamas.⁹ During Operation Pillar of Defense in 2012, Hamas fired Iranian-engineered Fajr 5 missiles from Gaza into Israel.¹⁰ More recently, in March 2014, the IDF intercepted a

⁴ Mark Dubowitz, Annie Fixler, & Rachel Ziemba, "Iran's Mysterious Shrinking Reserves: Estimating the Value of Tehran's Foreign Assets," *Foundation for Defense of Democracies & Roubini Global Economics*, September 2015. (http://www.defenddemocracy.org/content/uploads/publications/FDDRoubini_Report_Irans_mysterious_shrinking_reserves.pdf)

⁵ Jennifer Hsieh, Rachel Ziemba, & Mark Dubowitz, "Iran's Economy Will Slow But Continue To Grow Under Cheaper Oil and Current Sanctions," *Roubini Global Economics and Foundation for Defense of Democracies*, February 2015. (www.defenddemocracy.org/media-hit/FDDRoubini-Report_Cheaper-Oil/#sthash.iy9aG2eV.dpuf); Carol E. Lee & Jay Solomon, "U.S. Suggests Compromise on Iran Sanctions," *The Wall Street Journal*, April 17, 2015. (<http://www.wsj.com/articles/u-s-suggests-compromise-on-iran-sanctions-1429308388>)

⁶ Jonathan Saul & Florence Tan, "UPDATE 1- Iran Storing 30 Million Barrels of Oil at Sea," *Reuters*, March 25, 2015. (<http://www.reuters.com/article/2015/03/25/iran-crude-ship-idUSL3N0WR4I520150325>)

⁷ U.S. Energy Information Administration, "Iran," *Country Analysis Briefs*, July 22, 2014. (<http://www.eia.gov/countries/cab.cfm?fips=IR>)

⁸ "Admiral Mullen's Meeting With Egis Chief Soliman," *Wikileaks*, April 30, 2009. (<http://wikileaks.org/cable/2009/04/09CAIRO746.html>)

⁹ "Israel Navy uncovers weaponry on-board cargo vessel," *Israel Ministry of Foreign Affairs*, March 15, 2011. (http://mfa.gov.il/MFA/ForeignPolicy/Terrorism/Palestinian/Pages/Israel_Navy_uncovers_weaponry_cargo_vessel_15-Mar-2011.aspx)

¹⁰ AP and Elhanan Miller, "Iran says it supplied Hamas with long-range missile technology," *The Times of Israel* (Israel), November 21, 2012. (<http://www.timesofisrael.com/iran-says-it-supplied-hamas-with-long-range-missile-technology/>)

Panamanian cargo vessel identified as the *Klos-C* carrying Iranian M-302 rockets and other “advanced weaponry intended for terrorist organizations operating in the Gaza Strip shipped by Iran.”¹¹ During last summer’s war, Hamas fired thousands of Iranian-made rockets into Israel.

Similarly, Iran’s windfall will likely flow to Hezbollah. In 2013, the U.S. Department of State reported that Iran has provided “hundreds of millions of dollars” to the Lebanese terror group.¹² Tehran has armed Hezbollah with light weapons as well as long-range missiles,¹³ including a domestically produced model of a Chinese Silkworm anti-ship cruise missile.¹⁴ As one senior Israeli official told me this summer, Iran has provided Hezbollah with “precision weapons” (the official wouldn’t say more), as well as SA-22 anti-aircraft systems, and Yakhont anti-ship missiles.¹⁵ Iran is also widely believed to have supplied Hezbollah with drones.¹⁶

Sanctions relief is also likely to benefit the Assad regime in Syria. Iran has already provided Assad’s government with huge sums of cash since the uprising began in March 2011. Open source estimates suggest that it could be between \$6 and \$20 billion per year.¹⁷ Iran has also provided expertise and support in “intelligence, communications and...crowd control” to keep Assad in place as rebel forces battle to unseat him.¹⁸ Iranian officials have called Syria the country’s “35th province.”¹⁹ In 2013, Qassem Suleimani, commander of the IRGC’s elite Quds Force, said, “We will defend Syria to the end.”²⁰ Backing up their words with action, the Iranians continue to send vast quantities of military support to their Syrian ally,²¹ and IRGC forces have been on the battlefield in Syria since 2012.²²

The Iranians are also likely to increase their support for the rebel Houthi movement that is currently wreaking havoc in Yemen. Multiple reports suggest that Iran has been sending the

¹¹ David Barnett, “Israeli Navy Intercepts Iranian Weapons Shipment Headed For Gaza,” *The Long War Journal*, March 5, 2014. (http://www.longwarjournal.org/archives/2014/03/israeli_navy_interce.php)

¹² “Country Report on Terrorism 2013,” *U.S. Department of State*, April 30, 2014. (<http://www.state.gov/j/ct/rls/crt/2013/224826.htm>)

¹³ “Iran Said to Give Hezbollah Missiles That ‘Can Reach Dimona’,” *The Times of Israel* (Israel), November 22, 2014. (<http://www.timesofisrael.com/hezbollah-has-iranian-made-missiles-that-can-reach-dimona/>)

¹⁴ Mark Mazetti & Thom Shanker, “Arming of Hezbollah Reveals U.S. and Israeli Blind Spots,” *The New York Times*, July 19, 2006. (http://www.nytimes.com/2006/07/19/world/middleeast/19missile.html?_r=0)

¹⁵ Interview with senior Israeli official, Jerusalem, July 1, 2015.

¹⁶ Milton Hoenig, “Hezbollah and the Use of Drones as a Weapon of Terrorism,” *Public Interest Report*, Spring 2014, page 1. (<http://fas.org/wp-content/uploads/2014/06/Hezbollah-Drones-Spring-2014.pdf>)

¹⁷ <http://www.bloombergvew.com/articles/2015-06-09/iran-spends-billions-to-prop-up-assad>

¹⁸ Tim Lister, “What Does Iran Get for Supporting al-Assad?” *CNN*, August 13, 2012. (<http://www.cnn.com/2012/08/08/world/syria-iran-analysis/>)

¹⁹ Will Fulton, Joseph Holliday, & Sam Wyer, “Iranian Strategy in Syria,” *AEI’s Critical Threats Project & Institute for the Study of War*, May 2013. (<http://www.understandingwar.org/sites/default/files/IranianStrategyinSyria-1MAY.pdf>)

²⁰ Behnam Ben Taleblu, “Iran’s Levantine Strategy,” *Threat Matrix*, May 24, 2014. (http://www.longwarjournal.org/archives/2014/05/irans_levantine_strategy.php)

²¹ “Iran Increases Military Support to Syria’s Assad, Diplomats Say,” *Haaretz* (Israel), March 14, 2013. (<http://www.haaretz.com/news/middle-east/iran-increases-military-support-to-syria-s-assad-diplomats-say-1.509295>); United Nations Security Council, “Final Report of the Panel of Experts Established Pursuant to Resolution 1929 (2010),” June 12, 2012, page 26. (http://www.securitycouncilreport.org/atf/cf/%7B65BFCF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/s_2012_395.pdf)

²² Ian Black, “Iran Confirms it Has Forces in Syria and Will Take Military Action if Pushed,” *The Guardian* (U.K.), September 16, 2012. (<http://www.theguardian.com/world/2012/sep/16/iran-middleeast>)

Houthi weapons since 2009.²³ Earlier this year, an Iranian ship reportedly unloaded more than 180 tons of weapons and military equipment at a Houthi-controlled port in western Yemen.²⁴ Iran also appears to be utilizing Pouya Air—an airline designated by the U.S. for weapons shipments to Syria—to send arms to the Houthis.²⁵

Tehran has also provided financial support to the Houthi movement. In 2012, U.S. officials noted that Iran was sending cash to Yemen to back the rebels.²⁶ And in December 2014, a Yemeni official warned that “sacks of cash” from Tehran were arriving at Sana’a International Airport, some of which was channeled via Hezbollah.²⁷

The estimated \$120 billion in sanctions relief that Iran is set to receive, not to mention the aforementioned boost in oil sales and other JCPOA benefits, will almost certainly mean an increase in these activities.

Iran’s Supreme Leader Cashes In

The sanctions relief will further benefit Supreme Leader Ali Khamenei’s financial empire—a “shadowy network of off-the-books front companies,” according to the U.S. Treasury.²⁸ This empire, known as the Execution of Imam Khomeini’s Order (EIKO), or Setad, is reportedly worth \$95 billion.²⁹

As *Reuters* reported in 2013, the value of EIKO’s real estate portfolio totals nearly \$52 billion and its stakes in publicly traded companies total nearly \$3.4 billion.³⁰ And as my colleagues

²³ “Yemen Seizes Weapons Vessel With Iranian Crew,” *Al Arabiya* (Saudi Arabia), October 26, 2009. (<http://www.alarabiya.net/articles/2009/10/26/89328.html>); Barbara Starr, “Weapons Seized Off Yemen Point to Iran, U.S. Official Says,” *CNN*, January 29, 2013. (<http://www.cnn.com/2013/01/29/world/meast/yemen-weapons-seized/>); Yara Bayoumy & Mohammed Ghobari, “Iranian Support Seen Crucial for Yemen’s Houthis,” *Reuters*, December 15, 2014. (<http://www.reuters.com/article/2014/12/15/us-yemen-houthis-iran-insight-idUSKBN0JT17A20141215>); Phil Stewart, “Large Arms Shipment Intercepted Off Yemen, Iran Eyed As Source,” *Reuters*, January 28, 2013. (<http://www.reuters.com/article/2013/01/29/us-yemen-weapons-iran-idUSBRE90S01B20130129>)

²⁴ “Iranian Ship Unloads 185 Tons of Weapons for Houthis at Saleef Port,” *Al Arabiya* (Saudi Arabia), March 20, 2015. (<http://english.alarabiya.net/en/News/middle-east/2015/03/20/Iranian-ship-unloads-185-tons-of-weapons-for-Houthis-at-Saleef-port.html>)

²⁵ Roni Daniel, “התמונות חושפות את הטריק האירני,” *Mako* (Israel), March 31, 2015. (http://mobile.mako.co.il/news-world/arab-q1_2015/Article-2e8f4352aa07c41004.htm); Oren Adaki, “Nonstop: Tehran to Sana’a,” *Qualitative Military Edge*, April 3, 2015. (<http://militaryedge.org/analysis-articles/nonstop-tehran-sanaa/>)

²⁶ Eric Schmitt & Robert F. Worth, “With Arms for Yemen Rebels, Iran Seeks Wider Mideast Role,” *The New York Times*, March 15, 2012. (<http://www.nytimes.com/2012/03/15/world/middleeast/aiding-yemen-rebels-iran-seeks-wider-mideast-role.html?pagewanted=all& r=0>)

²⁷ Yara Bayoumy & Mohammed Ghobari, “Iranian Support Seen Crucial for Yemen’s Houthis,” *Reuters*, December 15, 2014. (<http://www.reuters.com/article/2014/12/15/us-yemen-houthis-iran-insight-idUSKBN0JT17A20141215>)

²⁸ Department of the Treasury, Press Release, “Treasury Targets Assets of Iranian Leadership,” June 4, 2013. (<http://www.treasury.gov/press-center/press-releases/Pages/j11968.aspx>)

²⁹ Steve Stecklow, Babak Dehghanpisheh & Yeganeh Torbati, “Khamenei Controls Massive Financial Empire Built on Property Seizures,” *Reuters*, November 11, 2013. (<http://www.reuters.com/investigates/iran/#article/part1>)

³⁰ *Ibid.*

Emanuele Ottolenghi and Saeed Ghasseminejad noted earlier this year, Khamenei controls more than five percent of publicly traded companies on Tehran's Stock Exchange.³¹

According to the U.S. Treasury, EIKO's investment arm, Rey Investment Company, is worth \$40 billion.³² EIKO's Tadbir Group controls *inter alia* Parsian Bank and Karafarin Bank, which are valued at \$900 and \$830 million respectively.³³

EIKO and its subsidiaries will be de-listed by both the EU and the U.S. on Implementation Day (in about 4-6 months). With more unrestricted cash in his accounts, the Supreme Leader will have a free hand to finance his proxies across the region, notably the ones mentioned above, but also the hardline forces that both keep him in power and wreak havoc around the region.

The Islamic Revolutionary Guard Corps

The IRGC, which is the Iranian regime's Praetorian Guard, is likely to benefit the most from the JCPOA. Through the Quds Force, the IRGC directs Iran's external regional aggression, which includes its support for terrorism and rogue states. The IRGC has also been at the forefront of Iran's nuclear and ballistic missile programs. Domestically, the IRGC's Basij paramilitary force is the blunt instrument enforcing Iran's vast system of domestic repression.

The Guards control an estimated one-third of the Iranian economy.³⁴ This includes vast holdings in the banking, energy, construction, engineering, industrial, mining, shipping, shipbuilding, and other sectors.³⁵ Practically speaking, this means that any foreign firms lining up to do business in Iran will almost certainly work with an IRGC partner. It also means that even the funds that Iran invests in its own infrastructure will ultimately trickle down to Iran's hardliners.

Pursuant to the JCPOA, the EU will lift sanctions against the IRGC's construction arm, Khatam al-Anbiya, in eight years. KAA was designated by the United States as a proliferator of weapons of mass destruction.³⁶ In eight years, the Europeans will also de-list the IRGC Cooperative Foundation (a.k.a. Bonyad Taavon Sepah), the IRGC investment arm, which was also designated by the U.S. Treasury as a proliferator of weapons of mass destruction.³⁷

³¹ Emanuele Ottolenghi & Saeed Ghasseminejad, "Who Really Controls Iran's Economy," *The National Interest*, May 20, 2015. (<http://nationalinterest.org/feature/who-really-controls-irans-economy-12925>)

³² U.S. Department of the Treasury, Press Release, "Treasury Targets Assets of Iranian Leadership," June 4, 2013. (<http://www.treasury.gov/press-center/press-releases/Pages/jl1968.aspx>)

³³ Emanuele Ottolenghi & Saeed Ghasseminejad, "The Bank of Ayatollah," *National Post* (Canada), December 18, 2013. (<http://news.nationalpost.com/full-comment/ottolenghi-ghasseminejad-the-bank-of-ayatollah>) The net worth of Parsian Bank and Karafarin Bank is calculated from the Tehran Stock Exchange.

³⁴ Mark Gregory, "Expanding Business Empire of Iran's Revolutionary Guards," *BBC News* (U.K.), July 26, 2010. (<http://www.bbc.com/news/world-middle-east-10743580>)

³⁵ Parisa Hafezi & Louis Charbonneau, "Iranian Nuclear Deal Set to Make Hardline Revolutionary Guards Richer," *Reuters*, July 6, 2015. (<http://www.reuters.com/article/2015/07/06/us-iran-nuclear-economy-insight-idUSKCN0PG1XV20150706>)

³⁶ Department of State, Office of the Spokesman, "Fact Sheet: Designation of Iranian Entities and Individuals for Proliferation Activities and Support for Terrorism," October 25, 2007. (<http://2001-2009.state.gov/r/pa/prs/ps/2007/oct/94193.htm>)

³⁷ Department of the Treasury, Press Release, "Fact Sheet: Treasury Designates Iranian Entities Tied to the IRGC and IRISL," December 21, 2010. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1010.aspx>)

Ansar Bank and Mehr Bank, both designated by Treasury for providing financial services to the IRGC,³⁸ will also be de-listed by the EU.

But it's not only Europe that is enabling the IRGC. The terms of the JCPOA stipulate that the United States and the EU are jointly set to de-list four IRGC-linked banks: Arian Bank, Bank Kargoshaee, Bank Mellī, and Future Bank. This will give the IRGC renewed access to the U.S.-led international financial system, which will make it far easier to finance terrorism and to foment unrest across the Middle East.

SWIFT

Perhaps the most disconcerting American concession is that the Central Bank of Iran will be permitted back onto the SWIFT financial messaging system. SWIFT is the electronic bloodstream of the global financial system. The member-owned cooperative includes the world's most powerful financial institutions, enabling nearly 11,000 companies worldwide to communicate securely.³⁹

In March 2012, SWIFT cut off 15 major Iranian banks.⁴⁰ The move came after the financial messaging juggernaut came under significant pressure from the United States Congress.⁴¹ It was a substantial blow to Tehran. SWIFT was how Iran sold oil and how it moved money. Iranian banks used SWIFT more than 2 million times in 2010.⁴² This, according to one report, amounted to \$35 billion in trade with Europe alone.⁴³

The move unquestionably hindered Iran's ability to move money worldwide, forcing the Islamic Republic to transact through more informal channels. The financial pressure was also one of the primary factors that convinced Iran to negotiate with the West over its illicit nuclear program.

We will now lose that leverage. The JCPOA calls for the collapse of SWIFT sanctions. It explicitly calls for the "[s]upply of specialized financial messaging services, including SWIFT, for persons and entities...including the Central Bank of Iran and Iranian financial institutions."⁴⁴ This, perhaps more than any of the other troubling aspects of the JCPOA mentioned above, will allow Iran to move funds around the world to finance its terrorist proxies.

³⁸ Department of the Treasury, Press Release, "Fact Sheet: Treasury Designates Iranian Entities Tied to the IRGC and IRISL," December 21, 2010. (<http://www.treasury.gov/press-center/press-releases/Pages/tg1010.aspx>)

³⁹ "Company Information," *SWIFT Website*,

(http://www.swift.com/about_swift/company_information/company_information?rdct=t&lang=en)

⁴⁰ SWIFT, Press Release, "SWIFT Instructed to Disconnect Sanctioned Iranian Banks Following EU Council Decision," March 15, 2012. (http://www.swift.com/news/press_releases/SWIFT_disconnect_Iranian_banks)

⁴¹ Senator Robert Menendez, Press Release, "Menendez Hails Banking Committee Passage of Iran Sanctions Legislation," February 2, 2012. (<http://www.menendez.senate.gov/newsroom/press/menendez-hails-banking-committee-passage-of-iran-sanctions-legislation>)

⁴² "Annual Review 2010," *SWIFT Website*, p. 29.

http://www.swift.com/about_swift/publications/annual_reports/annual_review_2010/SWIFT_AR2010.pdf

⁴³ "Swift Sanctions on Iran," *The Wall Street Journal*, February 1, 2012.

(<http://online.wsj.com/news/articles/SB10001424052970203718504577178902535754464>)

⁴⁴ "Joint Comprehensive Plan of Action," Vienna, July 14, 2015, paragraph 19(iv). (http://eeas.europa.eu/statements-eeas/docs/iran_agreement/iran_joint-comprehensive-plan-of-action_en.pdf)

Treasury's Mission

Mr. Chairman, it was a little more than a year ago when *The New York Times*' David Sanger wrote about the U.S. Treasury's financial sanctions team as President Obama's "favorite noncombatant command."⁴⁵ The moniker was well deserved. Treasury's Office of Terrorism and Financial Intelligence (TFI) played a crucial role, along with Congress, in building a powerful yet delicate sanctions architecture that was designed to punish Iran for its nuclear mendacity, its illicit ballistic missile development, its vast financial support for terrorist groups, its human rights abuses, and its backing of other rogue states, like Bashar Assad's Syria.

As the sanctions regime evolved and grew more complex, one thing never changed: Treasury consistently leveraged the power of the U.S. financial sector and the U.S. dollar—the dominant reserve and trading currency. Countries that didn't comply with U.S. sanctions could find their financial institutions heavily penalized, or even cut off from the U.S. financial system.

Treasury's mandate was clear. It was not just to provide the president with the tools to hinder Iran's nuclear program. It was to protect the integrity of the U.S.-led global financial sector from Iran's financial criminals and the recipients of their illicit transactions.

Tranche after tranche of designations issued by the Treasury, backed by intelligence that often took months if not years to compile, barred Iran's worst financial criminals from accessing the U.S.-led global financial system. And designations were only the tip of the iceberg. Treasury officials traveled the globe to meet with financial leaders and business executives to warn them away from transacting with known and suspected terrorists and proliferators.⁴⁶ The goal was to do so quietly and discreetly, instead of meting out public punishments. This campaign was crucial to isolating Iran as a means to deter its nuclear ambitions.

But none of that would have worked without the very public financial finding that accompanied it. In 2011, Treasury invoked Section 311 of the USA PATRIOT Act and designated all of Iran as a "jurisdiction of primary money laundering concern." Treasury cited Iran's "support for terrorism," "pursuit of weapons of mass destruction," and "deceptive financial practices" as reasons for the action.⁴⁷ It specifically targeted Iran's central bank and made it clear that the entire country's financial system posed "illicit finance risks for the global financial system."⁴⁸

The 311 on Iran is still technically in place. However, if it is not vigorously enforced, it could be rendered virtually meaningless. The terms of the JCPOA shackle Treasury's ability to do its job,

⁴⁵ David Sanger, "Global Crises Put Obama's Strategy of Caution to the Test," *The New York Times*, March 16, 2014. (http://www.nytimes.com/2014/03/17/world/obamas-policy-is-put-to-the-test-as-crises-challenge-caution.html?smid=tw-share&_r=0)

⁴⁶ Robin Wright, "Stuart Levey's War," *The New York Times*, November 2, 2008. (http://www.nytimes.com/2008/11/02/magazine/02IRAN-t.html?pagewanted=all&_r=0)

⁴⁷ U.S. Department of the Treasury, Press Release, "Finding that the Islamic Republic of Iran is a Jurisdiction of Primary Money Laundering Concern," November 18, 2011. (<http://www.treasury.gov/press-center/press-releases/Documents/Iran311Finding.pdf>)

⁴⁸ David S. Cohen, "The Entire Iranian Banking Sector," *U.S. Department of the Treasury*, November 22, 2011 (<http://www.treasury.gov/connect/blog/Pages/The-Entire-Iranian-Banking-Sector.aspx>)

raising troubling questions about the future of its mission. With Iran's central bank plugged back into SWIFT, along with fourteen other previously designated Iranian banks, and Iran cashing in on oil sales around the globe, it's unclear how Treasury plans to hinder Iran's illicit financial activities. And that's before we address the issue of the \$120 billion in previously frozen funds that will now be used at the discretion of Iran's theocratic rulers.

Moreover, while the European Union was once a crucial partner in combatting Iran's illicit financial activity, the JCPOA has paved the way for the Europeans to wipe away all of their economic sanctions, turning Europe into an economic free zone for the IRGC. If and when Iran violates the terms of the JCPOA, it will require a Herculean effort on the part of Treasury to convince European financial institutions, let alone European governments, to engage in sanctions against Iran again. After all, many European stakeholders viewed sanctions in recent years as one large compliance headache and the sanctions themselves as little more than a roadblock to business in Iran.

Finally, it's worth noting that the banks, businesses, and persons set to be delisted under the JCPOA don't deserve to be readmitted back into the U.S.-led financial system. Iran has provided no evidence to suggest that they have ceased engaging in these illicit activities. And once they are delisted, the JCPOA forbids them from being re-listed, even if they commit new financial crimes. The Obama administration simply determined that this was a fair trade if it meant that Iran would sign the nuclear deal. In other words, the principles upon which TFI was founded have been traded to secure the president a diplomatic victory, and it's doubtful this will be a lasting one.

For Treasury's mission to be taken seriously, it must now be able to resume its campaign against Iranian financial crimes and to punish Iran for major violations of the nuclear deal as well as incremental cheating. How it will do this given the constraints of the JCPOA is entirely unclear.

Recommendations

Mr. Chairman, the road ahead will be challenging, but I offer a handful of concrete steps that can be taken to step up the fight against terrorist financing.

1. **Treasury needs to affirm its new mission.** Congress should request a roadmap from Treasury's Office of Terrorism and Financial Intelligence. Its ability to carry out its mission has been severely compromised. The JCPOA severely limits the way that it can target the world's most prolific state sponsor of terrorism. Treasury must now articulate how it plans to continue to be an effective noncombatant command under these circumstances.
2. **Change the way Treasury designates.** Currently, Treasury targets illicit financial actors by designating them pursuant to one executive order, such as terrorism, human rights violations, or proliferation, to name a few. But in the case of Iran, illicit actors are often guilty of many financial crimes. Congress should demand that Treasury designate entities under multiple executive orders simultaneously. This would make them more difficult to delist. Indeed, had many of the Iranian entities designated under our proliferation executive order (13382) also

been designated under our terrorism executive order (13224), they may not have been expunged.

3. **Enforce what we have left.** Congressional oversight over what relevant sanctions architecture remains after the JCPOA is crucial to stemming the flow of Iranian illicit finance. The rigorous enforcement of existing executive orders, and the creation of new ones when appropriate, will be vital to curbing Iranian support for terrorism. This includes sanctions on Hamas, Hezbollah, Palestinian Islamic Jihad, Kata'ib Hezbollah, the Assad regime, the Houthis, and more.⁴⁹ These measures should also include malevolent Iranian activity in other parts of the world that receive less attention, such as Latin America and Africa.
4. **Enforce and expand designations of IRGC-affiliated entities.** Congress should direct Treasury to designate the IRGC in its entirety under Executive Order 13224 for its role in directing and supporting international terrorism. It is currently designated for proliferation and human rights purposes, while only the Quds Force is designated under Executive Order 13224. Congress should work with White House to enhance terrorism sanctions, particularly focused on the IRGC and Quds Force.
5. **Lower the threshold for IRGC designations.** As my colleague Emanuele Ottolenghi noted in recent congressional testimony, Congress should consider lowering the threshold for what is considered an IRGC-linked company.⁵⁰ The Financial Action Task Force suggests that the threshold should be 25 percent,⁵¹ controlled, and that could include both members of the board and stakeholders. The goal should simply be to block the IRGC from the U.S.-led formal financial sector. Congress could also consider creating an "IRGC Watch List" while requiring additional reporting on the IRGC.

Mr. Chairman, Iran's power projection through the financing of terrorism is a crucial issue in the wake of the JCPOA. If I have missed anything you wish to discuss, I am happy to answer your questions.

On behalf of the Foundation for Defense of Democracies and its Center on Sanctions and Illicit Finance, I thank you again for inviting me here today.

⁴⁹ Jonathan Schanzer, "How to Keep the Financial Pressure on Iran and Its Proxies," *The Huffington Post*, April 13, 2015. (http://www.huffingtonpost.com/jonathan-schanzer/how-to-keep-the-financial-pressure-on-iran-and-its-proxies_b_7034218.html)

⁵⁰ Emanuele Ottolenghi, "The Iran Nuclear Deal and its Impact on Iran's Islamic Revolutionary Guards Corps," *House Committee on Foreign Affairs Middle East and North Africa Subcommittee*, September 17, 2015. (http://www.defenddemocracy.org/content/uploads/documents/Ottolenghi_HFAC_IranDeal_IRGC.pdf)

⁵¹ "Methodology For Assessing Technical Compliance With the FATF Recommendations And the Effectiveness of AML/CFT Systems," Financial Action Task Force, February 2013, p.43. (<http://www.fatf-gafi.org/media/fatf/documents/methodology/FATF%20Methodology%202022%20Feb%202013.pdf>)

Committee on Oversight and Government Reform
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Name: Jonathan Schanzer

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2012. Include the source and amount of each grant or contract.

N/A

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

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N/A

I certify that the above information is true and correct.

Signature:



Date: 11/3/2015

Jonathan Schanzer

Vice President for Research
Foundation for Defense of Democracies



Jonathan Schanzer is vice president of research for the Foundation for Defense of Democracies and the author of the book *State of Failure: Yasser Arafat, Mahmoud Abbas and the Unmaking of the Palestinian State*. His previous book, *Hamas vs. Fatah: The Struggle for Palestine*, is still the only book on the market that chronicles the Palestinian internecine conflict.

Previously, Dr. Schanzer served as a counterterrorism analyst at the U.S. Department of the Treasury, where he took part in the designation of numerous terrorism financiers.

Dr. Schanzer got his start in the policy world as a research fellow at the Middle East Forum, a Philadelphia-based think tank. He also worked as a research fellow at the Washington Institute for Near East Policy, where he authored the book *Al-Qaeda's Armies: Middle East Affiliate Groups and the Next Generation of Terror*.

Dr. Schanzer holds a BA from Emory University, a masters degree from the Hebrew University of Jerusalem, and a doctorate from Kings College London. He also studied Arabic at the American University in Cairo in 2001.

Dr. Schanzer publishes widely in the national press, has testified previously before Congress, and makes frequent appearances on television. He has traveled widely in Iraq, Yemen, Egypt, Morocco, Kuwait, Qatar, Turkey, Jordan, Israel, and the Palestinian Territories. Dr. Schanzer speaks Arabic and Hebrew.



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