

**CENTER FOR  
STRATEGIC AND INTERNATIONAL STUDIES (CSIS)**

**CAN SANCTIONS ON IRAN CREATE THE LEVERAGE WE NEED?**

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JUAN CARLOS ZARATE: Welcome, everyone, to the Center for Strategic and International Studies. My name is Juan Zarate. I'm a senior adviser here at CSIS. It's an honor for me to welcome you all on behalf of Dr. Hamre and CSIS, especially on such a beautiful fall day here in Washington.

I'm privileged and quite pleased, actually, to welcome a close friend and former colleague, Undersecretary of the Treasury Stuart Levey. Stuart's address today, I think, is timely after what I would call a summer of sanctions. And as we debate deeply the challenges of Iran and the tools that we have to effect Iran's nuclear calculus.

Stuart Levey has been the undersecretary of the Treasury for terrorism and financial intelligence since July, 2004. It's a tribute to Stuart and his work and his value to U.S. government that the Obama administration and Secretary Geithner asked him to stay on in this capacity, the same capacity he served for the Bush administration.

In this role, Stuart has been a trailblazer, overseeing Treasury's regulatory sanctions, enforcement and intelligence functions, putting him at the center of most of the major national security challenges for the U.S. government from terrorism to proliferation to sanctions on rogue states like Iran and North Korea.

Before this, Stuart served at the Department of Justice in various capacities, his last role serving as the principal associate deputy attorney general, where he was the principal staff member for the deputy attorney general on all things counterterrorism at a critical time in our history.

Before that, Stuart was a partner in a Washington law firm for 11 years and an alumni of the corps of distinguished clerks for Judge Silverman. And he's also what we call a two-time offender, having graduated from both Harvard College and Harvard Law School, not a bad club to be a part of.

We're privileged, I think, to have Stuart here today. He is not only a dedicated public servant, one whose value was apparent to the prior administration and the current administration, but somebody whose words, deeds and even travel are marked by our friends and our foes alike because of the impact of his work.

More importantly to me, personally, he's a true gentleman and I count him as a very close friend. And so I'm honored to host him here today. The order of the business today is that we will hear from Stuart. His remarks will be posted immediately on [www.csis.org](http://www.csis.org). We'll then move into a Q&A session which I will moderate. I'll hold the prerogative, so I may ask a question or two. With that, I'd like to welcome Undersecretary Stuart Levey. (Applause.)

STUART LEVEY: Thank you for the introduction, Juan, and thank you all for coming. It's an honor and a privilege to be here at CSIS, one of our nation's preeminent foreign policy institutions. This is my first visit here, but if I had known that I would get that type of introduction, I might have come sooner and I'll certainly come back again.

I do want to offer a special thanks to my friend, Juan Zarate, for organizing today's event. When Juan served at the National Security Council and was running our counterterrorism operations there, his innovative thinking and exceptional leadership were a driving force behind many of our government's critical national security strategies.

But before that, he was at the Treasury Department as our first assistant secretary for terrorist financing and financial crimes and in that role, was my partner in 2004, when we created the new organization, the Office of Terrorism and Financial Intelligence.

And I think it's fair to say, in fact, that Juan was, perhaps, the visionary behind the creation of that office. And if there's truth in what Juan had to say, it's largely because he taught me so much when I was there.

I'm here today to address a skepticism that both Juan and I did encounter when we were – when Juan was at the Treasury Department back in 2004 and 2005. And that is that foreign public policy professionals often question the effectiveness of sanctions. And there are plenty of historical examples to buttress their skepticism.

What I'd explain today is that how sanctions indeed be effective, by which I mean that they can create leverage for our foreign policy goals if they're designed and executed properly. And I'd like to lay out how that is precisely what is happening in the context of Iran.

This audience is already well-versed in the history of U.S.-Iran relations and the challenges we continue to face in trying to prevent Iran from developing nuclear weapons and from supporting terrorism. As we all know, Iran has failed to respond meaningfully to the offers of engagement by the United States and the international community and has continued to defy multiple U.N. Security Council resolutions.

While the offer of engagement still stands, the United States and the international community have therefore been forced to impose additional consequences on Iran. The objective of that pressure is to sharpen the choice for Iran's leaders between integration with the international community, predicated on fulfilling their international obligations, and the hardship of further isolation.

When this administration embarked on the policy of engagement, we also recognized that Iran might well pursue the course that it has indeed pursued. And as it became clear that Iran was pursuing a path of defiance, we formulated our plan to pressure Iran. This involved developing a set of measures designed to create a dynamic that would isolate Iran – and especially its leadership and the institutions it controls – from the international financial and commercial systems.

As Secretary Clinton said earlier this month, sanctions and pressure are not ends in themselves. They are the building blocks of leverage. And by dramatically isolating Iran financially and commercially and by capitalizing on Iran's existing vulnerabilities, we can impact Iran's calculations. The strategy we have developed and are now implementing can and will create leverage for our diplomacy.

There are three principal reasons why this is working. First, because the strategy we designed targets Iran's illicit conduct and the entities responsible for it, we have been able to attract the committed participation of the private sector around the world and also to build a broader coalition of governments than would otherwise have been possible.

Second, this broader coalition now has the tools it needs to impose more pressure on Iran, especially U.N. Security Council Resolution 1929 and the new comprehensive Iran sanctions act. And the Administration worked diligently with our allies and partners during the negotiation of Security Council Resolution 1929 to ensure that strong measures were taken to implement the resolution by countries around the world.

And third, this all comes at a time when Iran is particularly vulnerable. It's vulnerable because of its government's economic mismanagement and because of its narrow political flexibility.

And it's not just my prediction that this strategy can have significant impact; it's already begun to do so. The measures the U.S. and others are implementing are imposing serious costs and constraints on Iran. We believe that Iran's leadership was caught off guard by the speed, intensity and scope of the new measures, misjudging the strength of the international community's will.

The contrast between Iran's situation in 2005 and today is stark. Prior to Treasury's first action against an Iranian state-owned bank back in 2006, Iran had access to financial services from the world's most prestigious and largest financial institutions, allowing it to conduct business in all corners of the globe. Today, Iran is effectively unable to access financial services from reputable banks and is increasingly unable to conduct major transactions in dollars or in euros.

This trend is no longer limited to the financial sector. Almost daily, we receive reports of major firms around the world deciding to pull out of business dealings with Iran. Over the last several months alone, dozens of companies have announced publicly that they have curtailed or eliminated their business ties to Iran, including companies such as Toyota, Kia, Lukoil, Allianz, Lloyds, Royal Dutch Shell and many, many others.

Iran is increasingly unable to secure needed foreign investment, financing and technology to modernize its aging energy infrastructure, thereby threatening its oil and gas production and export capacity. Because of new sanctions legislation from Congress, Iran is having great difficulty importing refined petroleum. And Iran's shipping industry, a major conduit for its international trade, has found that international insurance companies are refusing to cover its ships and shipments.

Iran is now struggling to mitigate the effects of sanctions. Its leaders are turning increasingly to the Islamic Revolutionary Guard Corps, IRGC, Iran's military vanguard that has long been involved in Iran's terrorism and missile programs. They're turning it to prop up the economy. This is likely to exacerbate Iran's isolation, as companies around the world are beginning to shun all business with the IRGC.

Perhaps most important of all, we are already receiving reports that the regime is quite worried about the impact of these measures, especially on their banking system and on the prospects for economic growth. And as pressure increases, so has internal criticism of Ahmadinejad and others for failing to prepare adequately for international sanctions and for underestimating their effect.

Even at this early stage, as pressure is mounting, the strategy is beginning to give us the leverage we seek. Thus, it is already working. So I'd like to tell you a little bit about how we designed the particular sanctions strategy that we're following.

As we planned our strategy to pressure Iran, we decided to use conduct-based financial measures to target illicit actors because this has proven to be a better way to build a broad government and private-sector coalition than trade embargoes that target an entire country.

When we target specific bad actors, those that support terrorism or facilitate WMD proliferation, for example, other governments are more inclined to take complementary action. It is difficult for any government, whether a close ally of the United States or not, to oppose such actions, since the reputation of their financial sectors often depends on such cooperation against illicit activity.

Even more significant, the private sector has great incentive to participate. They often act beyond their strict legal requirements in order to avoid a target's illicit conduct. Even though designations by Treasury Department's Office of Foreign Assets Controls legally apply only to assets and transactions under U.S. jurisdiction, we have found over the years that many banks and businesses around the world cut off dealings with designated targets, giving our unilateral action multilateral effect.

And that effect is self-perpetuating. As more banks cut off these targets, the reputational risk increases for those that have not and so many of those follow suit, creating a ripple effect that amplifies the effect of sanctions. And then once the private sector cuts off those targets, governments often find it easier to do the same.

The result is a mutually reinforcing cycle of government and private-sector action that isolates the bad actors from the legitimate financial system. This puts tremendous pressure on our targets and at the same time, promotes the integrity of the international financial system.

As is apparent from that description, banks are at the heart of our sanctions strategy and this is for two reasons. First, they are the lifeline of international commerce. Without access to financial services, it becomes difficult to conduct commercial transactions, especially on a scale

that a country like Iran needs. Therefore, by getting banks to cut off an illicit actor, that individual or entity's access to the rest of the commercial sector is affected.

And second, financial institutions have regulatory obligations and a cultural commitment to maintaining the integrity of the financial system with established concepts such as due diligence and knowing their customers and understanding the nature of their transactions. While not all banks have unblemished records in this regard, they do all ascribe to that credo.

And since Treasury has responsibility for overseeing the integrity of the financial system, we have been able to develop a dialogue with financial institutions all over the world about the particular threats they face. Banks are eager to receive the type of information about illicit conduct that Treasury is able to provide and to engage with us about mitigating that risk. We are therefore able to make the private-sector portion of the strategy work.

Prior experience with Iran also taught us to expect that Iran would engage in deceptive and dishonest conduct to get around whatever sanctions we imposed. We therefore sought to create a sanctions program that makes evasion work to our advantage.

It has been a common practice, for example, for Iranian banks and companies to conceal their involvement in transactions by removing or stripping their names from transactional documents. Non-sanctioned Iranian banks have also stepped in to further disguise the role of sanctioned Iranian banks.

This was the case, for example, with Iran's Post Bank. Post Bank conducted transactions for Bank Sepah, which previously had been designated by both the United Nations and the United States. Bank Sepah would set up the transactions and then Post Bank would substitute itself in for Bank Sepah and carry out the transactions in a way that banks would not know that Bank Sepah was involved. As a result, the United States designated Bank Sepah – excuse me – the United States designated Post Bank for helping Bank Sepah evade sanctions.

And Iran's deception is not limited to its banks. In the shipping industry, for example, Iran's national maritime carrier, IRISL, which we designated for proliferation in 2008, has employed front companies, renamed and repainted ships and changed the nominal ownership of vessels, all to hide their connection to IRISL. This catalogue of deception by IRISL has now been exposed. To date, we have designated 28 IRISL front companies and identified more than 100 ships as being the property of IRISL and its fronts.

And the more we have exposed Iran's evasion and deceptive practices and the more we have taken enforcement action against those that have cooperated with Iran in those practices, including several major European banks that cooperated with Iran in stripping transactions, the more we've done that, the more the private sector has become wary of conducting business with any Iranian entity or those acting on Iran's behalf.

Because many in the private sector are unable to distinguish between Iran's legitimate and illegitimate transactions, they have opted to cut off Iran entirely. In this way, Iran's own evasion and deceptive conduct is further increasing its isolation.

Beyond the design of our strategy, the second factor working in our favor is that more countries around the world are willing to take strong actions and there are now better tools available for them to do so. The most important development, of course, is U.N. Security Council Resolution 1929.

Building on three previous sanctions resolutions, Resolution 1929 contains a range of strong provisions. Among the strongest are the resolution's financial provisions, which call upon member states to prevent all financial services, which includes banking, insurance and reinsurance if there are reasonable grounds to believe that such services could – I underscore could – contribute to Iran's nuclear or missile programs.

The language of these provisions provides a legal basis for countries to take very strong measures. And given the strong public record regarding Iran's illicit and deceptive activities, the operating presumption should be that virtually all transactions or financial services involving Iran could contribute to its nuclear or missile programs. We pushed hard for these provisions because they feed directly into the broader strategy that I outlined before.

We also worked extensively with our allies both before and after the negotiation of 1929 to set up follow-on actions that robustly implement the Resolution. What we have seen so far is exactly that. The sanctions imposed by the EU, for example, include considerable restrictions on Iran's energy, financial, insurance, trade and transportation sectors.

The financial measures adopted by the EU are particularly forceful. Transactions of more than 40,000 euros generally cannot occur absent prior governmental authorization. The opening of new outlets of Iranian banks within the EU is prohibited. The EU even prohibited the establishment of any new correspondent bank accounts by Iranian banks. And it also banned the provision of insurance or reinsurance to the government of Iran or any Iranian entity.

The EU also froze the assets of more than 100 entities and individuals including, most importantly, most major state-owned Iranian banks as well as the entire IRGC and IRISL. Australia, Canada, Japan, South Korea and Norway have taken a similarly robust approach. And the leadership of all those countries is crucial because others that now follow will look to the precedent they set. And their actions have demonstrated a strong and growing international consensus to hold Iran accountable for its actions.

Meanwhile, the United States has taken several actions of our own this summer, as Juan indicated, adding substantially to an Iran sanctions program that was already the most rigorous in the world. Since the adoption of 1929, we have targeted more than 50 additional entities, ships, individuals, Iranian state-owned banks, companies, IRGC officers. We've targeted them for participation in Iran's proliferation or terrorism activities.

We've also formally identified dozens of banks, investment companies and technology firms owned or controlled by the government of Iran, including several of them which have names that obscure that affiliation, thus aiding companies around the world who are seeking to avoid transactions with the Iranian government.

Congress gave us another powerful tool this summer by passing the comprehensive Iran sanctions act, or CISADA, which the president signed on July 1<sup>st</sup>. CISADA forces a stark choice. If you conduct certain business with Iran, you can't do business with the United States. And CISADA contains significant restrictions on government contracting and sanctions for companies that assist Iran in acquiring refined petroleum products or that invest in Iran's energy sector.

CISADA also requires the Treasury to prohibit or to impose strict conditions on access to the U.S. financial system on any foreign bank that facilitates significant transactions or provides significant financial services to either the IRGC or any of its affiliates or to any of the banks that the United States has sanctioned for participation in Iran's WMD proliferation or international terrorism.

And as of this month, there are now 17 such banks as we recently designated for proliferation an Iranian-owned bank in Germany, the European-Iranian Trade Bank, which was one of Iran's few remaining access points to the European financial system. This particular provision of CISADA is already proving to be very powerful. The possibility of being shut out of the U.S. financial system has compelled financial institutions that had not already cut off business these 17 banks of their own accord to rethink those decisions.

Shortly after CISADA became law, I received an urgent message from a bank executive to whom I had discussed on several occasions his bank's significant business dealings with Iran. He reached out to me urgently because he wanted to make sure I knew that his bank board had just met and that in light of CISADA and other sanctions on Iran, they had resolved to cease all further business with Iranian institutions immediately. I can tell you that his bank is not alone.

This brings me to the third reason why these measures are working. It all comes at a time when Iran is vulnerable to pressure. In the economic sphere, as I mentioned, Iran is having difficulty attracting the foreign investment, particularly Western investment, needed to develop its oil and gas industry.

Despite the fact that Iran sits on one of the world's largest oil and gas reserves, its oil production has stagnated of late and as the IMF has noted, its medium-term production capacity depends on its ability to attract foreign investment. Iran's oil minister stated publicly, in late 2009, that Iran was not attracting investment it needed to prevent a decline in production.

Even before the recent round of sanctions, Iran's investment environment was grim. Now, because of the new sanctions and because of the unwillingness of banks and insurance companies and major energy companies to undertake projects in Iran, Iran's investment landscape is even more bleak.

As a result, Iran is losing access to much needed technology it needs and will only face continued stagnation, which could have long-term political and economic consequences as Iran struggles to create jobs for its disproportionately young population. Unemployment is currently over 14 percent, even according to unreliable government estimates in Iran.

Iran's parliament has claimed that it is as high as 22 percent. High unemployment poses a particular challenge for Iran's leadership since people under the age of 30 account for three out of every four unemployed Iranians.

And the Iranian leadership's inability to develop its most important industry or create sufficient jobs is an example of the economic mismanagement that's undermining public confidence. Iran also continues to suffer from high inflation. While reliable numbers are hard to come by, but we believe that the current rate is significantly higher than the official Iranian government claim of about 9 percent.

In addition, the Iranian banking system is unhealthy, even aside from the devastating effect of sanctions. Just a couple of years ago, the leadership forced Iranian banks to make loans at interest rates significantly lower than the inflation rate, thereby prompting the resignation of two central bank governors.

State-owned banks have also made excessive credit available to politically connected elites who then often failed to repay such loans with impunity. As a result of such poor lending decisions, the Iranian banking sector suffers from a very high rate of nonperforming loans, approximately 20 percent of the banking sector's total assets.

In addition to undermining confidence in Iran's banks, such practices feed into the perception that Iran's banking system is rife with official corruption and cronyism. Because of the leadership's economic mismanagement, Iran is poorly positioned to respond to sanctions. And as the leadership tries to formulate a response, it's faced with unappealing choices.

For example, because it is encountering difficulties in acquiring gasoline because of sanctions, the government is seeking to find ways to reduce its demand for gasoline. One obvious step would be to reduce the heavy subsidies that now make the price at the pump about 42 cents a gallon.

Iran recently announced that it would reduce those subsidies on gasoline and other items by about \$20 billion. These subsidy cuts were delayed last week once again, most likely because of concern about public backlash. Iran's main audit body warned that such subsidy cuts might result in severe political disputes.

And when Iran raised gasoline prices and instituted monthly gasoline rations in 2007, riots broke out across the country. Thus, because of concern about angering the populace, Iran's leadership is unable to take the steps to mitigate the effects of sanctions, thereby making our measures even more effective.

Because of all of the pressures it faces, the Iranian government is increasingly turning to the IRGC, both to maintain its hold on political power and for key economic projects. This trend meshes perfectly with our conduct-based strategy, since it's hard to imagine a better sanctions target than the IRGC.

We have sanctioned the IRGC since 2007 because it actively supports terrorism through the Quds Force and has also been involved in Iran's proliferation activities. Of course, the IRGC also led the crackdown on legitimate protesters after the June 2009 elections.

Unable to attract foreign sources of investment, Iran has turned over to the IRGC major projects, often through sole-source contracts. These include major metro contracts, international airports and large infrastructure projects. Iran has even turned to the IRGC to try to develop its oil and gas fields.

For example, because Iran could not find a suitable foreign partner to develop phases of the South Pars gas field, it gave the opportunity to Khatam al-Anbiya, the IRGC's major engineering firm.

Khatam al-Anbiya lacked the capability to develop the project itself, which is sort of obvious because if it had the capability, it probably would have been handled that way in the first place. And thus, Khatam al-Anbiya sought to find suitable foreign partners. However, after Khatam al-Anbiya was designated by the United States, and then by the European Union, and finally by the United Nations, it was forced to withdraw from the project.

Using the IRGC to fill the investment gap, thus, will only make matters worse for Iran. As we have seen time and again, including in the Khatam al-Anbiya example, responsible international businesses are unwilling to deal with any entity affiliated with the IRGC. The U.N. Security Council has now designated most of the major companies controlled by the IRGC as well as many of its senior officials for proliferation.

The EU, and of course the United States, have also designated the IRGC in its entirety. In addition, the IRGC's growing control over large segments of the Iranian economy deprives Iranian businesses not connected to the regime of economic opportunities. Iran's reliance on the IRGC will thus accentuate the impact of sanctions and also exacerbate the already existing tensions between the government and the people of Iran.

For all of those reasons, because of the way we designed our strategy, because we have built a broad coalition with powerful tools to use and because Iran is vulnerable, the strategy we have in place today is working to create the leverage we need to enhance our diplomatic options. In the end, you don't have to take my word for it.

Last week, former Iranian President Rafsanjani publicly warned leaders in Iran to quote, "take the sanctions seriously and not as a joke." He also said, quote, "we have never had such intensified sanctions and they're getting more intensified every day. Whenever we find a loophole, they, meaning the Western powers, block it."

The goal of sanctions is not to harm the people of Iran. Rather, it is to influence the calculations of Iran's leaders. However, until Iran agrees to abide by its international obligations, what Rafsanjani is observing will only continue and the pressure on Iran will only increase. Thank you very much. (Applause.)

MR. ZARATE: Okay, we'll now open this up for questions and answers. I'm going to take the prerogative and ask the first question, but what I ask is, we have folks, I believe, with microphones. Okay, got it.

There's a microphone here at the front of the room. I didn't see it. Please come up. Identify yourself. If you have an affiliation, your affiliation and cut quickly to the question. I know we often want to comment and have a wind up to the question, but try to get to the question quickly so we can hear from Stuart.

With that, let me ask the first question, Stuart and thank you for the comprehensive address – and a fantastic one. We often hear in the context of sanctions, the role of China and Russia as commercial, financial outlets for countries like Iran or North Korea. Just today, we saw a Reuters piece on, potentially, the role of Turkish banks in dealing with Iran. In that context, how do you address the problem of financial and commercial outlets either existing or those that may emerge for countries like Iran?

MR. LEVEY: Well, as I think is obvious from what I said, we sort of need to make this a global effort. And in that regard, we are already on track to do that. It's not just passing a U.N. Security Council resolution. It's getting the implementation of it and getting this, kind of, private-sector dynamic working.

And so we have been travelling around the world, the Treasury Department, the State Department – usually travelling together – travelling around the world to do just that. We have visited Turkey already. And we have engaged with them on exactly these issues. One thing we are finding, that I think is rather dramatic, is that because of the new environment with respect to Iran, especially the private sector is reacting very, very positively.

And Turkey is no exception. The private sector is quite aware of the risks that it faces with respect to dealings with Iran. And frankly, financial institutions are quite aware of the risks they face under the new – the law in the United States, CISADA, and that they know that if they are going to do significant business with these designated entities, especially these Iranian state-owned banks that they could find themselves in a position where they have no access to the United States. And that is making the conversations, I think, go in a certain direction.

MR. ZARATE: Thank you. Yes?

Q: Patrick Clawson with the Washington Institute for Near East Policy. The most recent Security Council resolution mandated an experts committee to look at the questions of how to better enforce the U.N. sanctions. I understand the committee may shortly be formed. What issues would you like to see that group look at? And what would be your advice to that group about some things the U.S. government would be eager to cooperate with them on?

MR. LEVEY: Well, you know, I think there are probably lots of issues that my colleagues around the government will help me identify or identify in addition to what I could think of off the top of my head. But we have seen, in the context of another resolution in North

Korea, a very effective experts group that was identifying violations of the Security Council resolution, investigating them, reporting back to the council.

And then, quite frankly, it gives us and other countries the ability to take – to take action. And so the more of that sort of work, in addition there may be many other things that they can do. But that's one thing that I think is quite effective because the Security Council resolutions – it's quite important that they be implemented and that there be some consequence for violations.

And an experts committee can be one tool that can be effective in helping that come about. And by the way, I think you're right that this committee is being formed. And I know we're in the process of – the State Department's in the process of getting that set up with others at U.S., U.N.

MR. ZARATE: Yes.

Q: Thank you. Norman Bailey, Institute of World Politics. First of all, I want to congratulate you, Secretary Levey, for the excellent work that you and the department are doing. I'm asking about a situation which can be illustrated by Venezuela, where Iranian banks have been sanctioned but Venezuelan banks that are used as conduits for the Iranian banks have not been sanctioned. And I wonder whether that is something that the department is looking into. Not just in the case of Venezuela but also other countries.

MR. LEVEY: Right. That's an excellent question and it's also a perfect example of exactly what CISADA does. So what is new in this statute is that financial institutions that do business with banks that we've already sanctioned – and there is as the questioner indicates, a bank Venezuela that we have designated for being a subsidiary of the Export Development Bank of Iran.

Now, other banks that do business with that bank stand the risk of being cut off from the U.S. financial system. And so that is something that we will be looking at going forward. We had an obligation to issue regulations under that new law, which we did in August. And so now, we are in a position to start doing exactly what you've mentioned.

MR. ZARATE: Yes. Please come up to the mike.

Q: Cliff Kupchan with Eurasia Group. First, there have been press reports that Iran is having trouble selling its oil because of letters of credit and insurance on ships. Can you corroborate that? And is it a goal of the U.S. to deny Iran its ability to sell oil? In other words, are we after, sort of, a backdoor oil blockade? Thanks.

MR. LEVEY: I do think I have I have seen similar reports and I do think that there have been some complications in terms of inability to obtain letters of credit and other services that have complicated this issue for Iran. And that is directly part – that piece of it directly part of what I have been talking about.

But it is not – it is not – the policy that we are pursuing to try to prevent Iran from selling its oil. But it is our policy to try to make sure that whatever transactions Iran does engage in are scrutinized very carefully and to make sure that there's no illicit aspect to any of those transactions.

And that has made the insurance companies and financial institutions resist doing this business at all because they are worried about being caught up in this kind of deceptive conduct that Iran has made a practice of engaging in.

MR. ZARATE: Yes.

Q: I'm Richard Sawaya with the National Foreign Trade Council. You mentioned the EU sanctions and their robustness in terms of the financial dimension. And I note that in the EU restrictive measures, there is an explicit exemption for humanitarian trade. CISADA has statutory exemption continuing for humanitarian trade which is licensed under the Office of Foreign Assets Control. Is there a similar, explicit exemption on the financial sanction side?

MR. LEVEY: That's an excellent question. I think it's important to point this out. I mean, there is – not just as a matter of the EU sanctions. But, generally, as our policy, that we are not trying to cut off humanitarian trade. And as the questioner points out, this is even permitted and especially licensed under U.S. sanctions which are already the toughest sanctions in the world. But we have humanitarian exemptions.

And it probably won't surprise you that as I've traveled around the world, especially in the last few months, this is the one of the things that people want to talk about. They want to talk about how are we going to be able to make sure that medicine and food and so forth continue to get into Iran. And most countries in the discussions have led to arrangements being set up to ensure that, that can continue to happen and that's consistent with our policy.

MR. ZARATE: Next question.

Q: Diane de Gramont from the Carnegie Endowment. In the past, a lot of Iran's trade has gone through Dubai. How satisfied are you with the measures taken by the UAE in Dubai to enforce sanctions? And is there anything else you would like them to see do?

MR. LEVEY: I have been discussing this issue with the UAE for a number of years, even and have had a really detailed dialogue with them on this issue. I think that the UAE has, even now, indicated publicly its concerns the possibility of a nuclear-armed Iran. And they are taking that issue quite seriously.

I think that all indications that we have right now are that we will see really substantial cooperation from the UAE – that we value group very much and that I think will be very, very advantageous to the overall global effort.

The UAE on the one hand, as I think you know, has a great deal of historical ties with familial and cultural and trade ties with Iran. And therefore, I think they have issues to grapple

with respect to how to adjust the new sanctions and especially the sanctions that are imposed by our Congress.

But I think that they are doing that and are taking very strong steps to ensure that they are consistently with the global trend. They also, of course, want to be seen as – and they have aspirations to be the, you know, a global financial center and commercial center. And so making sure that they are protecting themselves against the kind of Iranian illicit conduct that I was talking about is important, also, for their long-term business interests. And I think that's something which the authorities in the UAE are recognizing increasingly.

MR. ZARATE: Over here.

Q: Thank you. Valerie Kirkpatrick from Human Rights Watch. First of all, I just want to commend your office for taking this on and it's obviously a huge undertaking. In light of that, I just wanted to know, do you feel that you have the needed resources, both financial – (chuckles) – and manpower, to really, you know, do this well and comprehensively? And as a follow-up to that, how does that affect your ability to implement similar sanctions in other countries less high profile than Iran? Say, Burma, for example.

MR. LEVEY: Well, that's about the nicest question one can get, I guess. (Chuckles.) We do have the ability, I think, to do more than one thing at once. And we have the resources to do it. I'd like to think that we – you know, of course, every organization prioritizes. But I do think that we are able to get to all the things that are important to our foreign policy in terms of enforcing our sanctions.

You're right to point out that we do – you know, we do the things that I've talked about on Iran. But we also have a wide variety of other responsibilities including such important sanctions programs like Burma. But I do think that, you know, we feel like we are able to get the job done.

Q: Thank you. Acu Bonoza (ph) from Cumhuriyet (ph), Turkish daily. I would like to ask you about the Turkish government's position on the U.N. Security Council sanctions. They are fine with it. They say they are going to apply it but not the unilateral sanctions. And recently, Turkish Prime Minister Erdoğan stated that the trade with Iran might go triple the amount today. Are you concerned about Turkey's position?

MR. LEVEY: Well, I think it – you know, one has to look at those kinds of statements and look at them with some concern. But I think, also, as I indicated in response to Juan Zarate's question, the private sector in Turkey, I think, will look at things and also make decisions for itself about what business it wants to handle. And thus far, I think they are reacting in way that is consistent with the rest of global consensus in terms of being quite weary about business with Iran.

I do think that it's important to note what you said in your question, which is that while Turkey, of course, did not support the Security Council resolution, they have indicated that they will implement the resolution. Of course, that's an obligation of all U.N. Security Council

members. But I think there is, you know, there are steps that can and will be taken in order to ensure that, that kind of implementation is ongoing.

And we've already had our first set of conversations with the Turkish government after the Security Council resolution. Someone from my office, Deputy Assistant Secretary Glazer, was in Turkey meeting with their officials and discussing both the implementation of the resolution and the implications of our law for the private sector in Turkey.

MR. ZARATE: Yes.

Q: Hi. Good afternoon. Arash Arabasadi, Voice of America, Persian News Network. Over the past few weeks, I've spoken with some Iranian-American small business owners here in the United States and almost uniformly, their concern is that sanctions target people like them and their ability to put food on the table for their families rather than the government or the military of Iran. What would you say to those people?

MR. LEVEY: Look, I think it's always a challenge when you're designing a sanctions program. You want to have the effect on the particular target, the particular target here being the Iranian government and the institutions that are engaged in this illicit conduct. And so we try to shape our sanctions to have that effect. We do the best we can. Inevitably, there are some unintended consequences.

But by continuing to focus our sanctions on the targets that engage in the illicit activity, we hope to mitigate that as much as possible. And similarly, by focusing on those targets, we hope that those that are inadvertently inconvenienced by those measures understand that it's the conduct of the government of Iran that is causing that inconvenience to them. It's never an entirely perfect enterprise.

But I think that we are much better off by having a sanctions program that is designed that way, which does focus on institutions like the IRGC. I think that is much more – it's much easier for those that are inadvertently inconvenienced to accept that when the sanctions are structured that way.

Q: Roger Hardy, Woodrow Wilson Center. There's overwhelming evidence that the sanctions are hurting. But isn't the problem that this is the kind of – an almost unique regime in the sense that it can absorb pain? It almost welcomes being under siege and that in the end, the sanctions won't hurt the right people sufficiently to make them change their minds on the nuclear question.

MR. LEVEY: Look, I think that's a very important question and one which, you know, no one knows for sure the outcome. I do think that, that the hypothesis there is that there is no way to impose pressure in a way that they would ever make a change or start to – start down the path of making changes.

And I guess, you know, one has to question that and we do question that. We think that history has shown that there are ways to effect these calculations. And that we can create a cost-

benefit analysis that can make a change. And that we – and that’s the intention that we are pursuing by increasing this pressure.

Q: Mike Connell, Center for Naval Analyses. Mr. Levey, I have a question regarding informal banking and hawala networks. There’s been some indication in the press that illicit Iranian entities like the IRGC might be relying on hawala banking networks to pass money. Is there any attempt right on the part of the State Department to work with our partners at monitoring these activities?

MR. LEVEY: I guess I would say two things, that on the one hand, of course we are looking at all ways in which, you know, transactions are occurring and if we get information about illicit activity that is handled outside of the formal banking system through hawalas or other entities, then we try to follow up on that.

But the second point is that Iran, as a whole, needs – you know, they may be able to do certain transactions that way. But it’s not a replacement for what they are losing by not having access to the global financial system and especially the formal banking system. So on the one hand, of course, we are going to follow up on that. On the other hand it’s – if it’s happening, it’s not – it doesn’t render the effort, you know, ineffective.

Q: Gary Kleiman, Kleiman International Consultants. Let me ask a question from a pure financial-markets perspective, which isn’t often elucidated in these discussions. At the same time the sanctions policies was intensified, the Tehran Stock Exchange is up 40 percent through the end of August. The South Pars project managed to sell an international bond.

Iranian officials are making a major presentation at a capital markets conference on their privatization program. Presumably, some of this interaction is nongovernmental – purely commercially related and economic-policy oriented and we want to encourage that. Is there a danger that the intensified sanctions policy is much too lopsided and will have a negative spillover effect on this type of activity?

MR. LEVEY: Well, you know, I guess I don’t quite understand the – you know, that we are trying effect this type of activity which is several types. But, you know, what I hear in the question, though, is that there are lots of statements being made about things happening within Iran, development of gas fields, or sale – something.

You know, one has to be cautious about accepting that which is said. Sometimes it’s true, sometimes it isn’t. And we’ve seen, for example, lots of deals announced, MOUs announced, you know, to develop projects within Iran and nothing ever comes of them. It’s not clear that there is always substance behind them.

Q: I’m Dan O’Flaherty with the National Foreign Trade Council. Simultaneous with the ratcheting up of the sanctions program against Iran has been a continued effort to engage the government of Iran in discussion about the nuclear program and other matters. So my question is, can you tell us a bit about how these two things are calibrated within the administration? How the carrot and the stick meet each other and deal with each other.

MR. LEVEY: Yeah, that's an interesting question, of course, and we do a lot of thinking and talking about that. As I think people know, President Obama came into office and he made this offer of engagement and he made it without preconditions and so forth. But Iran didn't take the offer or didn't respond meaningfully.

But it is our policy and it remains the policy that there's not a contradiction between engagement and pressure. We can do both at the same time. Now, of course, they could have had engagement at the beginning of the administration under conditions that were less pressurized, of course. But there is no indication now that we are withdrawing this offer of engagement.

Rather, I think the secretary of state made it very clear in comments she made yesterday that it is still very much our desire to have that kind of engagement even while we're taking steps to hold Iran accountable for its international obligations.

Q: Chul Chung from Korea International Trade Association. First, I praise your – first to bring these – the sanctions (ph). But the other distinctions are not going to affect Iran only. But also, it's going to affect some of the businesses, including the Korean businesses. How long do you project this sanction will be in place? (Laughter.) And under what circumstances do you think the other sanctions will be lifted? Thank you.

MR. LEVEY: You know, I should answer that question by first expressing appreciation that, you know, I know that Secretary Geithner and Secretary Clinton already made in public about, you know, when South Korea adopted its implementation of U.N. Security Council Resolution 1929. They are quite robust measures.

And I think as the question implies, those were robust measures taken in a situation where there is ongoing trade between South Korea and Iran and therefore, there is sacrifice. You know, there is – if I were to give you an actual time limit, I think I'd lose my credibility because there's no way I can answer the question, you know, by giving you, it's going to take this long.

But one I could say is that one has to think about the cost of the alternatives. There's no doubt that everything I described today is costly. All these kinds of measures are costly in a financial sense, but compared to what? They are costly compared to not having pressure applied to not having financial measures applied.

They are not costly, necessarily, compared to the implications of a nuclear-weapon armed Iran. So that may not be much solace for those particular businesses, but in terms of making policy, I think we have to make those sorts of calculations.

MR. ZARATE: I think we have time for a couple more questions.

Q: Hello, Peter Lichtenbaum with Covington & Burling. It's good to see you both. My question relates to the statement that you made that you decided to use conduct-based financial measures that target illicit actors because this is proven to be a better way to build a broad government and private-sector coalition than trade embargos that target an entire country.

Now, I'm not disagreeing with that statement. But of course, the United States does have a trade embargo that targets the entire country of Iran, as you mentioned. It's a very broad trade embargo and perhaps one of the broadest that we do maintain. I wondered – the implication of the statement seems to be that it's difficult to build a broad government and private-sector coalition for a trade embargo that targets an entire country.

And if that is the case, what is the plan of the U.S. government to try to build such a coalition? Or if there isn't an intention to do that, then perhaps it would be helpful to articulate the rationale for maintaining an embargo despite the difficulty of building such a broad coalition. Thank you.

MR. LEVEY: Well, that's a good question, Peter. So you're right of what the implication of my statement was intended to be, which is, it is more difficult if you have a broad country-based trade embargo or investment ban. It is harder to build a coalition. It's harder to build a coalition with governments because unless they agree with you on both the political path that you are pursuing and the urgency of the problem and the sacrifice that you are asking them to make, they aren't willing to do it.

And secondly, the private sector is less likely to go along because they view those sorts of measures not as trying to help them identify illicit activity that they should stay away from, but rather as a political statement from a government. And they may adhere to it because they are scared of being caught not adhering to it, but they have no incentive to amplify the measures. And so they don't. They will go along with it, but they won't amplify.

And having said that, you know, the trade embargo that you're referring to was in place – has been in place for a long time. So without making policy from the podium, which is not usually a good way to keep your job, one would have to imagine a situation where we are going around the world asking for sacrifice, asking for sacrifice, asking for sacrifice, asking for sacrifice from other countries.

And, you know, I guess the suggestion would be, meanwhile, lifting our trade embargo so that our companies could go in and take opportunities that we're asking others to give up. That's not likely to be tenable. You know, I don't think anyone has ever seriously considered that, you know, at the same time we are trying to increase pressure on Iran that we would somehow unilaterally lift our underlying general sanctions program on Iran.

MR. ZARATE: Peter, we are going to move to a new question.

Q: Thank you, Jeffrey Schott with the Peterson Institute for International Economics. I've got a big-money question and a small-money question for you. As I understand it, the purpose of the sanctions, as you've explained it, is to squeeze the resources available for Iran's weapons development programs and therefore, convince them that it's a good idea to live up to their international obligations. And the measures you put in place have been far more effective than anything that's been done over the past 40 years.

But there still is a lot of money coming in from oil-export revenues, which is a lot of money to play with for a regime that would want to devote funds for illicit trade to get the materials and componentry necessary for their weapons development. Are you tracking these revenues? Is there a way to see if there is this type of diversion? Because what you're concerned about are the revenues over the near term, not the investments made that will support the continued level of production over the medium term after they might have been able to attract us.

And the second small one is a technical question that I'm not sure of. And that is contract-sanctity provisions and the European sanctions. Does that provide a big loophole for continued European trade with Iran?

MR. LEVEY: I've got a quarrel with your first question because it's – you know, as I've said to another questioner, it's not our attempt to cut off Iran's ability to sell its oil. That may be a byproduct of what's happening because they are unable to get financial services or insurance or whatever. So it's not the case that what we're trying to do is squeeze their resources, necessarily, but rather to isolate them financially and commercially, especially the entities that are involved in illicit activity, which is a slightly different thing.

I think, you know, one has to be realistic in this situation where a country has the kind of resources that Iran has. And we have allies, like one of your prior questioners at this microphone, that are dependent or, you know, very reliant on receiving those resources. I think we have – you know like South Korea and Japan, et cetera.

We have to design – you know, I've told you some of the things we had to take into account when we designed a strategy to pressure. But one of the things you have to take into account is, what is it that other countries are conceivably willing to do? So I think we had to design a strategy here, as we have in other context, that does not try to eliminate Iran's ability to receive revenue for its oil.

But as you point out in your question, if they are unable to develop the infrastructure for the long term, if they are unable to continue their – developing their oil fields in a way that will increase capacity and their ability to export, then that starts to create tension within Iran because their leadership realizes that in the long run, this is not going work in terms of their economy.

And their young population realizes that, look, our leadership is failing us. Our leadership is failing us because we are unable to – they are unable to create opportunities for us in the future. And that's happening in Iran. We are seeing young people leaving, especially educated young people, for precisely this reason. Okay, so it's a slightly different intention and dictated by what's realistic.

And I do think that you're correct, that I think both the Security Council resolution and the EU program do provide for allowing people to finish contracts that they've entered into. I don't think that, that's a dramatic – you know, of course that – you know, it would be more draconian to cut it off instantly, but also more unfair because of, kind of, sunken cost and investment. And so I don't think it dramatically undermines the effectiveness of the sanctions.

MR. ZARATE: I think that will be it. Before we thank Under Secretary Levey, I would ask you to stay seated so we allow Under Secretary Levey to leave before we all do. But please join me. He has been incredibly generous with his time and incredibly insightful in his remarks. So please join me in thanking Stuart Levey. (Applause.)

(END)