

## **Combating WMD Proliferation Support Networks: Financial and Economic Sanctions**

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### **Introduction**

I am pleased to have an opportunity to address one of the most serious threats to international peace and security— how to keep the world’s most dangerous regimes from acquiring and using the most destructive weapons. I’d like to take this opportunity to discuss the Administration’s strategy to address these critical challenges to our national security, and the steps we are taking to impose financial costs on proliferators, the regimes that proliferate and those who facilitate and support them.

### **Evolving Threats Demand Innovative Responses**

Preventing the proliferation of weapons of mass destruction materials, technologies and expertise, to terrorist organizations and rogue regimes is one of our highest national priorities. One of the most dangerous threats we face in the twenty-first century comes from states of concern, such as Syria, North Korea and Iran, not only due to their own development of weapons of mass destruction, but also for their potential to sell, transfer, facilitate, finance, or otherwise deliver weapons of mass destruction to terrorists or terrorist organizations.

With advances in economic integration and significant growth in the volume and speed of international travel and trade, weapons proliferators – both state and non-state actors – now find it easier to transfer sensitive items globally, and it is becoming more challenging for governments to monitor and control these transactions.

Proliferators and states of concern know this and mask their acquisitions as innocent, seemingly legitimate business transactions. They are exploiting the boom in global commerce by operating in countries with high volumes of international trade, finding countries with lax export control laws and enforcement, or utilizing free-trade zones, where their illicit procurements and shipments are more likely to escape scrutiny.

The United States is committed to working with the international community to solve this problem. We must work together to strengthen global nonproliferation mechanisms and to close the loopholes that proliferators exploit. The United Nations Security Council acted under Chapter VII of the UN Charter to adopt resolution 1540, which requires states to take steps to combat proliferation. The Security Council has also taken unanimous action against the dangerous behavior of Iran and North Korea by imposing sanctions under Chapter VII of the UN Charter when passing resolutions 1695, 1718, 1737 and 1747. With these binding resolutions, we have a strong international legal mandate for targeted actions against proliferation activities. Through aggressive implementation of these measures, the international community will ensure that those who abide by these obligations obtain the benefits of access to the international financial and commercial system and those who do not experience the consequences of denied

access. This in turn protects the international commercial and financial system from exploitation.

Since the terrorist attacks of 9/11, responsible members of the international community have been working to put in place financial tools to identify, disrupt and dismantle the financial networks that facilitate and support terrorism. The same tools that have been successful against terrorist networks can and should be used to disrupt and dismantle the financial networks that support the proliferation of weapons of mass destruction. These new financial tools give us a concrete way in which to target directly those individuals and entities we know are bad actors, to strike at the heart of their operations and take away their financial incentive to proliferate.

### **A New Strategic Approach to Combating WMD**

The Bush Administration has pioneered innovative approaches and developed more flexible programs and initiatives to combat the proliferation of Weapons of Mass Destruction (WMD), including by developing new proliferation-related financial and economic measures. I would like to highlight some of the progress we have made in combating WMD proliferation as a result of these initiatives and programs. Sustaining these innovative efforts in 2007 is a priority of the Administration.

Proliferators rely upon support networks to facilitate their trade, which include supporters, financiers, logistical support, front companies, assets, shippers and facilitators. Similar to international criminal networks, proliferation support networks operate for financial gain and depend on the international financial

system to carry out transactions and business deals. These networks are highly vulnerable to public exposure and the disruption of financing and support.

Effective counter-proliferation actions target the entire proliferation network. Our goals are to disrupt and impede the operations of WMD proliferators and their supporters; to isolate proliferators financially and commercially by denying them access to the international financial system; and to expose proliferators' activities publicly and warn unwitting facilitators globally.

The United States is working with international partners to implement UNSCRs 1540, 1695, 1718, 1737 and 1747; to strengthen our own national authorities and encourage other governments to establish new authorities similar to our proliferation finance Executive Order (E.O.) 13382; and to promote counter-WMD financing initiatives in the context of multilateral fora, including the Financial Action Task Force (FATF) and the Proliferation Security Initiative (PSI).

### **New Initiatives to Target the Economic Underpinnings of WMD Proliferation**

In 2003, President Bush launched the Proliferation Security Initiative (PSI). Under this Initiative, we have partnered with over eighty nations to date to interdict WMD-related shipments and stop the facilitators of proliferation including those who finance it. PSI partners have cooperated dozens of times – both in concert with the U.S. and on their own – to prevent transfers of WMD-related materials.

The PSI's success in interdicting WMD-related materials led the President to call on greater law enforcement cooperation in the PSI. As part of this effort, the United States highlighted the importance of cooperating with PSI partners to

impede WMD-related finances at the June 2006 High Level Political Meeting in Warsaw. PSI participants are uniquely positioned to play a leading role in sharing information to prevent financial networks from tapping into legitimate commercial and financial markets to support proliferation. PSI is one tool participating states can use to implement their requirements in UNSCRs 1540, 1695, 1718, 1737 and 1747 to prevent proliferation-related financial transfers. PSI participants have worked together to build their capacity to take action against WMD proliferation, and to strengthen their national proliferation-related authorities. Action against WMD financing is an important next step.

The United States also spearheaded the effort in the United Nations Security Council to pass UN Security Council resolution 1540 – the first Chapter VII resolution to address proliferation generally. This resolution places binding obligations on all UN Member States to develop and implement authorities to combat proliferation, including controls that effectively deny proliferators and their supporters access to financing and other services of the financial system. The U.S. has taken a first step in the form of Executive Order 13382, which authorizes targeted financial sanctions against proliferation networks just as we have against terrorist networks.

Developing non-traditional tools to disrupt proliferators led to the development of Executive Order 13382, related to proliferation finance. Implementation of E.O. 13382 has been a priority of the Bush administration. President Bush signed the Order in June 2005, authorizing the U.S. Government to freeze assets and block transactions of entities and persons engaged in proliferation activities and their supporters. It also denies persons designated under the Order access to U.S. markets and financial systems and prohibits U.S. persons, wherever they are

located, from transacting or dealing with such entities. These financial measures were originally used extensively to combat terrorist networks, but now have been applied with considerable success against the proliferation activities of North Korea, Syria, and Iran.

To date, the U.S. has designated 35 entities and two individuals under E.O. 13382, including from Iran, North Korea and Syria involved in the development of dangerous nuclear programs or the proliferation of weapons of mass destruction and their means of delivery. These entities should no longer be able to claim legitimacy, nor should they be allowed to reap the benefits of access to the international financial system. We urge financial authorities worldwide to develop and implement similar authorities that allow financial institutions to close or freeze any accounts held by such illicit actors at institutions in their jurisdictions, and take steps to ensure that the private sector ceases any dealings with these entities.

The E.O. 13382 designations in concert with strong diplomatic approaches by the Departments of Treasury and State have prompted many responsible financial institutions around the world to take a closer look at their own operations, and to cease providing enabling environments for entities involved in proliferation and other illicit financial activities. As a result of the loss of access to many financial institutions, proliferators and the illicit actors supporting them have been forced to wage an aggressive campaign to revise their financial networks, looking for banks willing to handle their business. It is for this reason that we must remain vigilant to ensure that entities engaged in proliferation and illicit activities are denied financial services worldwide.

We are utilizing E.O. 13382 to limit Iran's development and proliferation of WMD. Under the Executive Order, the United States has designated 15 Iranian and 4 Chinese individuals and entities associated with Iran's weapons of mass destruction and missile programs, and is preparing the appropriate legal documentation to designate additional entities as required by UNSCRs 1737 and 1747.

On January 9, 2007, the United States added Bank Sepah, Bank Sepah's chairman, and Bank Sepah International PLC, to Treasury's Office of Foreign Assets Control's (OFAC) list of Specially Designated Nationals and Blocked Persons under E.O. 13382 for their support of Iran's ballistic missile programs. The subsequent designation of Bank Sepah under UNSCR 1747 was the culmination of several months of diplomacy and joint efforts by the State and Treasury Departments to encourage countries to sever their relationships with Sepah and other Iranian banks. UNSCR 1747 obligates Member States to freeze the assets of branches of Bank Sepah—thereby significantly restricting its ability to facilitate transactions for Iran's WMD and missile programs. Many countries have acted quickly to freeze Sepah's assets in their jurisdictions and prevent it from conducting any transactions to ensure they comply with their obligations in resolution 1747, as well as their obligation in resolution 1737 to prevent the provision to Iran of financial assistance related to transactions involving certain items of proliferation concern.

We are targeting additional entities under existing authorities, and more broadly encouraging foreign governments to scrutinize activities of Iranian financial institutions in their jurisdictions, and, whenever appropriate, limit or end their business dealings with them.

## **International Efforts to Address the Financing of WMD Proliferation**

The United States is not alone in looking at how financial tools can play a key role in combating international security threats. The international community has begun to recognize that financial measures have an important role to play in combating proliferation of weapons of mass destruction and the maintenance of global security. By its unanimous adoption of UNSCRs 1718, 1737 and 1747 under Chapter VII of the UN Charter, the Security Council signaled that it will no longer tolerate the North Korean and Iranian regimes' development of nuclear weapons and proliferation of WMD and their delivery systems.

These resolutions provide governments with an international legal mandate for taking specific, targeted actions against proliferators and others acting in support of North Korean and Iranian WMD-related programs. All Member States have an obligation to fully and effectively implement the provisions of the resolutions. We continue to work with our partners and urge governments to adopt the targeted financial sanctions as required under the resolutions and to target all entities and individuals that meet the criteria therein, including those that are owned or controlled by designated entities and individuals.

Japan and Australia have already joined the U.S. in designating additional, DPRK-related entities and individuals for financial sanctions. More recently, the Royal Bank of Canada restricted entities and individuals from a number of countries of concern including North Korea, Iran, Syria, and others. Many responsible financial institutions have decided on their own, as a result of our continued

diplomacy and exposure of North Korean proliferation entities' illegal behavior, to cease business dealings with these entities.

The tide is turning against Iranian proliferation-related entities as well. To implement the requirements of UNSCRs 1737 and 1747, the European Union has amended the strong “Common Position” it originally adopted on February 27. The Common Position includes measures to implement the asset freeze required by the resolutions on entities and individuals listed in the annexes to the resolutions, but goes beyond the UNSCRs not only by imposing a travel ban on the individuals and a complete embargo on arms transfers to and from Iran, but also by prohibiting new commitments for grants, financial assistance, and loans. The Japanese government on February 17 adopted measures that imposed an asset freeze on all the entities and individuals listed in the Annex to UNSCR 1737, as well as measures to prevent the transfer of funds to, and goods from, Iran that are potentially proliferation-related.

The Islamic Revolutionary Guard Corps (IRGC) – a key element of the Iranian regime's support for international terrorism, proliferation, and internal oppression – is taking on an increasingly influential role in Iran's economy, with IRGC-affiliated companies winning important government contracts such as one for managing airports in Tehran. For this reason, we worked closely with our P-5 and UN Security Council partners to include a number of IRGC entities and individuals engaged in proliferation-related activity in UNSCR 1747.

Beyond imposing an asset freeze on various Iranian entities and individuals associated with Tehran's nuclear and ballistic missile programs, UNSC resolutions 1737 and 1747 provide leverage to increase bilateral economic pressure. To this

end, the Departments of State and the Treasury have engaged foreign governments and private firms, informing them of the financial and reputational risks of doing business with Iran. When possible, we have shared information with governments of proliferation-related transactions to ensure financial institutions have a full understanding of the activities of their customers.

These targeted financial pressures have denied suspect Iranian individuals and entities access to the US financial and commercial systems and with cooperation from other countries taking similar actions, will further isolate them from the international community, while making clear to Iran that activities in defiance of international law will result in real economic consequences. The Treasury and State Departments will continue to engage our foreign partners regarding such economic pressures, as they are one of our most effective tools for making clear to the Iranian regime the cost of its continued defiance.

The U.S. will continue to support international initiatives as we refine our multilateral tools to combat the threat of proliferation, particularly by looking at how the international financial system can be leveraged to isolate such activities. We will also continue to work with our partners around the world on ways we can collectively strengthen our efforts to take action against WMD proliferators. We must expand our collaborative efforts in international organizations such as the Financial Action Task Force, the United Nations, PSI and other fora to meet this new responsibility to both strengthen our existing tools and creatively apply new tools.

## **The WMD Challenges in 2007 and Beyond**

The threats of WMD terrorism and rogue state proliferation remain our preeminent WMD-related challenges. In 2007, my bureau will devote the majority of its diplomatic resources to addressing these issues using a range of tools, including the financial measures I have discussed today. To meet these challenges, we will continue to work closely with our friends and allies to strengthen the robust coalition of nations with whom we are working to block Iran and North Korea's nuclear weapons aspirations. A central challenge lies in convincing our partners to adopt innovative approaches to deter and roll back these programs, including through the use of financial enforcement measures against proliferators. We will also work to achieve full implementation of U.N. Security Council resolutions 1695, 1718, 1737 and 1747, and expect our partners to implement the obligations that these resolutions entail.

In order for our international legal mandates to be effective, governments must develop national legal authorities to implement them, and invest resources to apply these targeted economic and financial measures against a broad range of international threats, not just North Korea and Iran. One element of our work to develop an international legal framework has been in the Financial Action Task Force (FATF). We have worked with the G-7 to develop an Initiative to address the threat of weapons of mass destruction proliferation finance.

As my Treasury colleague will elaborate in a moment, the aim of the FATF initiative is to determine whether existing anti-money laundering and counter terrorist-financing standards should be reinforced to address vulnerabilities associated with WMD proliferation finance.

In the year ahead, we will also work to strengthen the Proliferation Security Initiative and expand our capabilities to address proliferation through cooperation with our PSI partners. PSI is an important tool we can bring to bear against state proliferation as well as the WMD terrorist threat.

Another key challenge for 2007 will be to harness the capabilities and willingness of the private sector to minimize the risk of proliferation and WMD terrorism. Many WMD terrorist attack scenarios will touch some element of the private sector, whether those elements are ports, financial institutions, or logistics providers. Public-private partnerships can play a key role in sensitizing the private sector to these risks and in encouraging them to take steps to cooperate to support our international security goals. For example, the global insurance industry can play a key role as a partner in mitigating the risk of WMD terrorism since they insure the international supply chain – the shippers, logistics providers, and port and airport operators – through which terrorist materiel, personnel, and capabilities might flow. The financial sector should also play a role by adopting internal compliance procedures that reduce the risk that terrorists or proliferators are exploiting their institutions to move or store resources to facilitate their illicit activities.

Since 9/11, we have taken significant steps to strengthen information sharing with the private sector through regulatory regimes that encourage suspicious activity reporting. Trade associations and individual companies in the nuclear, chemical, and bio-related fields have also taken voluntary steps to guard against exploitation of their infrastructure to acquire WMD capabilities. Governments can and should build on the willingness of the private sector to contribute to our security, since

these approaches can complement more traditional approach of influencing the behavior of non-state actors through regulation and enforcement-related activities.

## **Conclusion**

I would like to close by saying that the international community is becoming increasingly sophisticated in how it applies financial and other economic defensive measures to combat international security threats. This new era requires that governments and private sectors work together in close collaboration along with international partners to proactively seek out threats to international security and ensure that such threats are effectively isolated.

The security situation we face today is more complicated and requires flexible and targeted responses to the threats we face while protecting the integrity of the international commercial and financial system that underpins our way of life. The rogue states and terrorist organizations that seek weapons of mass destruction are adapting to our best efforts to stop them, and so we must develop and implement innovative tools and approaches to deter, detect, and defeat this growing menace.

But innovation alone will not win this fight. As Secretary Rice has articulated in her vision of transformational diplomacy, we must strengthen our partnerships – new and old – and ensure that they are tailored to the conditions of today. Only then will we be capable of succeeding in our fight against weapons of mass destruction in the twenty-first century.