

The Role of Finance in Combating National Security Threats

May 17, 2007



Brief Analysis

On May 10, 2007, Robert Kimmitt addressed The Washington Institute's nineteenth annual Soref Symposium. Ambassador Kimmitt is deputy secretary of the treasury. The following are edited extracts from his comments during the question and answer session.

Read (<https://www.washingtoninstitute.org/templateC07.php?CID=337>) the prepared text of Ambassador Kimmitt's address.

Q: What are the relative constraints of a multilateral approach versus a bilateral approach to the use of financial tools against illicit activity?

Kimmitt: Anytime we see a threat to the country through the financial system, we are going to take action immediately using the domestic authorities we have. We try to be careful, however, to make sure that those are carefully targeted to conduct and are not extraterritorial. That provides a good basis for entering into discussion with friends and allies throughout the world, both on a bilateral basis with others and then on a multilateral basis.

In the case of Iran, we benefited greatly from the fact that the Europeans had taken the lead in trying to get the Iranians to reverse their policy. When the Iranians did not do so, that was a challenge to European diplomacy. As a result, the Europeans have played a very constructive role at the United Nations. Very often at the United Nations, it is better for someone else to put on the table an idea the United States supports. We have worked very cooperatively on Iran, but it is not sequential. This is something that we do in parallel. We have been trying to encourage our friends and allies abroad to put in place the legal infrastructure necessary to protect their financial systems. We are making good progress in that direction.

Sanctions are most effective if we have as many people as possible with us. We have to make sure that we've got cooperation around the world, because the bad guys look for the soft spots in the system.

Q: But we are not seeing Iranian behavior change, are we?

Kimmitt: We obviously have not reached the result that we and the world community are seeking, and that is a reversal of Iran's nuclear weapons program through suspension of the enrichment activities and eventually backing away from the goal that they seek. But we are seeing indications of effects in Iran, not least in the legitimate business community. Pressure is coming from below through the parliament and also, to some degree, through the supreme leader. We should try to exploit those kinds of pressures and fissures.

Q: The Iranians and others are switching out of dollars into the euro. Won't this hurt the United States?

Kimmitt: We have looked at that and we do not think it is of concern, either as an instance or as a trend. It is something that we'll continue to watch. Any concern about that is outweighed by the concerns that we in the international community have on the dangerous path on which Iran has embarked.

My guess is that it would be a quite different dynamic in Iran if they were willing to come back to a multilateral table talking about how to end their program. That certainly is the goal that we have in North Korea. We at least have a

process that is set up to be moving in that direction. It may be unfolding slower than we would have liked to have seen, but at least that is what the discussion is.

The Iranians have said they would come back on one condition: there could be no discussion of suspension of uranium enrichment. But that's the only thing there is to talk about. And so we hope that eventually the use of financial sanctions, diplomatic and other measures will get them back to the table on a no-condition basis to discuss how to reverse their program.

Q: What about the Saudis? Are they doing enough?

Kimmitt: We have very good dialogue channels with the Saudis on precisely these points both in the multilateral forum and bilaterally. I have been to Riyadh myself within the last six months. Stuart Levey, the under secretary for terrorism and financial intelligence, has been there multiple times, as has Fran Townsend, the president's assistant for homeland security and counterterrorism. We have had very good discussions with the Saudis about this, making the case that illicit finance and the activities it sponsors are as much a threat to them as they are to us and to others, and that they need to pay careful attention to illicit finance, whether the end use of that finance is inside the Kingdom's borders or outside.

Q: After the Lebanon war last summer, Hizballah has been funding its own rebuilding effort, which has further undermined the elected Lebanese government. Are you doing anything to stop financing coming from Iran to Hizballah?

Kimmitt: We took against Bank Saderat precisely because of its financial support of Hizballah and Hamas, including through Saderat branches in Europe. It was so very clear that Saderat was acting as the principal financing node for terrorist support and financial support of Hamas and Hizballah. Our efforts in this regard will have much more affect if European and other countries join us in putting pressure on Saderat.

As a general matter, we've done better recently on proliferation-related financial sanctions than we have done on terrorism-related financial sanctions. And we need to work more closely with our friends and allies abroad.

Q: To what extent are you able to use the private sector in other countries as an ally?

Kimmitt: We always start by talking to our government counterparts. We first go in and see and finance ministry, the central bank, the bank regulator. We let them know, though, that we will be talking to banks and companies, particularly those that have large operations in the United States. They are subject to our sanctions in the United States. Technically, they are not subject abroad, but the risk of doing business with Iran is the same, and the reputational challenge is the same, wherever the company located.

Banks very often have been in front of their governments on this issue. They understand the risks to their reputations and their business. They do not want to do business with Iran, but they do want to continue to support companies they have long financed. Those companies are trying to figure out the best way to minimize their work in Iran or even extract themselves. It's complicated, but banks have been quite good to work with.

Q: What is the Treasury's view of the wave of American states that are now pursuing divestment of their pensions and other state finances from companies that do business with Iran?

Kimmitt: I think there will and should be additional sanctions against Iran if Tehran does not reverse its current course. But whether it's done in the United States at the federal or state level, or whether it's done overseas or at the UN, any effort to sanction Iranian finances should be judged by these criteria: Is it targeted at illicit conduct? Does it lay the foundation for multilateral cooperation? And do we reach out to institutions on a cooperative, collaborative basis?

Institute research assistant Nathan Hodson prepared this summary. ❖

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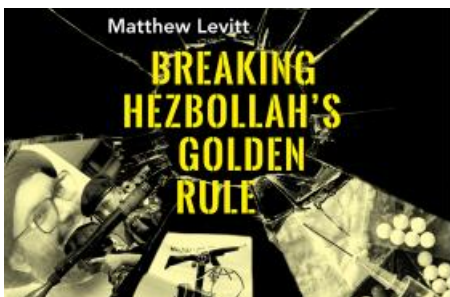
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