

Containing Iran the Financial Way

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Articles & Testimony

For the past year, senior United States Treasury officials have traveled the world, highlighting for foreign governments and the private sector the danger that Iran's illicit activities pose to the international financial system. Treasury has lobbied foreign audiences on the need to employ targeted financial measures against entities supporting Iran's terrorist activities and its weapons of mass destruction programs. While the department's outreach has been quite successful overall, its efforts have been hindered by two serious obstacles unrelated to the substance of the case it has been making about Iranian activities.

First, no foreign finance ministry has an in-house intelligence office. As a result, the ministries generally do not receive all of the relevant intelligence on Iran that is in their governments' possession. Without this information, the finance ministries are not in a position to assess the scope of Iran's illicit financial activities, and the dangers this presents to the integrity of the global financial system. While this information may reside elsewhere in their governments, frequently only the finance ministries have the necessary expertise to analyze the financial intelligence and to fully comprehend its ramifications for the financial sector. Foreign policymakers then must decide what action to take against Iran without a complete understanding of the risks involved.

Second, most foreign governments do not have the financial enforcement tools necessary to take action -- particularly with regard to Iran's WMD programs -- in spite of their United Nations obligations. UN Security Council Resolution 1540, passed in 2004, requires countries to develop national-level authorities specifically to combat WMD proliferation. (While the focus of the resolution was on proliferation by non-state actors, the powers developed in response could presumably be used more broadly to target state actors such as Iran, as they have been in the US). More recently, the UN Security Council passed resolutions 1737 and 1747 obligating member states to freeze the assets of a number of entities involved in Iran's WMD programs. Many countries, however, have not yet taken the steps required by the resolutions for domestic reasons.

While these two obstacles might sound like long-term problems that will take many years to address, this does not have to be the case. In fact, Treasury was able to build its capabilities in this area in a short period of time. Treasury's intelligence arm -- the Office of Intelligence and Analysis -- was created by Congress in 2004. Due to OIA's efforts, Treasury is already more fully integrated into the US intelligence community, greatly improving the department's access to intelligence information. OIA is also well on its way to becoming a center of expertise on the financial networks supporting terrorists, proliferators, and other national security threats. The main beneficiaries of OIA's development have been the senior Treasury officials responsible for formulating national security strategy, as OIA's primary mission is to ensure that these policymakers receive, and understand the significance of, current intelligence information.

Treasury was only granted broad authority to combat WMD proliferation in June 2005, with the issuance of Executive Order 13382. This order gave the department the ability to designate entities involved in WMD proliferation, thereby freezing their assets in the US, and cutting off their ties to the US financial and commercial systems. It has been used, in large part, to target Iranian WMD efforts -- with 19 Iranian entities and individuals designated thus far.

Perhaps most significantly, in January 2007 Treasury designated Iran's Bank Sepah -- a large state-owned bank -- under this order. According to Treasury, Bank Sepah has provided "extensive" financial services to Iranian entities involved in WMD proliferation. Illustrating the risks to the international financial system, Treasury noted that Sepah had also engaged in "a range of deceptive financial practices in an effort to avoid detection," which included asking other financial institutions to remove Sepah's name from international transactions.

While Treasury's success in building international support for its efforts against Iran depends in part on its ability to overcome these two obstacles, the systemic issues involved have implications beyond Iran. There are financial underpinnings to all serious national security threats, from the existence of terrorist organizations to rogue regimes. Finding a way to ensure that all countries address these issues as soon as possible is essential for the sake of international security.

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