

Foundation for the Defense of Democracies

**Presentation of Inaugural George P. Shultz Award
to the U.S. Department of Treasury Office of Terrorism and Financial
Intelligence**

**Speaker:
David Cohen,
Under Secretary for Terrorism and Financial Intelligence,
United States Department of the Treasury**

**Moderator:
Mark Dubowitz,
Executive Director,
Foundation for Defense of Democracies**

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MARK DUBOWITZ: (In progress) – I think it's the most important national security agency in the U.S. government, and that's the Treasury Department's Terrorism and Financial Intelligence Office.

And to understand what TFI does – David will tell you more, obviously, but he really takes the intelligence enforcement functions, and he guards the credibility of the U.S. financial system against illicit use. He combats rogue nations, terrorist facilitators, weapons of mass destruction proliferators, money launderers, drug kingpins and other national security threats. And that's just on Monday morning. So a remarkable portfolio, and I think you can understand why it's akin to a high-wire act. It's a tremendously difficult job. And when you know David and his team, you'll understand how they do it so successfully and really do it so gracefully.

So Under Secretary Cohen and the TFI team, we're going to honor you in a few moments with our first inaugural George P. Shultz Award for distinguished service for your remarkable resourcefulness at finding new ways of using the United States' financial influence and financial power to slow Iran's nuclear work, to hold those responsible for Iran's support of terrorism and egregious human rights abuses. And David leads a team that understands, I think, that sanctions are not a replacement for policy. But rather, as his colleague Assistant Secretary Danny Glaser has reminded us time and time again, sanctions serve a policy. And David keeps his eye on this high-wire act, and he engages in day-in and day-out.

I'd like you to please put your hands together to welcome Under Secretary David Cohen. (Applause.)

DAVID COHEN: So good afternoon, and thank you very much, Mark, for that very nice introduction. And thank you for inviting me to speak at the Foundation for the Defense of Democracies Washington Forum. And thank you to FDD's chairman, Ambassador Jim Woolsey, its president, Cliff May, and its distinguished board of directors and advisers for recognizing Treasury's Terrorism and Financial Intelligence team with this inaugural George P. Shultz Award. It is a great honor.

We at the Treasury Department's Office of Terrorism and Financial Intelligence, TFI in the vernacular, have long valued FDD's insightful analysis, creativity and deep commitment to combating the most repressive and dangerous regimes in the world. We have benefited greatly from FDD's work, ranging from its reports on the expanding reach of the Islamic Revolutionary Guard Corps to the deceptive practices of the Islamic Republic of Iran Shipping Lines, IRISL, to the ways to constrain Iran's proliferation-sensitive energy sector. We appreciate our partnership with you, and we are proud to receive an award given by you in the name of one of the great statesmen of the 20th century.

I'm happy to say that in Treasury's Office of Terrorism and Financial Intelligence, George Shultz is regularly on our minds, in part because one of the tables that he used while at Treasury now sits in the office of one of my colleagues, Danny Glaser. Secretary Shultz served with enormous distinction in challenging times, the epitome of a true public servant, wise, fiercely patriotic and dedicated above all to doing what's right for our country. As one of only a

handful of men in American history to serve as both secretary of state and secretary of the Treasury, only three before him and one since, George Shultz understood as few others can the essential link between America's economic strength here at home and our leadership abroad.

But I suspect that even Secretary Shultz could not have predicted the place that the Treasury Department now occupies in America's national security architecture. At the Treasury today, we work to advance our national security interests not only by securing and promoting our country's economic strength but by systematically and deliberately undermining the financial strength of those who threaten our national security.

So while my colleagues and – in the Treasury Department are hard at work repairing our economy, laying the foundation for sustained and balanced growth and job creation here at home and working to prevent and mitigate financial instability abroad, we in TFI are focused on leveraging the unique powers and status that comes from being firmly rooted in the United States Department of the Treasury to combat illicit finance and promote financial integrity, all in the service of key U.S. foreign policy and national security objectives.

No other finance ministry in the world houses an operation quite like TFI, an operation that fuses policymaking, financial intelligence, regulation, law enforcements, diplomacy and targeted financial actions.

Two of TFI's offices existed long before TFI was created in 2004: the Office of Foreign Assets Control, OFAC, and the Financial Crimes Enforcement Network, or FinCEN.

As many of you know, OFAC, which is led by Adam Szubin, develops and implements and enforces our economic sanctions programs. It has unmatched expertise in crafting and imposing targeted financial measures against illicit actors that I believe has revolutionized the world of economics sanctions.

FinCEN, which is now led by Jennifer Shasky Calvery, administers the Bank Secrecy Act, collecting and analyzing suspicious activity reports and other regulatory filings to combat money laundering here at home. And as our country's financial intelligence unit, FinCEN works with other FIUs around the world to combat all manner of financial crime.

A third office, the Office of Intelligence and Analysis, or OIA, was created shortly before TFI was established in 2004. OIA is Treasury's own fully integrated component of the U.S. intelligence community. The intelligence professionals in OIA make use of all source intelligence to uncover financial malefactors and map illicit financial networks. We are the only finance ministry in the world with our own in-house intelligence unit.

And when TFI was created in 2004, a new office was established to work with OFAC, FinCEN and OIA: the Office of Terrorist Financing and Financial Crimes, which is led by Danny Glaser. TFC has – TFFC has responsibility for policymaking across the spectrum of illicit finance. Its policy advisers work with colleagues in the U.S. national security community, in the private financial sector and in foreign governments, especially counterparts in the world's central banks, financial regulatory agencies, finance ministries and foreign ministries to identify and

address threats to the international financial system. TFFC also leads the U.S. government's work with the Financial Action Task Force, or FATF, which has developed global standards for combating money laundering, terrorist financing and proliferation financing. Acting together, these components create a unique and formidable role for Treasury Department in the U.S. national security community and among finance ministries worldwide.

And while I'm very grateful to FDD for recognizing TFI as an organization, I do want to emphasize that it is the folks who come to work each day dedicated to pursuing TFI's mission that deserve the recognition. They're too seldom recognized for their service and almost never outside their confines of the Treasury Department. So I'd like to beg your indulgence and take the opportunity to thank them here today for providing us the opportunity to do what we do. These are dedicated public servants who work in TFI, and I'd like to provide them some of the recognition that they deserve. So we have identified an employee from each of TFI's four component offices to represent their colleagues here today. And I would like to take a moment to introduce you to each of them and describe for you the contributions they are – they make each day to our national security.

First is Liz Farrow, who is our representative from OFAC. Liz, if you could stand. (Applause.) Liz is part of our critical licensing efforts that help ensure that our sanctions programs are having an impact on their intended targets and work to minimize the effects on others. Liz started working at OFAC in 1980, at the time of the Iran hostage crisis, and today serves as a senior sanctions adviser in the licensing division of OFAC.

Katherine Leahy Gupta is our representative from TFFC. (Applause.) Katherine has served for several years as TFFC's point person on improving global implementation of targeted financial sanctions, particularly to combat terrorist financing. Katherine has worked with the U.N. and FATF to develop standards and best practices for sanctions implementation, and she has created and coordinated workshops and bilateral engagements around the world to facilitate implementation of those standards.

Lee Davis is representing FinCEN today. (Applause.) A cheer for FinCEN there. Lee is a regulatory specialist in FinCEN's Office of Regulatory Policy, where he helps design the regulatory defenses to protect our national security and prevent our financial system from being used for money laundering and other serious financial crimes.

And Bill Sunderman, who is representing the Office of Intelligence and Analysis – (applause) – has served the American people for 45 years in both military and civilian roles. He has been with OIA since 2004 and provides vital support to our sanctions efforts by working with the rest of the intelligence community to ensure that the fantastic intelligence that they gather can be used to support our actions.

As a result of the work of Liz, Katherine, Lee and Bill and their colleagues, we are able to provide the president and his national security team with new tools to help bridge the gap between diplomacy and force. From Gadhafi to Assad, from Hezbollah to the Taliban, from Los Zetas to the Brothers' Circle, from al-Qaida's senior leadership to the new al-Qaida affiliates and from Tehran to Pyongyang, my Treasury colleagues identify, design and implement the

innovative strategies that help advance our most critical national security and foreign policy goals.

So let me now turn to one area where we see this work in action: applying pressure to Iran. As this audience is well-aware, we devote a substantial portion of our time and resources to the issue of Iran. Through intense and unrelenting pressure, we seek to make clear to the regime in Tehran that it faces a simple, inescapable choice: to address in a meaningful and concrete fashion the international community's very serious concerns regarding its nuclear problem or face ever-increasing financial and economic pressure.

The campaign of increasing financial pressure on Iran has been years in the making. Beginning with measures targeting specific Iranian financial institutions for their involvement in proliferation activity, Treasury engaged in a multiyear international outreach campaign to emphasize to financial institutions around the world the risks of doing business with Iran, all the while adding more and more Iranian entities to the sanctions list.

I can't emphasize enough the importance of that work. Our quiet but forceful conversations with our counterparts around the world prepared the battlefield for the more aggressive and more public effort that followed. Building on that foundation over the past two and a half years, the joint efforts of Congress and the administration through legislation, through executive orders and through constant, aggressive outreach to the private sector and to foreign governments have substantially increased the pressure on the Iranian government.

The Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010, CISADA, charted new territory. It offered foreign banks a clear choice: You can do business with designated Iranian banks or you can do business with the U.S., but you can't do both. With that powerful authority in place, Treasury again embarked on a global outreach campaign to engage with governments and financial institutions around the world to warn them off of business that could make them pariahs in the U.S. and, indeed, internationally.

Today, designated Iranian banks have largely been forced out of the international financial system. Last summer, we imposed CISADA sanctions on two foreign banks – Kunlun Bank in China and Elaf Islamic Bank in Iraq – that failed to terminate their business with designated Iranian banks, ending their ability to access the U.S. financial system and putting the world on notice of their activity. Where we have encountered resistance, we have acted, no matter how complicated or sensitive the relationship.

Turning the heat higher, legislation enacted at the end of last year adopted the CISADA model of secondary sanctions and used it to target the Iranian regime's most important source of revenue in the heart of its financial system: its oil and the Central Bank of Iran. With that new legislation in hand, Treasury, along with colleagues from the Departments of State and Energy, again launched a global campaign to explain the law and its implications and to encourage corresponding action by partners around the world. Amplifying the effect of these measures, the EU adopted its own asset freeze on the CBI, as well as measures to target Iran's oil revenues, putting in place a complete embargo on EU imports of oil as of last July.

Today the Central Bank of Iran has been largely isolated. Its ability to conduct international transactions is severely limited. And continuing the drum beat of amplified pressure, this summer the president issued an executive order designed to preclude Iran from developing work-arounds to the measures focused on the CBI. As a result of this action by the president, transactions for the purchase or acquisition of Iranian crude, petroleum products or petrochemicals, regardless of whether it involves the CBI, are potentially sanctionable.

These measures, combined with complementary international efforts to drive down Iranian exports, have hit the regime hard. Its crude exports have plummeted by more than 50 percent, costing Iran up to \$5 billion a month. This has put stress on Iran's already mismanaged budget, as oil exports have historically comprised about two-thirds of the Iranian government's budget revenue. We have seen reports of Iran having to cut back on some key programs because it lacks the necessary funding.

The executive order issued this summer contains another key provision that allows us to impose sanctions on anyone – a bank, a business or a person – who assists the government of Iran in acquiring U.S.-dollar bank notes. We know that the Iranian Central Bank has for a long time provided physical U.S. dollars to the currency traders in Iran, who sell those dollars for rials. Elementary economics tells you that any restriction on Iran's access to U.S. dollars will tend to drive down the rial's value, particularly as the demand for hard currency in Iran grows.

Now, we know that the Iranian government has grossly mismanaged its economy for quite some time, which has undoubtedly contributed to the – to the decline in the value of the rial. And we can't be sure whether the executive order or the mounting impact of the oil sanctions or the increasing limitations on Iran's ability to access the dwindling revenue it earns from its oil sales – or some combination of these factors and perhaps others – have contributed to the fall in the value of the rial.

But this fall we did witness a very rapid devaluation in the rial. In about one week's time in early October, the rial lost 20 percent of its value against the dollar. That came about nine months – that came after about nine months of steady weakening, during which time the rial had already lost about 35 percent of its value. This devaluation of Iran's national currency is putting quite significant stress on Iran's economy. And based on their public comments, we believe it is also putting significant stress on Iran's leadership.

Now, just days after the president issued the executive order this summer, he signed legislation that expands even further the range of existing sanctions on Iran. I'd like to highlight one key provision from that law that, together with this summer's executive order, represents perhaps the most dramatic escalation of financial pressure to date.

Under the new law, as of February 6th, 2013 – two months from today – any bank in any country that has received a significant reduction determination that is conducting a transaction with the Central Bank of Iran or a transaction involving the sale of Iranian oil can avoid sanctions risk only if it makes its payment into an account at a bank within the country that is purchasing the Iranian oil and only if those funds are used to facilitate nonsanctionable bilateral trade between that country and Iran.

Now, let me repeat this, because it's complicated but it's critically important. Even with the reduced sanctions exposure provided by a significant reduction determination, a foreign bank involved in the payment for Iranian oil must ensure that the payment goes into an account at a bank within the country that is importing the oil and then is used only to facilitate permissible trade between that country and Iran. The funds can't be transferred to a third country, they can't be repatriated to Iran, and they can't be used to facilitate third-country trade.

This is a very powerful sanction. Virtually all countries that purchase oil from Iran run a significant trade deficit, meaning the value of their oil imports are greater than the value of their exports to Iran. As a result, this provision should lock up a substantial portion of Iran's earnings from its oil sales in each of these countries.

As foreign financial institutions will no longer be able to transfer Iran's oil earnings beyond their countries' borders without the fear of losing their access to the U.S. financial system, Iran will be severely limited in its ability to transfer funds across jurisdictions. Iran's oil revenues will largely be shackled within a given country and only usable to purchase goods from that country. And as you might imagine, we have been hitting the road once again, making sure that our partners and the international financial community understand the significance of this provision.

Perhaps the greatest endorsement of our efforts has come from Iranian President Ahmadinejad himself. Speaking in October, Ahmadinejad said, quote: The enemy has announced that it has imposed sanctions on oil purchases from Iran. Well, a considerable share of Iran's hard currency revenues come from oil sales. Secondly, and even worse, it has imposed banking sanctions, meaning that if some oil is sold, its revenues are not transferrable or movable. This is a hidden war, a broad and heavy war, spread across the globe.

I disagree with only two things that he said. First, what we are doing is not hidden. It is being done for all the world to see and, indeed, is being done by all the world. Second, what we are doing is not a war. It is the alternative to war. We are committed to increasing the financial pressure on Iran as long as necessary, and we will continue to look for innovative ways to make the Iranian regime bear the financial costs of its behavior.

And although we are uniquely positioned to undertake this work, we recognize that we do not have a monopoly on good ideas. We will continue our dialogue with all of the stakeholders in this shared endeavor, the Congress, our international counterparts and the academic and think tank community, including FDD, to ensure that we are bringing forward the most effective and creative strategies that we can. In doing so, our hope is that we can all draw closer to a peaceful and secure world that respects the universal values of democracy, inclusion, tolerance and respect.

Thank you. (Applause.)

MR. DUBOWITZ: (Inaudible) – for questions – or if you have time?

MR. COHEN: Sure.

MR. DUBOWITZ: OK – folks, David’s remarks were on the record. We’re going to a brief Q-and-A off the record, so just to emphasize, this is off the record.

[SEVERAL MINUTES OF REMARKS OFF THE RECORD FOLLOWED HERE, AND HAVE BEEN REMOVED]

MR. DUBOWITZ: Great. Thank you very much. (Applause.) David, I want to – thank you for – thank you to you and your team for honoring us. I briefly want to honor you. We have a short video from George Shultz, who unfortunately couldn’t travel here from California.

And we do at FDD have – really have the privilege of having worked with Secretary Shultz. He’s a very close friend of Jim Woolsey’s and has been a real titan in public policy and diplomacy. David articulated I think the key points of his career. I mean, he has a career that spans decades, multiple Cabinet positions, secretary of state under President Reagan for seven years. He’s a recipient as well of the Presidential Medal of Freedom, the nation’s highest civilian honor. He is a unique man amongst American leaders, because I think he is somebody who is perpetually optimistic, optimistic about this country, optimistic about its greatness.

And I know that he was particularly touched not only to have an award named after him, but for that award to go to Under Secretary Cohen and Assistant Secretary Glaser and Deputy Assistant Secretary Bronin and Senior Director Adam Szubin and the entire TFI team, because his heart is still at Treasury. And I think we’re going to hear from him in a video, so let’s queue it up, and just some brief comments from Secretary Shultz.

(Video playing.)

SECRETARY GEORGE SHULTZ: Good afternoon, distinguished guests. It is my pleasure to address you this afternoon as we honor the Treasury Department’s Terrorism and Financial Intelligence team.

As the conversation at today’s Washington Forum have described, Iran’s rulers have been working to develop nuclear weapons in violation of multiple U.N. Security Council resolutions and their obligations under the Non-Proliferation Treaty. The regime in Tehran is among the world’s worst human rights violators. It is the world’s leading sponsor of terrorism. It threatens and incites genocide against Israel in blatant violation of international law. Nuclear weapons in the hands of such a regime would be a disaster for the United States, our friends and the entire world community. That is why three consecutive American presidents have stated clearly that it would be unacceptable for the Islamic Republic to acquire nuclear weapons.

Over the past decade, sanctions, especially financial sanctions, have become an important tool in bringing pressure against Iran, strengthening the hand of our diplomats, who are doing all they can to prevent military force from becoming necessary. I was so pleased when the Foundation for Defense of Democracies approached me with the idea of inaugurating an award in my name to honor individuals who have a distinguished record of service in national security,

and I'm doubly pleased that the inaugural recipient of the award is the Treasury Department's Terrorism and Financial Intelligence team, which have been at the center of the effort to develop the current sanctions regime as a vital element of the U.S. strategy for thwarting Iran's nuclear mark.

Prior to becoming secretary of state, I was secretary of the Treasury, so I have a firsthand appreciation of the enormous undertaking involved in the work this team is doing. Led by Under Secretary David Cohen, the TFI team is committed to working with our allies throughout the world to ensure a united front in fighting terrorism and illicit activity. This effort requires that the sanctions team has a high level of creativity, skill and determination.

It is evident that Under Secretary Cohen, Director of the Office of Foreign Asset control Adam Szubin and Deputy Assistant Secretary Luke Bronin and their colleagues are more interested in policy than politics. They are among the most effective civil servants in government today.

Sanctions development and tracking terrorism and WMD financing does not always receive the recognition it deserves. That's why I'm delighted to highlight the efforts of these skilled professionals who are making such an extraordinary contribution to our national security. It's appropriate that the Foundation for Defense of Democracies – led by its chairman Jim Woolsey, President Cliff May, Executive Director Mark Dubowitz – presents the TFI team with this award.

Since its inception 11 years ago, FDD's gifted scholars have produced outstanding research that regularly informs policy. In particular, FDD has emerged as the leading policy institute on Iran and sanctions and a trusted source for the administration, Congress, the media and – (inaudible) – government. So it is fitting that FDD recognizes these remarkable U.S. government officials who have turned TFI into such a powerful and indispensable tool for advancing the interests of the United States.

I applaud FDD for its important work and I'm delighted to honor the TFI team for its contribution to our country's national security.

(End video.)

(Applause.)

MR. DUBOWITZ: It's not for me to add any additions to Secretary Shultz's comments, but I do have one, and that is that Assistant Secretary Danny Glaser was not supposed to be here today, which is why he was not included in the video. (Laughter.) He actually was supposed to be overseas, I believe in China, where Danny spends a lot of his time – overseas – making the case for compliance, negotiating tough deals.

In fact, Danny, I have to say, if I had it my way, you'd be the head of the Iran negotiating team representing the P-5 plus one. And I think there are others who probably share that sentiment. So just wanted to ensure that all of you understand, this is an incredible team of four

individuals and of their teammates at TFI who've done a remarkable job. They are true patriots. They are hard working. They are dedicated.

I mean, I remember, I pulled a quote from fortune magazine which recently described TFI's work on Iran sanctions. And I thought actually – I think Emily wrote this. And Emily summarized this quite well. She said: At the epicenter of the U.S. sanctions program against Iran is a little-known bureau of the Treasury Department, familiar only to the most plugged-in of financial intelligence wonks. (Laughter.)

She went on to say: Of all the tools of foreign policy – diplomacy and aid, covert action – economic sanctions may be the least sexy.

MR. : I don't like that part. (Laughter.)

MR. DUBOWITZ: Now, that should have been written a few years ago, because at cocktail parties I'm sure that these gentlemen and others had a hard time describing what they actually did. But that has fundamentally changed because this has become, I think, a primary instrument of American power, and it's because of these gentlemen and their teammates at TFI that the U.S. government is confronting Iran with the full power and persuasion of the U.S. government.

So I want to put our hands together to present to the Department of Terrorism and Financial Intelligence the inaugural FDD George P. Shultz Award for Service. We had some Treasury restrictions associated with the award, so the award is over there. It had to be under eight inches, less than four inches wide and under \$25. (Laughter.) We didn't succeed, so let me just do one thing.

Here is the award. It fits most Treasury specifications, but it doesn't in terms of value. So, as a result, we will keep the award at FDD. (Laughter.) And I think something with even more value is this letter to all of you from Secretary Shultz. And it's a letter from – on his Stanford University letterhead. And I believe this meets all the specifications that were provided to us, so let me hand that to you folks. And thank you again. Please, a round of applause for TFI team. (Applause.)

(END)