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[Subject Index](#)

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[Home](#)[Issues & Press](#)[Travel & Business](#)[Countries](#)[Youth & Education](#)[Careers](#)[About State](#)You are in: [Under Secretary for Political Affairs](#) > [From the Under Secretary](#) > [Remarks](#) > [2007 Under Secretary for Political Affairs Remarks](#)

Briefing on Iran

R. Nicholas Burns, Under Secretary of State for Political Affairs, and Under Secretary of Treasury for Terrorism and Financial Intelligence Stuart A. Levey

Washington, DC

October 25, 2007

MR. MCCORMACK: Good morning, everybody. Thanks for being here so early in the morning. We have Under Secretary Nick Burns and Under Secretary Stuart Levey from the Department of Treasury. They are going to make a couple brief opening remarks. But mainly they are here to answer your questions about the action that [Secretary Rice](#) and [Secretary Paulson](#) took this morning and everything's on the record.

UNDER SECRETARY BURNS: Good morning. I just wanted to say a few words about the designation announcements made by Secretary Rice and Secretary Paulson. I know Under Secretary Levey will have a few words to say and then we'll be very happy to take your questions.

This is in our view a powerful statement that the United States is making today and it has been in the works, of course, for quite some time, because we believe increased pressure needs to be put on the Iranian Government for its activities in two areas. First, Iran continues its nuclear research at its plant in Natanz into enrichment and reprocessing, as Mohamed ElBaradei's reports have shown over the last few months. Since the passage of the last UN Security Council sanctions resolution on March 24th -- that was 1747 -- Iran has decided to progress with that research and there are no signs that we've seen, that is, that it is slowing down. And it certainly hasn't met the demand of the United Nation Security Council and of the IAEA Board of Governors that it fully suspend those operations.

And so as Secretary Rice said on a number of points in her statement, we are focused on diplomacy, we want to get to a diplomatic solution through negotiations, but Iran has to accept that path.

And if you go back to the very first offer that the P-5 countries made on June 1, 2006 in Vienna, it is very clear that we were offering Iran those two paths. One path was negotiation. The second path was -- we said would be sanctions. Now, we very much hope that the Security Council will take up its responsibilities and pass a third Security Council resolution on the nuclear issue in the shortest possible time. But the United States, of course, has always reserved the right to

act independently as other countries do in a number of respects, as the European Union countries are beginning to consider doing on their own, and that is one reason why we have taken the steps we have taken today.

On the terrorism issue, we are designating the Qods Force for terrorism purposes. If you remember back to UN Security Council Resolution 1747, and one of the strongest aspects of that -- measures in that resolution -- Iran is prohibited by the United Nations Security Council, by the resolution, from transferring arms to anyone, any group, or any country outside of Iran. And since the passage of that resolution in late March, Iran has transferred arms to Hamas and to Hezbollah in Lebanon and to the Shia militant groups in Iraq and to the Taliban in Afghanistan. And so Iran has willfully violated the UN Security Council resolution. And you've seen the designation. You've seen the rationale that Secretary Rice and Secretary Paulson have put forward.

We believe it is time for diplomacy to become more effective. We believe that is the responsibility of all members of the Security Council and of the General Assembly because under Chapter 7 it is an obligation for all members of the UN General Assembly to implement these sanctions. The United States is doing so today in our way. This is a powerful set of actions and it is meant to get the attention of the Iranians, to drive up the cost to them of their behavior. We hope the response from the Iranians sooner or later will be to accept the offer that we made again this week to find a way towards negotiations. As Secretary Rice mentioned, Javier Solana met the other day with Saeed Jalili and Dr. Larjani in Rome, and he reaffirmed on behalf of the P-5 countries, including the United States, our interest in getting to a negotiation. But Iran has commitments it needs to make in order to bring those negotiations about.

So I wanted to say those few words as introduction and ask Stuart if he'd like to take the floor.

UNDER SECRETARY LEVEY: Thank you, Nick. I'd just like to spend a couple of minutes to highlight one aspect of the actions that were taken today, which is as Under Secretary Burns laid out that Iran is engaging in this activity with respect to its nuclear program as well as activity with respect to terrorism.

The way they're doing that is in large part by using their state-owned banks. The UN Security Council has already recognized this. They've already designated a significant state-owned bank, Bank Sepah, in 1747, back in March. Today's action, we're designating three more of the largest Iranian state-owned banks: Bank Melli, Bank Mellat and Bank Saderat, again, for engaging in proliferation activities and in terrorist financing. These are three of -- again, three of Iran's largest banks. They have branches all over the world, as you can see from the fact sheet that we've passed out.

The reasons that we've designated them and the reasons that Bank Sepah was designated at the United Nations should concern financial institutions and other legitimate businesses all over the world when they think about whether they want to do business with Iranian entities. There was a significant development two weeks ago in the Financial Action Task Force, which is something maybe the Treasury press corps may be a little bit more familiar with, but it's a very important organization; essentially, 34 of the largest economies are members of the Financial Action Task Force. It is an organization set up by the G-7 to set standards for anti-money laundering and terrorist financing activities for countries all over the world.

In addition to those 34 countries that are members, over a hundred countries around the world have signed on to those standards set by the FATF through subsidiary bodies. On October 11th, the FATF put out a statement which recognized Iran as providing a significant vulnerability to the integrity of the entire international financial system because it does not have a comprehensive anti-money laundering or counterterrorist financing regime.

So if you put that statement together, which again is put out by a multilateral technical body, which includes Russia and China and others as members, about the significant vulnerability posed by Iran, you put that together with them using their state-owned banks in a consistent way as we've laid out in the fact sheet -- Bank Sepah, Bank Melli, Bank Mellat, Bank Saderat -- Iran's conduct is quickly turning it into a financial pariah and that is an aspect that I think of today's actions that I'd like to highlight.

And we'll take questions.

QUESTION: I guess first of all, congratulations are in order for last night, but since you probably could go to bed after the sixth inning, you -- I'm not too sorry for you.

UNDER SECRETARY BURNS: I stayed up till the very end because you never know with the Red Sox.

(Laughter.)

UNDER SECRETARY BURNS: So Sean, I think, actually admitted that he left in the -- went to bed in the sixth inning, but I stayed up till the end.

QUESTION: Can I ask you a couple of things on -- one, are there parallels or can you -- can one draw parallels between what you've done today and the so-called unintended consequences of the BDA designation in terms of the impact and the effect that it will have. And if you can or if you can't, can you say what you expect -- how you expect the isolation and pariah-hood to manifest itself?

And secondly, I just -- on the idea of the ministry of -- of the defense ministry, I believe that that is designated, correct? Or am I -- it is designated in its entirety, but also separate entities within it? Is that --

UNDER SECRETARY BURNS: Okay, I'll be happy to take both questions. Maybe I can take the first and Stuart can take the second.

On the first question, we've been very clear and the P-5 countries have been very clear going back to the June 1, 2006 historic offer that was made. Let's remember what that offer was. We agreed that we wanted to make it possible to bring the benefits of civil nuclear power, peaceful nuclear power to the Iranian people. And so in that offer, we offered, for instance, to help Iran construct light water reactors. We offered other economic inducements if Iran would turn away from a nuclear weapons research program, from the activities that they've undertaken at Natanz of enrichment and reprocessing research.

Iran rejected that offer. We said at the time, the P-5 countries, that if they could not accept that offer, there was another path. They would choose. And that path was one of isolation and sanctions. And so we've now -- since then, we've passed three Security Council resolutions against Iran in July '06, December '06, and March '07. The last two were Chapter 7. We're working on a third. The agreement that we have with the P-5 countries that Secretary Rice made on September 28th in New York is, if there is not substantial progress by the middle of the month of November by -- reported to us either by Mohamed ElBaradei or Javier Solana, there will be a third Security Council resolution.

So this should be no surprise to the Iranian Government that their refusal to negotiate has an answer. The Iranians need to know that there will be consequences from what most of the world, nearly all the countries of the world don't want to see happen. We don't want to see -- we don't want Iran to proceed down the path to become a nuclear power, to have a nuclear capability. The consequences are heightened sanctions, tougher sanctions, and increased isolation.

What you saw -- what you've seen happen over the last year or so are the impact of the two Chapter 7 regulation -- resolutions. Now activity by some countries, Britain and France of the European Union, for instance, saying that other countries should proceed in parallel with the UN to take their own actions; we've seen some of our Asian allies diminish state lending and state support for their businesses to trade with Iran; we've seen the European governments do that as well and we've seen private banks take actions of their own.

So there is an international consensus that Iran does need to be isolated, that sanctions are appropriate, and the United States is adding its voice today to that consensus saying, here's what we could do. And I do believe that these are the most significant actions that our country has taken probably in the last 28, 29, 30 years since the Iranian Revolution and quite appropriately so. But I would draw you back to what Secretary Rice said today, we're focused on diplomacy. We want diplomacy to work. But sometimes for diplomacy to work, particularly a complex diplomatic movement over several years, which is what we're engaged in, it does need to be buttressed by sanctions.

Just a word about the -- one of the organizations we're designating today. The Islamic Revolutionary Guard Corps Command is the formal name, transliterated, of the IRGC. We commonly refer to it, reporters and diplomats, as the Iranian Revolutionary Guard Corps, but its formal name for designation purposes, for legal purposes, is the Islamic Revolutionary Guard Corps, so you'll see that -- you'll see both names used in our presentations and in our documents. I just wanted to explain that if there are any questions.

UNDER SECRETARY BURNS: Do you want to take the MODAFL one?

QUESTION: Well, I was looking for -- I mean, that was a -- thanks, it was a great overview, but it wasn't the answer to my question.

UNDER SECRETARY BURNS: Thank you. I appreciate that. I answered your first question, didn't I?

QUESTION: Yeah, but what do you expect that -- the practical effect on the ground that -- will it be similar to what we saw with BDA, where people are just -- or you're hoping that people are just going to, you know, completely shut --

UNDER SECRETARY BURNS: Let's do this -- yeah, we'll both take a swing at this. This has nothing to do with BDA.

QUESTION: I know it has nothing to do with it. But --

UNDER SECRETARY BURNS: That's apples and oranges. This is a completely different part of the world and a different continent.

QUESTION: All right. So I shouldn't have asked the question because I knew --

UNDER SECRETARY BURNS: No, you were right to ask the question, but that was the answer I give you.

QUESTION: All right. Never mind.

UNDER SECRETARY BURNS: Okay.

QUESTION: Let me take a crack at it. I mean can you -- the practical effects of what happened in a situation in an action you took similar to BDA, are you hoping that this will inspire everybody to just hands off Iran because the financial risks are too great?

UNDER SECRETARY BURNS: The trend is towards greater international action. And the United States is contributing to that today. And we hope, obviously, that other countries will do what they can do, both to contribute to Security Council action and to take action outside the Council.

UNDER SECRETARY LEVEY: I think one similarity, and maybe this is what you're trying to get at, is one of the practical effects on the ground that we've already seen and that we think we will see from this is the private sector acting, the private sector acting to pull back from business with Iran. We've seen a dramatic effect in the last several months with financial institutions and others deciding they don't want to be bankers for this regime. That's what Secretary Paulson said. There is a similarity to the incident in the other question, which is the private sector acting to protect itself from risk of being involved in illicit activity and regimes finding that very painful. And I think that Iran will also have that same experience. It's their conduct that is isolating them from the international financial system. For example, the kinds of conduct that led to the FATF issuing its statement. That is really significant. It's the only country in the world that has been identified by the FATF as providing that significant vulnerability. I think that kind of financial isolation that can be imposed by the private sector that we did see in the North Korea context is an aspect of it.

QUESTION: Just a quick follow-up. You do this -- when you talk about this, you talk about this in the context of the sanctions that you're imposing and the diplomatic track on the nuclear front. However, some of these sanctions are directed for activities that are taking place in Iraq and terrorist-related things. Are you -- is there any concern that this could muddy the waters in terms of the international consensus that you have moving ahead on the Iraq diplomatic track? Because while everyone's said that they're concerned about Iranian behavior in Iraq, you haven't seen the same kind of international concerns.

UNDER SECRETARY BURNS: I'm not concerned that there's a problem in the international reaction to this because I think that countries will do what's in their best interest. Now, we're a different type of country. We have our national interests engaged, on the line, in Iraq. And as we have said before, we think that Iranian assistance to the Shia militant groups is providing the technology with which they then subsequently -- those Shia terrorist groups -- attack American soldiers and kill and maim American soldiers. So that's a serious issue for us, as is the -- and we have troops there.

And Iran transferring arms to the Taliban, we've got 27,000 American troops in Afghanistan. We have a duty to protect those troops from those arms transfers. And the same is true of our -- basically, the fact that we are right now taking the lead in trying to bring Israel and the Palestinians together. Secretary Rice is doing that. And yet, Iran continues to assist both Hezbollah and Hamas, both groups resolutely opposed to peace between Israel and the Palestinians.

So not all countries may have the breadth of interests the United States has. We certainly have them. And so the dual nature of today's action to focus on proliferation for nuclear purposes but terrorism for Iran's regional actions makes sense to us. I don't think you'll see every country do that because not everyone has the same degree of interest we have. But we certainly think it's in our national interest to take the action.

QUESTION: Secretary Paulson said something very striking about how he wanted other countries and other banks to respect and act in line with the prescription of Bank Melli and other banks. To what extent would you imagine that this would prefigure or actually duplicate the kind of steps that would be in a UN Security Council resolution striking Bank Melli?

And if I could, just also what's the difference between putting someone on the list as a terrorist organization and putting someone on the list as supporting terrorist organizations, as appears to be the case here with the Qods Force? In practical terms, what does that mean?

UNDER SECRETARY LEVEY: One precedent we have is what happened with Bank Sepah, where we designated Bank Sepah in a similar way in January of 2007, and then a few months later the UN Security Council placed Bank Sepah on the Annex to 1747. We think that the evidence here is very strong and we would like to see UN Security Council action in a similar way. But at the same time, I think what Secretary Paulson was saying is that we are sharing this information, putting it out there to governments and to the private sector around the world, and he was very explicit in saying that he thought that financial institutions and others should stop doing business with Bank Melli, Bank Saderat, Bank Mellat and as they should have done with Bank Sepah. So we're explicitly asking for that.

In terms of the difference between the two sorts of actions, one being what we've done today, which is designating the Qods Force for providing material support to the Taliban and other terrorist organizations, as opposed to naming it as a terrorist organization, which we have not done -- we have previously identified Iran as a state sponsor of terrorism and this is essentially identifying the portion of Iran's Government that it uses to export terrorism, in a sense. And it is the conduct that we are focusing on, which is not engaging in terrorist activity directly but providing material support to the Taliban, to Hamas, to Hezbollah and others. Incidentally, providing support to the Taliban is not just something that we have a domestic interest in stopping, but that is a violation of another UN Security Council Resolution 1267 which forbids all member -- any entity from providing material support to the Taliban.

Does that answer your question?

QUESTION: No, what's the technical difference?

UNDER SECRETARY LEVEY: Oh, okay, in terms of what happens.

QUESTION: On the ground.

UNDER SECRETARY LEVEY: On the ground. If -- under the Executive Order designation that we did today, 13224 designation, all U.S. persons wherever located have to block and freeze all property under their jurisdiction, or that comes into their jurisdiction, that the Qods Force has an interest in, okay. If an entity is identified as a foreign terrorist organization, the requirement only applies to financial institutions and they must only -- and the requirement that

they block funds is only -- applies to funds not all property. Whereas, for example, in the -- maybe a hypothetical situation, if there were other types of property besides funds that came into the hands of a U.S. person and not a financial institution that would have to be blocked pursuant to the kind of designation that we've done today.

Does that make sense? There are legal differences. All U.S. persons, not just banks. All property, not just funds.

QUESTION: (Inaudible.)

QUESTION: This is tougher.

UNDER SECRETARY LEVEY: It is tougher.

UNDER SECRETARY BURNS: Much tougher.

QUESTION: Just to follow up to the first question. Does that mean all the companies listed on this are banned from any U-turn transactions, that no one can access dollars on their behalf, et cetera?

UNDER SECRETARY LEVEY: Yes.

QUESTION: Nick, one of the things I'm trying to understand is that the reality is there are very few American banks or companies that do business with Iranian Revolutionary Guards. President Bush himself said a few months ago in one of his big Iran speeches that America has in many ways sanctioned itself out of leverage when it comes to Iran. Practically, on the ground then, where are the teeth? Does that mean that if a Russian bank, for instance, if a Russian bank -- if there's some member of the Qods Force that has assets in a Russian bank, does the U.S. have any jurisdiction over that? Or is it just a matter of trying to tell the Russian -- this Russian bank that, you know, you should -- I mean, where do we have any -- I mean, it's not like --

UNDER SECRETARY LEVEY: I don't think -- I mean, I'm not (inaudible) doing this, but I think that effect you're talking about it is very powerful. What we've seen when we take action in this kind of way and identify individual entities or even individual people who are engaged in specific illicit conduct, financial institutions around the world do listen. They don't want to do business with these people. They don't want to do business with people who are proliferators. They don't want to do business with people who are terrorists. When it comes to Iran, it's very difficult to determine whether the person you're doing business with is somehow drawing you unwittingly into transactions that are related to terrorism or proliferation. And it does have a very powerful effect beyond what might be legally required under their domestic laws.

So I think these kinds of things have very powerful actions on the ground, even before we start talking to other governments about imposing similar constraints. And I think we have a historical example that your colleague pointed out.

QUESTION: Do you have an estimate of the dollar amounts of the amounts of assets that these designates have, any of the U.S. banks or banks overseas?

UNDER SECRETARY LEVEY: We don't have that information and that's not information that we could --

QUESTION: You can't give me a ballpark figure?

UNDER SECRETARY LEVEY: I'm sorry.

QUESTION: Can you tell us any reason why these banks in particular -- was it the transactions that you noticed in these banks? And how many other state-owned banks are there? I mean, are there dozens, hundreds? I guess I just don't have a sense of what piece of the pie this is.

And I have a question afterwards for Nick Burns.

UNDER SECRETARY LEVEY: Well, these banks -- if you put Bank Sepah, Bank Melli, Bank Mellat, Bank Saderat together, this is a significant swath of their state-owned banks. I don't know the percentage off-hand, but well over a majority, I'd say, of their banking system I think would probably be covered by these designations.

We have in the fact sheet summarized some of the evidence that we have on these banks and I'll just hit a couple of highlights.

With respect to Bank Melli, we have Bank Melli handling transactions for Bank Sepah after its designation. We have Bank Melli handling transactions for the DIO, already designated, for SHIG, already designated both the United States and by the United Nations, and even taking deceptive actions to prevent others from knowing what they're doing, like asking -- taking precautions to take Bank Sepah's name off of transactions when they're handling transactions for it. Bank Melli also, even though it has designated for proliferation, was also handling business for the Qods Force. And from 2002 to 2006, was used to send over \$100 million to the Qods Force. This is the kind of evidence we have.

You can see -- it's in the fact sheet, I don't need to -- you can read it.

QUESTION: So it's no surprise that this is just going to drive some of these activities underground. I mean, it's just going to make it -- they're going to continue to try to do these things but in a more --

UNDER SECRETARY LEVEY: I think the Iranians have -- the Iranian state-owned institutions have shown -- and I think you've made an excellent point -- the Iranian state-owned institutions have shown that they were going to try to engage in deceptive conduct to -- including to evade sanctions that are already imposed on them by the United Nations. And the information about Bank Melli and Bank Mellat are good examples of that.

The effect though, is what are the other financial institutions around the world going to do? Are they going to continue to do business with Bank Melli and Bank Mellat and Bank Saderat and Bank Sepah when they see this kind of conduct? And that's the real power of today's actions.

QUESTION: Can I ask --

UNDER SECRETARY BURNS: I think you had a follow-up. No?

QUESTION: I'll take it at the end.

QUESTION: Two things. Matt alluded to the Ministry of Defense sanction. Can you just clarify what that is? And following up on Helene's question, is there a threat of secondary sanctions here against banks that do business or entities that do business with these people? Because Secretary Rice said yesterday she doesn't like secondary sanctions.

UNDER SECRETARY BURNS: Okay. The Ministry of Defense and Armed Forces Logistics Organization controls the Defense Industry's Organization of Iran. We've talked about that before. That -- and that industry is in the Annex of 1737, so it was one of the first bodies of the Iranian Government that was identified by the United Nations Security Council for proliferation purposes. And that organization has responsibility for ballistic missile research and activities. Now that's important because that's a part of the state apparatus that may contribute to the creation of a nuclear capability.

And so what we have tried to do -- this is very much consistent with the approach we've taken in UN Security Council sanctions -- we've tried to look at the individuals who work in the uranium nuclear industry and sanction them with travel ban in 1737 and 47, the asset freezes in 1737 and 47, and also looking at the institutions of the government that play a role in the nuclear industry. And so we're just simply strengthening, from an American legal point of view, the sanctions that the United Nations Security Council had already set out.

QUESTION: But it's not the whole Ministry of Defense, it's just this --

UNDER SECRETARY BURNS: It's not the whole Ministry of Defense. It's that particular part of the Ministry of Defense, exactly.

QUESTION: And the thing about the secondary sanctions?

UNDER SECRETARY LEVEY: We're not threatening secondary sanctions on institutions. What I think Secretary Paulson is trying to say and what I'm trying to express as well is that financial institutions are making these decisions on their own and that's, we think, a positive development.

QUESTION: The Russians cautioned several times against unilateral actions during the process of the P-5+1 and you said you will still count on a new -- a third resolution. How do you think you can get the Russian support after this kind of measures?

UNDER SECRETARY BURNS: Well, I think it should not be a surprise that the United States is taking actions to defend its own national interests. All countries do that. What we have in the P-5 is not an agreement that we only -- that we work together on all aspects of Iran policy. We have an agreement that we are trying to stop them from developing a nuclear capability and we do that through either the encouragement towards negotiations or sanctions. That's the agreement. But the United States has never said that we would constrict our actions, our national actions, to conform to that group. Other countries have not said that.

You've now seen Britain and France initiate a debate which we hope will be successful in the European Union for EU sanctions outside the Security Council. Russia and China have their own national policies towards Iran. They have diplomatic relations. They sell arms to Iran, Russia's engaged in the Bushehr project. So we have not -- you know,

we disagree with the fact that Russia and China sell arms, but we've never accused them of being somehow outside the framework of the P-5. We just have a disagreement with them. So I don't know how they'll react. They may disagree, they may not. But we -- there's every reason for us to proceed in the P-5 towards a third Security Council resolution based on the agreement that we made together on June 1st, 2006, the P-5 and Germany, to act together on that particular question.

Robin and then we'll go --

QUESTION: Two questions. First of all, this has obviously been in the cards for some time. Why did it take so long to actually implement it? And secondly, can you give us -- there are nine IRGC companies listed here -- can you give us a sense of what they are specifically involved in?

UNDER SECRETARY BURNS: On the first question, we've come to the point -- particularly after the discussions that we had in the P-5 and with a lot of countries in New York during the UNGA in the last few weeks of September -- we've come to the point in our government where we believe that the international community has been right to isolate Iran. It has been right to pass the three sanctions resolutions. And it's right to continue that process, but the diplomacy isn't sufficiently strong. Because the Iranians are doing two things: They're continuing with their nuclear research, as ElBaradei has attested; and they're continuing their support for terrorism. So it is in our national interest to strengthen the diplomatic effort through sanctions. Sanctions are a tool of diplomacy. And we think that now is the right time. We're six months past the date where we should have passed the third Security Council resolution -- six months past it.

We haven't seen the kind of action from many countries around the world who trade with Iran. China, for instance, has increased its trade with Iran at a time when most other members of the United Nations Security Council are decreasing trade with Iran. So we haven't seen the strength of effort that we would have liked to have seen. And since we believe in diplomacy and want to make it work, we have to find another way to make diplomacy work and that is through these strengthened sanctions.

QUESTION: And the nine companies, can you give us just a sense of -- on your list --

UNDER SECRETARY LEVEY: Sure.

QUESTION: -- what they may be involved in -- pharmaceuticals, construction, whatever?

UNDER SECRETARY LEVEY: Well, essentially-- these are significant companies owned or controlled by the IRGC. And what we've seen over the last year or so is a growing prevalence of IRGC companies in the Iranian economy often getting no-bid contracts from the regime. They're involved in a diverse array of activities as we've said in our fact sheet: petroleum production, transportation projects, construction deals that have been given to companies that are associated with the IRGC. The largest and I think most significant of those is Khatam al-Anbya, which is the first one that we've named. I may be mispronouncing that, but that's how I believe it's pronounced -- Khatam al-Anbya -- which in 2006 had over \$7 billion worth of deals given to it in the oil, gas and transportation sectors, among others.

QUESTION: And the others? I mean, can you just give us a sense of who these -- what these companies do, so --

UNDER SECRETARY LEVEY: Well, it -- there are -- they're all involved in different sorts of activities. But many of them

are actually affiliated with Khatam al-Anbya as well.

UNDER SECRETARY BURNS: I think what we can do, if you're interested, we can have a separate phone conversation for any of you interested with some of our experts to go through the details on the companies. There's a lot of evidentiary information that backs this up that we didn't put in the fact sheet.

QUESTION: It might be helpful as well to get a sense of what the banks, besides what's on the fact sheet, what the banks are doing and what evidence do we have that they are, you know, proliferating?

UNDER SECRETARY LEVEY: Well, I --

QUESTION: We can do that in this conversation --

UNDER SECRETARY BURNS: Okay.

QUESTION: A senior EU-3 official today described this as a unilateral American action -- the Americans going off on their own to do this and said that the Europeans were still very focused on the targeting, the sanctioning of individuals and companies, and this was a real departure; in other words, designating the entire IRGC, the Ministry of Defense in this way. And one of the fears of the Europeans is that this will lead to war. Can you comment on that?

UNDER SECRETARY BURNS: I'd be very cautious and I know you will be, in generalizing about one person who probably didn't talk to you with his name attached to the quotes. I spoke to a number of European officials this morning and got a very positive response from the people I spoke to. So I'm sure we're both going to be able to find people who support this and I'm sure there'll be people who don't. But I'd be cautious in anticipating somehow there's going to be a general reaction opposed to this because there are a number of countries in Europe who do believe that we need to take stronger sanctions actions against Iran.

Secondly, we are focused on diplomacy. We do not believe that conflict is inevitable. It is certainly not desirable. We want to have a peaceful resolution of this problem that Iran has caused by seeking a nuclear capability. We have been very patient. For two and a half years, since February/March '05, the President and Secretary of State have asked us to pursue a diplomatic track. We have done that. We're in the middle of it.

And so we have to have continued patience to see diplomacy work, play out, and it may be some time where we have to play out diplomacy and see how the prospect for negotiations and the leverage that sanctions brings might be able to produce a success, which would be a negotiation and Iran deciding not to pursue a nuclear capability. So this decision today supports the diplomacy and it does -- and in no way, shape, or form is it -- does it anticipate the use of force. Now the President has never taken that option off the table and quite rightly so, but we are clearly on a diplomatic track and this initiative reinforces that track.

QUESTION: I'd like to know what these sanctions mean for Iranian economic involvement in Iraq and what effect, if any, you would expect them to have on the Iraqi economy.

UNDER SECRETARY LEVEY: I think that the institutions that we have designated, including the banks, that we would

have the same hope with respect to Iraq that we have with everyone else, which is that they would not do business with these designated institutions. Whether that means that there can be no economic involvement in Iraq from Iran is a whole another question. I think it would certainly have an effect to the extent that these banks and other companies that are designated are attempting to do business in Iraq, but I don't have an estimate for what percentage of Iranian involvement in Iraq that that would cover.

QUESTION: How deeply involved are these banks in Iraq?

UNDER SECRETARY LEVEY: Again, I don't know. I think that you can see on the fact sheet that there are -- at least one of them has a branch there, but whether that is a significant part of the Iranian involvement in Iraq, I really don't know.

QUESTION: Thank you.

2007/931

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