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Testing the Limits: Iran's Ballistic Missile Program, Sanctions, and the Islamic Revolutionary Guard Corps

Elizabeth Rosenberg, Senior Fellow and Director, Energy, Economics, and Security Program
Center for a New American Security

Chair Ros-Lehtinen, Ranking Member Deutch, distinguished members of the committee, thank you for the opportunity to testify today on the topic of IRGC and Iran ballistic missile sanctions.

International sanctions on Iran's ballistic missile activities and the Islamic Revolutionary Guard Corps (IRGC) are an integral component to the broad-ranging and powerful financial measures that target and isolate Iran for its nefarious activities. They are at the heart of the U.S. sanctions on Iran, and set an impactful and appropriately aggressive tone for Washington to pursue its interests with this destabilizing regime. Congress has provided critical leadership in the effort to expose and target Iran's missile activity and the threatening activities of the IRGC. This includes important oversight of executive branch activities enforcement of existing financial sanctions authorities. I applaud your leadership and this important work, and urge your continued attention to make it clear to Iran that while the international community has entered into a strong agreement with Iran over its nuclear program, policy leaders, including those in Congress, will aggressively seek to hold Iran to account for its threatening ballistic missile activity, continued support for terrorism, and regional destabilization.

Current U.S. Sanctions on Iran's Ballistic Missile Activities and the IRGC

The United States has imposed sanctions on the IRGC and Iran's ballistic missile activities, which are supported and controlled by the IRGC,¹ pursuant to a variety of legal authorities. These various designations highlight the IRGC's weapons proliferation, human right abuses, including through cyber-enabled means, and, in the case of the IRGC's Qods Force, its support for terrorism. While the nuclear agreement with Iran, the Joint Comprehensive Plan of Action (JCPOA), rolled back many sanctions on Iran related to its nuclear activities, financial restrictions on entities involved in Iran's ballistic missile development and the IRGC remain firmly in place. As recently as March 21,

¹ Greg Bruno, Jayshree Bajoria, and Jonathan Master, "Iran's Revolutionary Guard," Council on Foreign Relations, June 14, 2013. <http://www.cfr.org/iran/irans-revolutionary-guards/p14324>.

Bold.

Innovative.

Bipartisan.

2017, the Trump administration sanctioned a group of entities and individuals for involvement in the transfer of sensitive items for the country's ballistic missile program.² Sanctions such as these prevent U.S. companies and individuals from doing business with Iranian ballistic missile-linked entities or the IRGC. Importantly, remaining secondary sanctions also specifically prevent foreign companies and individuals from doing business in the United States if they do significant business with the IRGC.

Ballistic Missile Sanctions

Sanctions on Iran's ballistic missile activities seek to expose and counter the agencies and entities that develop and deploy Iran's ballistic missile program. Along with regional missile defense capabilities and the U.S. military's significant presence in the Middle East, they are an integral part of the United States' efforts to deter Iran from using missiles to threaten its neighbors and protect U.S. interests in the region. This Iranian missile arsenal is the largest and most lethal in the Middle East, and is fundamental to the Iranian strategy to project power and influence. Perhaps the greatest threat it presents, however, is the potential for these missiles to serve as delivery systems for nuclear weapons. With the JCPOA in place, Iran has agreed to dramatically limit its nuclear enrichment for a number of years. This relegates the most serious concerns about an Iranian nuclear ballistic missile capability to the medium- to longer-term, when provisions in the JCPOA begin to roll off. However, now and in the near term, Iran's missile program presents a threat to U.S. interests and regional stability.

A variety of UN sanctions on Iranian WMD procurement networks and weapons exports remain in place following the JCPOA, but the international body is not aggressively targeting Iran's continuing ballistic missile activities. United Nations Security Council Resolution 2231, the resolution which endorsed the JCPOA and succeeded a series of prior resolutions dealing with Iran's threatening nuclear activities, calls upon Iran "not to undertake any activity related to ballistic missiles designed to be capable of delivering nuclear weapons," for eight years.³ While an important signifier of international concern over Iran's missile program, it does not require Iran to refrain from ballistic missile activities and is not a ban. Additionally, if Iran claims that it is not working toward nuclear weaponization, then Iran can claim that no ballistic missile activity could be designed to be capable of delivering nuclear weapons. Therefore, some will interpret this to mean that Iran will never be in contravention of this provision of the resolution. Ultimately, this will undermine any serious effort by the Security Council to review or deny any transfer to Iran of goods or technology that could contribute to nuclear weapons delivery systems.

Particularly because the UN's response to Iran's threatening ballistic missile program in Resolution 2231 is relatively limited, many U.S. policymakers seek an aggressive use of national-level sanctions to target Iran's missile proliferation. By imposing U.S. sanctions, leaders in Washington can lead allies in signaling to Iran an international intolerance of Iran's ballistic missile threats. Also, if U.S. policymakers continuously update missile sanctions, regularly adding new designees to U.S.

² "Iran, North Korea, and Syria Nonproliferation Act Sanctions," U.S. Department of State, media note, March 24, 2017, <https://www.state.gov/r/pa/prs/ps/2017/03/269084.htm>.

³ United Nations Security Council (SC), Resolution 2231, July 20, 2015, [http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/2231\(2015\)](http://www.un.org/en/ga/search/view_doc.asp?symbol=S/RES/2231(2015)), 99.

sanctions' lists, they can have a meaningful effect on hampering Iranian missile procurement and financing channels. Without this maintenance, it is easy for Iran to form shell companies or front companies to evade sanctions.

IRGC Sanctions

Financial sanctions imposed by the United States on the IRGC are far ranging and include targeting of its ballistic missile proliferation activity,⁴ its involvement in human rights abuse,⁵ and the support of the IRGC-Qods Force for terrorism and regional destabilization.⁶ These various sanctions are important given the political prominence of the IRGC and its extensive role in a host of commercial sectors.⁷ However they have a limited financial impact, given the relatively limited links between the U.S. and the Iranian economy, and the broad avoidance by Iranians of the U.S. dollar as a means to limit sanctions exposure. Indeed, the IRGC has been able to function during the last several years despite severe international sanctions placed on Iran resulting in powerful economic pressure.

The IRGC is a powerful organization with control over significant interests in Iran's formal and informal economy. The Treasury Department has called it Iran's "most powerful economic actor."⁸ The IRGC may control between 25-60 percent of the formal economy, including assets held directly and those in which it has a stake.⁹ The group holds approximately 20 percent of Tehran's Stock Exchange with significant estimated holdings in hundreds of non-publicly traded entities.¹⁰ Its

⁴ Executive Order 13382 of June 28, 2005, Blocking Property of Weapons of Mass Destruction Proliferators and Their Supporters, Code of Federal Regulations Title 3 (2005): 38567-38579,

<https://www.state.gov/documents/organization/135435.pdf>.

⁵ Executive Order 13553 of September 28, 2010, Blocking Property of Certain Persons with Respect to Serious Human Rights Abuses by the Government of Iran and Taking

Certain Other Actions, Code of Federal Regulations Title 3 (2010): 60567-60571, <https://www.treasury.gov/resource-center/sanctions/Documents/13553.pdf>; Executive Order 13606 of April 22, 2012, Blocking the Property and Suspending Entry into the United States of Certain Persons With Respect to Grave Human Rights Abuses by the Governments of Iran and Syria Via Information Technology, Code of Federal Regulations Title 3 (2012): 24571-24574, <https://www.treasury.gov/resource-center/sanctions/Programs/Documents/13606.pdf>.

⁶ Executive Order 13224 of September 23, 2001, Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten To Commit, or Support Terrorism, Code of Federal Regulations Title 3 (2001): 49079-49083, <https://www.treasury.gov/resource-center/sanctions/Documents/13224.pdf>.

⁷ Alireza Nader, "The Revolutionary Guards," The Iran Primer, United States Institute of Peace, updated August 2015, accessed March 27, 2017, <http://iranprimer.usip.org/resource/revolutionary-guards>.

⁸ "Treasury Submits Report to Congress On NIOC And NITC," U.S. Department of the Treasury, press release, September 24, 2012, <https://www.treasury.gov/press-center/press-releases/Pages/tg1718.aspx>.

⁹ Mark Gregory, "Expanding business empire of Iran's Revolutionary Guards," BBC News, July 28, 2010, <http://www.bbc.com/news/world-middle-east-10743580>; Abbas Milani, "Taking Tehran's Temperature: One Year On," transcript, (Carnegie Endowment for International Peace, June 8, 2010), <http://carnegieendowment.org/files/0609carnegie-tehran.pdf>, 5.

¹⁰ Emanuele Ottolenghi, Foundation for Defense of Democracies Center on Sanctions and Illicit Finance, "The Iran Nuclear Deal and its Impact on Iran's Islamic Revolutionary Guards Corps," Hearing before the House Committee on Foreign Affairs Middle East and North Africa Subcommittee, September 17, 2015, <http://docs.house.gov/meetings/FA/FA13/20150917/103958/HHRG-114-FA13-Wstate-OttolenghiE-20150917.pdf>, 6.

annual income is estimated to be as high as \$12 billion per year, about one sixth of the country's GDP.¹¹

The IRGC's economic influence is likely even greater than its market capitalization. This is due to the deference that non-IRGC business leaders must pay to the organization,¹² its influential status in the rural economy thanks to its numerous public-works projects,¹³ and the IRGC's role in an informal or underground economy, estimated to account for between 6-36 percent of the country's GDP.¹⁴ Furthermore, the IRGC's close ties to the Iranian Supreme Leader and the economically powerful foundations he controls create a dynamic of patronage within and around the IRGC, which vastly enhances the influence of the group.

It is difficult to discern the beneficial owners of many Iranian businesses and commercial entities due to relatively limited, or unenforced, Iranian requirements for disclosure in this jurisdiction. This situation creates an enabling environment for money laundering, tax evasion, corruption, and terrorist financing, which are indeed features of the Iranian economy.¹⁵ For these reasons, Iran has been repeatedly recognized by the Financial Action Task Force,¹⁶ Transparency International,¹⁷ and the World Bank,¹⁸ among others, for egregious financial sector risks and for the difficulty of doing business in this jurisdiction.

In addition to navigating commercial risks, foreign businesses must contend with the difficulty of discerning whether their Iranian business partners are owned or controlled by the IRGC. Only some such entities appear on U.S. or European sanctions lists. However, given the broad reach of the IRGC in the Iranian economy it is likely that many more companies and commercial entities are linked to the IRGC. It is expensive for foreign companies to conduct rigorous due diligence to ascertain whether they are not doing business with the IRGC. Therefore, the expensive legal and reputational risk of violating sanctions often keeps otherwise interested foreign business away.

¹¹ Parisa Hafezi and Louis Charbonneau, "Iranian Nuclear Deal Set To Make Hardline Revolutionary Guards Richer," *Reuters*, July 6, 2015, <http://www.reuters.com/article/us-iran-nuclear-economy-insight-idUSKCN0PG1XV20150706>.

¹² Robert D. Hormats, "Post-Sanctions Economic Opportunities and Risks in Iran," Issue Brief, (Atlantic Council, February 2016), http://www.atlanticcouncil.org/images/publications/Post-Sanctions_Economic_Opportunities_and_Risks_in_Iran_web_0209.pdf, 8.

¹³ Frederic Wehrey, Jerrold D. Green, et al, "The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps," (The RAND Corporation, 2009), (http://www.rand.org/content/dam/rand/pubs/monographs/2008/RAND_MG821.pdf), 64-66.

¹⁴ Frederic Wehrey, Jerrold D. Green, et al, "The Rise of the Pasdaran: Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps," 55; Emanuele Ottolenghi, Saeed Ghasseminejad, "Who Really Controls Iran's Economy?," *The National Interest*, May 20, 2015, <http://nationalinterest.org/feature/who-really-controls-irans-economy-12925?page=2>.

¹⁵ Barbara Slavin, "Central Bank Governor: Iran Expects Access to U.S. Financial System," *Al-Monitor*, April 15, 2016, <http://www.al-monitor.com/pulse/originals/2016/04/iran-expects-limited-access-us-financial-system.html>.

¹⁶ "FATF Public Statement – 24 February 2017," FATF High-Risk and Non-Cooperative Jurisdictions, February 24, 2017, <http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/public-statement-february-2017.html>.

¹⁷ "Corruption by Country/Territory: Iran," Transparency International, accessed March 24, 2017, <https://www.transparency.org/country/IRN>.

¹⁸ "Iran, Islamic Rep," Doing Business (World Bank) Accessed March 24, 2017, <http://www.doingbusiness.org/data/exploreeconomies/iran>.

The Effects of Sanctions

Ultimately, sanctions on Iran's ballistic missile activities and on the IRGC may be judged to be most successful for their signaling value rather than as a set of measures to strong arm Iranian regime behavior. In periods of sanctions-induced Iranian economic hardship, leaders in Tehran have ensured that its ballistic missile program and the IRGC remain sufficiently well financed to project power and constitute a true threat to regional stability. Domestic Iranian leaders also see value in building this arsenal as a source of national pride. The robust existence and perseverance of these institutions is arguably tied to regime stability.

In the wake of the nuclear deal Iran has expanded its ballistic missile tests in a show of strength and projection of influence.¹⁹ This suggests an Iranian defiance of sanctions and likely constitutes a test of whether U.S. leaders will escalate counter-pressure through expanded sanctions and other means. If the United States does increase sanctions pressure, responding to Iran's recently escalating missile tests, it may have a practical impact in hindering missile procurement activities or some IRGC operations. However, Iran is unlikely to make concessions to reduce the lethality and power of its missile program or the IRGC. Nevertheless, sanctions do have an important place in a strategy to expose and confront Iranian activities of concern and the advancement of U.S. interests in the Middle East.

Options for Expanding Sanctions Pressure on Iran

The United States has a variety of options to expand pressure on Iran pursuant to concerns about Iran's ballistic missile activities and the destabilizing and threatening role of the IRGC. First, the administration should aggressively implement its existing sanctions authorities to go after ballistic missile procurement networks and the agencies responsible for development and deployment of the missile program. Second, the administration should immediately embark on a concerted and broad-ranging sanctions campaign to expose and target the dangerous and insidious activities of the IRGC within and beyond the borders of Iran, including exposing the financial activity and holdings of the IRGC, its agents and instrumentalities, and regional terrorist proxies, wherever feasible.

One strategy that is reportedly under consideration by the administration, and is the subject of currently proposed congressional legislation, is an expansion of sanctions on the IRGC under terrorism authorities. The administration already has broad authorities to target the IRGC with sanctions and punishing financial measures. So, while new terrorism designations specific to Iran would not create any new practical legal or financial effect, it would send a powerful message to Iran and the international community. Foreign allies are not likely to join in such an effort with independent national-level sanctions. However even unilateral U.S. sanctions, and if paired with a strategy to identify and expose IRGC front companies and affiliates, designating the IRGC under terrorism authorities would represent a meaningful new level of rigor to sanctions implementation on Iran.

¹⁹ "Iran's Khamenei: Missiles Are Part of the Future," *BBC News*, March 30, 2016, <http://www.bbc.com/news/world-middle-east-35925324>.

Such new sanctions on the IRGC, or new ballistic missile sanctions, need not—and should not—violate the JCPOA. Deal supporters in Iran and internationally may see a tougher U.S. approach to Iranian ballistic missile activity and support for terrorism as undermining the spirit of the deal. However, this should not be a deterrent for U.S. policy leaders to take strong but calculated action to address Iranian threats and activities. Also, U.S. diplomats should reach out to allies to encourage them to join, rather than reject, a more aggressive approach to targeting Iran’s support for terrorism and threatening missile activities. It will be important to underscore to close allies, particularly those also party to the JCPOA, that pushing back on Iran’s regional destabilization and support for terrorism can be consistent with tough but continued implementation of the nuclear deal.

The strongest and most successful approach to countering Iranian threats is through continued multilateral action, involving close sanctions coordination between the United States and allies in Europe and Asia. U.S. policy leaders in Congress and in the administration must not lose sight of how important European allies are to successfully countering Iran; actions that weaken the U.S. relationship with Europe will undermine the effort to pressure Iran. Where European sanctions on the Iranian missile program and activities of the IRGC, or its regional proxies including Hezbollah, do not match those of the United States, U.S. policymakers should urge EU counterparts to align their financial measures. The United States should also work with other UN member states to add new arms or missile proliferators to sanctions lists where there is sufficient information and enforce UN travel bans on Qods Force-affiliated individuals. Additionally, U.S. policy leaders should also work with allies in Europe and the Gulf to ensure that the response to Iranian missile provocations is holistic, including a fresh look at sanctions options, force posture arrangements, intelligence and covert activities.

There are some risks associated with adopting new sanctions on Iran’s missile program or the IRGC that policymakers should factor into any decision to expand financial pressure. Some analysts have expressed the fear that Iran could retaliate against new missile or IRGC sanctions, attacking or sabotaging U.S. forces in Iraq, with which they share the goal of combatting the Islamic State of Iraq and Syria, or in the Persian Gulf.²⁰ Some suggest that Iran would use such designations as an excuse to walk away from the JCPOA, laying the blame for its failure at the feet of the United States sanctions crafters. This scenario would likely split U.S. and European allies and make further coordinated action on Iran’s nuclear threat, or perhaps on other Iranian activities of concern, extremely difficult. Additionally, others believe that labeling the IRGC a terrorist organization with new sanctions would provoke an even more hostile and escalatory Iranian response and enflame regional tensions.²¹

These are possibilities. However, Iran still has a lot to gain from pursuing the nuclear agreement, including in the realm of slow-moving economic recovery. Iranian leaders also do not seek an aggressive confrontation of military forces with U.S. troops in the Middle East. These reasons diminish the likelihood of an overtly hostile Iranian retaliation for new non-nuclear sanctions. What does seem likely, however, is a hostile political response in Iran that will strengthen hard liners,

²⁰ Anthony J. Blinken, “Why the Iran Nuclear Deal Must Stand,” *The New York Times*, February 17, 2017, https://www.nytimes.com/2017/02/17/opinion/why-the-iran-nuclear-deal-must-stand.html?_r=1.

²¹ Seyed Hossein Mousavian, “Designating Iran’s Revolutionary Guards as Terrorists Will Have Dire Consequences,” *The World Post*, February 16, 2017, http://www.huffingtonpost.com/entry/dire-consequences-of-a-terrorist-designation-for-irans_us_58a62065e4b0fa149f9ac39f.

whether or not that serves to unseat pro-JCPOA Iranian President Rouhani in the upcoming national election.

Conclusion

The new administration and Congress have an opportunity to work together to develop and articulate a renewed focus and strategy to address Iran's non-nuclear activities of concern, while preserving the nuclear arms control gains of the JCPOA. The core of this strategy should be a strong U.S. and international response to Iran's escalating ballistic missile tests and the destabilizing role that the IRGC and its terrorist proxies play in the region. Congressional leaders are well placed to outline a U.S. strategy for the sanctions component of such a renewed policy focus, and to urge the administration to aggressively implement authorities in this domain. This strategy should also embrace the principle of multilateralism, with European allies in particular, and involve close coordination between the U.S. Congress and the administration to maximize the credibility, clarity, and effectiveness of Iran policy and regional engagement.

Biography

Elizabeth Rosenberg

Senior Fellow and Director, Energy, Economics, and Security Program, Center for a New American Security



Elizabeth Rosenberg is a Senior Fellow and Director of the Energy, Economics and Security Program at the Center for a New American Security. In this capacity, she publishes and speaks on the national security and foreign policy implications of the use of sanctions and economic statecraft as well as energy market shifts. She has testified before Congress on sanctions and energy issues and been quoted widely by leading media outlets in the United States and Europe.

From May 2009 through September 2013, Ms. Rosenberg served as a Senior Advisor at the U.S. Department of the Treasury, to the Assistant Secretary for Terrorist Financing and Financial Crimes, and then to the Under Secretary for Terrorism and Financial Intelligence. In these senior roles, she helped to develop and implement financial and energy sanctions. Key initiatives she helped to oversee include the tightening of global sanctions on Iran, the launching of new, comprehensive sanctions against Libya and Syria and modification of Burma sanctions in step with normalization of diplomatic relations. She also helped to formulate anti-money laundering and counter-terrorist financing policy and oversee financial regulatory enforcement activities.

From 2005 to 2009 Ms. Rosenberg was an energy policy correspondent at Argus Media in Washington D.C., analyzing U.S and Middle Eastern energy policy, regulation and trading. She spoke and published extensively on OPEC, strategic reserves, energy sanctions and national security policy, oil and natural gas investment and production, and renewable fuels.

Ms. Rosenberg studied energy subsidy reform and Arabic during a 2004-2005 fellowship in Cairo, Egypt. She was an editor of the Arab Studies Journal from 2002-2005 and researched and wrote on Middle Eastern politics at the Council on Foreign Relations in 2003. She received an MA in Near Eastern Studies from New York University and a BA in Politics and Religion from Oberlin College.