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TREASURY FOR U/S LEVEY
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Classified By: Ambassador William R. Timken, Jr., for reasons 1.4 (b) a

nd (d).

1. (S) Summary: Treasury Under Secretary for Terrorism and
Financial Intelligence Stuart Levey and Assistant Secretary
of State for International Security and Nonproliferation John
C. Rood presented to German officials July 11 and 12 in
Berlin the USG case for listing Iran's Islamic Revolutionary
Guard Corps (IRGC) and its "special operations" arm, the Qods



Force (QF), in the next UNSC resolution on Iran for violating mandates of UNSCRs 1737 and 1747. U/S Levey also briefed the German officials on the activities of Iran's Bank Melli and Bank Mellat in support of the IRGC and QF and the rationale for sanctioning them too. U/S Levey and A/S Rood also signaled that the U.S. is considering additional designations under U.S. domestic authorities related to Iranian support for terrorism. German reaction included grudging acknowledgment of the IRGC's and QF's violations of UNSCRs 1737 and 1747 and arguments for focusing on nuclear and missile activities of Iran as opposed to these violations of UNSCRs and support for terrorism. Nevertheless, the German Government expressed no negative reaction to potential U.S. action against Iranian entities for their support for terrorism, nor did the Germans disagree with the importance or legitimacy of acting against Iran for its support for terrorism. German Ministry of Economics and Technology officials raised concerns about the effects of halting export credits and said actions against Iranian banks could lead to a de-facto trade embargo. Officials in other ministries echoed their objections.

2. (S) Summary continued: In sum, German officials argued that: 1) the IRGC, including QF, should not be sanctioned in its entirety in the next UNSC resolution, because not all of its activities (e.g., owning and operating legitimate business enterprises like grocery stores) violate UNSCR sanctions; 2) the USG should provide proof acceptable in a court of law that the IRGC is violating UNSCRs 1737 and 1747; 3) sanctioning Banks Melli and Mellat could lead to a de-facto trade embargo on Iran; 4) if export credits were banned in the next UNSCR, Iranian debtors might default on their debts to German creditors, compelling the German Government to bear the burden of paying upwards of 5 billion euros in credit insurance indemnities to German debt holders; 5) German exporters to Iran are already losing business to foreign competitors that are not so particular about Iran's defiance of the UN; and 6) if actions against Iran are too strong, then the Iranian Government will be able to garner more support from the population. Despite the criticisms, the German officials in all the meetings agreed that the German Government shares the USG goal of preventing Iran from developing a nuclear weapon and said they would discuss the USG proposals internally and with their EU3 partners. End summary.

3. (S) U/S Levey, A/S Rood and a joint Treasury/State delegation met with senior officials at the Federal Chancellery, the Ministry of Finance, the Federal Foreign Office, and the Ministry of Economics and Technology. The Ambassador participated in the meetings at the Federal Chancellery and Ministry of Finance.

German Skepticism Over Sanctioning IRGC, Bank Melli



4. (S//NF) U/S Levey and A/S Rood briefed German government officials on the Islamic Revolutionary Guard Corps (IRGC) and Qods Force (QF) violations of UN Security Council Mandates. U/S Levey and A/S Rood pointed out that UNSCR 1737 sanctioned the leaders of the IRGC; therefore, all entities owned and controlled by the designated individuals -- including the IRGC, the QF, and their affiliated companies -- should also be sanctioned. U/S Levey also shared information linking the IRGC and the Qods Force to their banks of choice, Bank Melli, Bank Mellat, and the Central Bank of Iran, suggesting that the UN should designate one of these banks in the next round of measures.

5. (S) In the first meeting, Jens Weidmann, Chancellery Minister Director of the Department for Economic, Financial, and Labor Policy, set the tone for the skepticism that followed in every other meeting. He questioned the rationale for sanctioning the IRGC at the UN in its entirety when not

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all of its activities violated UNSCRs 1737 and 1747. Weidmann also asked the USG to provide evidence to the UN that Bank Melli and Bank Mellat were involved in WMD proliferation-related financing. Otherwise, he said, to sanction them would amount to a trade embargo, which Germany does not support. Using the analogies of organized crime-affiliated companies or charitable organizations supporting terrorists, U/S Levey pointed out that the legal response in these cases is often to shut down the organizations entirely -- even though some of their activity might be legitimate. Christoph Heusgen, Chancellery Minister Director of the Department for Foreign and Security Policy, acknowledged that the IRGC should be considered for sanctions because of its oversight of Iran's ballistic missile program, but cautioned that Russia might be difficult to convince. As an example of Russia's skepticism, Heusgen observed that Russian experts did not agree with the U.S. assessments of the potential range of Iran's Musudan IRBM.

6. (S) At the Finance Ministry, State Secretary Thomas Mirow made a plea for the negotiators to consider carefully the consequences of designating another Iranian bank in the next UNSC resolution. Mirow echoed Weidmann's view that sanctioning another Iranian bank would be tantamount to a full embargo because of the impact that such a designation would have on the business world's view of Iran. He said the German Embassy in Iran has observed that financial sanctions are having an impact and the Iranians are clearly concerned about what lies ahead, but stressed that targeted measures remain the most effective.



7. (S) In the Federal Foreign Office, Minister Director Fritz Groening, Commissioner of the Federal Government for Arms Control and Disarmament, questioned the rationale behind IRGC support to the Taliban. According to German government analysis, Groening said, the Iranian Government had no interest in helping the Taliban. NEA/I Director Barbara Leaf suggested that the Iranian Government supported the Taliban via the IRGC in the calculation that U.S. troops in the region would be too occupied in Afghanistan and also in Iraq to act militarily against Iran, which Groening acknowledged as a possibility. He suggested that the German Federal Intelligence Service (BND) discuss the issue with U.S. counterparts.

8. (S) Hellmut Hoffmann, office director of the Federal Foreign Office's Division of Disarmament and Arms Control Basic Issues, Security Policy, and WMD Nonproliferation, questioned the rationale for including Bank Melli on the next UNSCR Annex. He asked whether the USG proposed sanctioning Bank Melli for financing WMD proliferation activities or for financing the IRGC. Groening said he expected some Iranian bank to be listed in the next UNSC resolution on Iran, partly because the USG had earlier signaled its intention to include one. Not to exclude a bank on the next resolution would be interpreted by the Iranian Government as a lack of cohesive will in the UNSC, Groening added.

9. (S) Hoffmann raised another issue concerning sanctions on Iranian entities. After citing a German Federal Chancellery report of 30 new Iranian front companies being formed to procure WMD materials after the passage of UNSCR 1737, he asked how the USG would deal with the IRGC if it could form new front companies so readily. U/S Levey responded that although the international community could not prevent the formation of Iranian front companies, it could target the financing system that Iran uses for missile-related procurement, i.e., imposing sanctions on Bank Melli, for instance.

10. (S) In the meeting at the Economics Ministry, Ursina Krumpholz, office director of the Foreign Trade Law and Law of the Sea Division, claimed that the U.S. information about the IRGC's provision of arms to the Taliban and control over Iran's ballistic missile program was insufficient to support a designation in the next UNSCR. Krumpholz argued that the UN should only designate those entities directly linked to Iran's nuclear or missile programs.

Concern that Sanctions Harm Germany's Economy

11. (S) In every meeting, German officials voiced concerns



over the impact of stronger sanctions on Iran on Germany's economy. In the Chancellery, Weidmann made the point that the German Government may be liable for 5 billion euros in indemnities to German firms which received government-backed export credit guarantees if the major Iranian banks are unable to pay. Officials in the Economics Ministry, although acknowledging that sanctions on Bank Sepah were effective because they were carefully targeted, nonetheless complained about the potential negative impact on the German economy. Christoph Herfath of the Economics Ministry's Export Finance and Export Credit Insurance Division, said that German exporters use six major commercial banks in Iran to finance bilateral trade. Since the designation of Bank Sepah, the German firms that financed trade through Bank Sepah are having difficulty collecting from their Iranian debtors. Herfath argued that sanctioning other Iranian banks, such as Melli or Mellat, would make it even more difficult for Germans firms to collect their debts in Iran.

12. (S) Karl Brauner, Minister Director of the Economics Ministry's Foreign Trade Policy Department, complained about the "collateral damage" caused by the designation of Bank Sepah. Brauner claimed that some German municipalities had assets in Bank Sepah, and are now facing a budget crunch because they had counted on those assets to fund municipal projects. U/S Levey explained that UNSCR 1747 allows Bank Sepah to fulfill prior contracts, so the municipalities may be eligible to obtain their funds. Nevertheless, U/S Levey agreed with the need to protect innocent third parties and noted that the G-7 is working to resolve such issues before negotiations begin on the next resolution.

13. (S) Officials in the Economics Ministry also expressed concern that as German trade with Iran declines, so does German influence. Michael Kruse, Deputy Minister Director of the Export Finance, Investment, International Finance, and Foreign Economic Cooperation Division, said German firms were already losing contracts to competitors outside the EU, notably in Russian and China. As an example, he said Iran recently decided to purchase a petroleum refinery from China instead of from Germany, and Iranian President Ahmadi-nejad has instructed Iranian entities to buy from Russia and China.

14. (S) German officials also complained about the move within the U.S. Congress to strengthen the Iran Sanctions Act and to sanction companies in third countries that continue to do business with Iran. Viktor Elbling, Commissioner for Energy Policy, Globalization, and Sustainable Development in the Federal Foreign Office, said the German public perceives that the USG is trying to make the rest of the world pay the same price that the U.S has paid since its 1979 trade embargo on Iran. Krumpholz in the Economics Ministry argued that



German firms abide by UNSC resolutions and EU regulations, which permit legitimate trade with Iran, but are not obliged to follow U.S. law. Echoing these concerns, Groening in the Federal Foreign Office cautioned that a U.S. initiative to punish any firm in the EU for investing in Iran would harm the international coalition on Iran and benefit the Iranian Government.

Admadi-nejad Willing To Exploit External Pressure

15. (S) German officials expressed concern that more stringent sanctions on Iran might play into the hands of the Iranian leadership. According to Elbling in the Federal Foreign Office, the German Embassy in Tehran reported recently that Ahmadi-nejad expects stronger sanctions and will use them to blame the West for the economic pinch that Iranians feel. Groening suggested that the right amount of pressure is the key to dealing with Iran; the UNSCR should not give Tehran a pretext to abandon negotiations altogether by being too harsh. Groening also asked whether the U.S. had considered the Iranian public's perception of a designation of the IRGC. The IRGC is considered by many Iranians, according to Groening, as the savior of the country during the Iran-Iraq war in the 1980s. To sanction the institution that saved Iran from Iraq might turn the people further away from the West.

U.S. Concern over Continued German Business Ties with Iran

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16. (S) U/S Levey raised some concerns about German banks and companies that continue to conduct business as usual in Iran. At the Ministry of Finance, U/S Levey shared some information about Commerzbank's continued ties to Iranian banks. Mirow said he was in close contact with Commerzbank CEO Klaus-Peter Mueller and would be sure to consider the information carefully, but encouraged U/S Levey to pursue his personal dialogue on Iran with Mueller as well. Mirow also confirmed an Iranian press report that Deutsche Bank had decided to cut off all business with Iran in all currencies, and noted that Deutsche Bank's decision had created quite a stir in Iran, according to the German Embassy in Tehran.

17. (S) At the Economics Ministry, U/S Levey asked about the German Government's stance on Siemens' decision to pursue new business with and expand investment in Iran. Kruse referred only to a Siemens project to sell locomotives to Iran and argued that the transaction is perfectly legal, since diesel

engines are not included on any sanctions list. U/S Levey observed that Siemens' decision to support Iran's infrastructure, given the current political context, is unhelpful, but Kruse maintained that Siemens is fully justified in continuing this kind of business with Iran.

18. (U) Post will report any additional German response septel.

19. (U) This cable was coordinated with U/S Levey and A/S Rood subsequent to the delegation's departure.

TIMKEN JR

