

**The Link between Iran and Venezuela:
A Crisis in the Making?**

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I would like to thank the Brookings Institute for inviting me to speak today. The issues I will discuss with all of you are the blossoming relationship between what might seem unlikely bedfellows.... the Islamic Republic of Iran and the Bolivarian Republic of Venezuela, whether we have a national security crisis looming on the horizon, and whether our national security and law enforcement communities are sufficiently focused on this threat.

Iran and Venezuela are beyond the courting phase. We know they are creating a cozy financial, political, and military partnership, and that both countries have strong ties to Hezbollah and Hamas. Now is the time for policies and actions in order to ensure that the partnership produces no poisonous fruit.

I. Iran and Venezuela In Bed Together

The diplomatic ties between Iran and Venezuela go back almost fifty years and until recently amounted to little more than the routine exchange of diplomats. With the election of Iranian President Mahmoud Ahmadinejad in 2005 the

relationship dramatically changed. Today I believe it is fair to say they have created a flourishing partnership rooted in a shared anti-American rhetoric and policy.

As early as 2006, public signs of their alliance began to emerge. It was in this year that Venezuela joined Cuba and Syria as the only nations to vote against a U.N. Atomic Energy Agency resolution to report Iran to the Security Council over its failures to abide U.N. sanctions to curtail its nuclear program. In 2007, during a Chavez state-visit to Tehran, the two nations declared an “axis of unity” against the United States. Additionally in the diplomatic arena, Ahmadinejad has made recent visits to Latin America, and Chavez has personally helped initiate relationships between Iran and Nicaragua, Bolivia, and Ecuador.

In June, while protesters lined the streets of Tehran demonstrating for democracy and basic political rights following the substantial allegations of fraud in the re-election of Ahmadinejad, Chavez publicly offered him support. As the regime cracked down on political dissent, jailing, torturing and killing protesters, Venezuela stood with the Iranian hard-liners.

Iranian investments inside of Venezuela are on the rise and ambitions of nuclear cooperation between the States are no secret.

Scores of Memoranda of Understanding between the two Nations have been signed in recent years relating to:

- joint technology development
- military cooperation
- banking and finance
- cooperation with oil and gas exploration and refining
- mineral exploration
- agricultural research

In April 2008, Venezuela and Iran entered into a Memorandum of Understanding pledging full military support and cooperation. It has been reported that since 2006 Iranian military advisors have been embedded with Venezuelan troops. Asymmetric warfare, taught to members of Iran's Revolutionary Guard, Hezbollah and Hamas, has replaced U.S. Army field manuals as the standard Venezuelan military doctrine.

According to a report published in December 2008 by the Carnegie Endowment for International Peace, Venezuela has an estimated 50,000 tons of un-mined uranium. In the area of mineral exploration there is speculation that Venezuela could be mining uranium for Iran.

On the financial front, in January 2008, the Iranians opened International Development Bank in Caracas under the Spanish name Banco Internacional de Desarrollo C.A. (BID), an independent subsidiary of Export Development Bank of Iran (EDBI). In October 2008, The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) imposed economic sanctions against these two Iranian banks – BID and EDBI - for providing or attempting to provide financial services to Iran's Ministry of Defense and its Armed Forces Logistics, the two Iranian military entities tasked with advancing Iran's nuclear ambitions.

My office has learned that over the past three years, a number of Iranian-owned and controlled factories have sprung up in remote and undeveloped parts of Venezuela. These factories have emerged in small towns in interior Venezuela with a lack of basic infrastructure and simple amenities like restaurants and groceries. The lack of infrastructure is offset by what experts believe to be ideal geographic locations for the illicit production of weapons.

Evidence of the type of activity conducted inside the factories is limited. But given their location and secretive nature we should be concerned that illegal activity might be taking place. That is so, especially in light of an incident in December 2008, in which Turkish authorities detained an Iranian vessel bound for Venezuela after discovering lab equipment capable of producing explosives packed inside 22 containers marked “tractor parts.” The containers also allegedly contained barrels labeled with “danger” signs. I think it is safe to assume that this was a lucky catch and that most often shipments of this kind reach their destination in Venezuela.

And let there be no doubt that Hugo Chavez leads not only a corrupt government but one staffed by terrorist sympathizers. The government has strong ties to narco-trafficking and money laundering, and reportedly plays an active role in the transshipment of narcotics and the laundering of narcotics proceeds in exchange for payments to corrupt government officials.

The U.S. Government Accountability Office (GAO) recently published a study requested by Senator Richard Lugar examining the issue of illicit drugs transiting Venezuela. The study reported a high level of corruption within the government, military, and law enforcement that has enabled Venezuela to become a major

transshipment route for trafficking cocaine out of Colombia. Intelligence gathered by my office strongly supports the conclusion that Hezbollah supporters in South America are engaged in the trafficking of narcotics. The GAO study also confirms allegations of Venezuelan support for FARC, the Colombian terrorist insurgency group which finances its operations through narcotics trafficking, extortion and kidnapping.

In July of this year, in a raid on a FARC training camp, Colombian military operatives recovered Swedish-made anti-tank rocket launchers sold to Venezuela in the 1980s. Sweden believes the recovery demonstrates a violation of the end-user agreement by Venezuela, given that the Swedish manufacturer was never authorized to sell arms to Colombia. Venezuelan Interior Minister Tareck El Aissami, a Venezuelan of Syrian origin, lamely called the allegations a “media show,” that is “...part of a campaign against our people, our government and our institutions.”

But Venezuela’s link to terrorist organizations does not stop with FARC. Particularly alarming, within the ranks of Chavez’s corrupt government lie supporters of Hezbollah.

In fact, Mr. El Aissami, who at one time headed Onidex, the Venezuelan passport and naturalization agency inside the interior ministry, is suspected of having issued passports to members of Hamas and Hezbollah. There are also allegations that El Aissami and others affiliated with Hezbollah are in charge of recruiting young Venezuelan Arabs who are then trained in Hezbollah camps in Southern Lebanon. Onidex is now headed by a very close friend of El Aissami; the two attended the same university and the friend is also reported to have ties to Hezbollah.

In June 2008, a Venezuelan national of Lebanese origin, Ghazi Nasr al Din, was added to the OFAC list of specially designated global terrorists and barred from accessing U.S. financial institutions and the U.S. banking system. He's a Venezuelan-based Hezbollah supporter who served in the Venezuelan Embassy in Syria, and was later appointed to the Venezuelan Embassy in Lebanon where we believe he currently serves as the Embassy's Director of Political Aspects.

The relationship we are discussing today was underscored over the past few days during Chavez's visit to the Middle East. This past weekend, after meeting with Ahmadinejad in Tehran, both leaders reiterated their pledge to stand up to imperialist nations. Ahmadinejad said, "expansion of Tehran-Caracas relations is necessary given their common interests, friends and foes." Without providing

details, Chavez was quoted as saying that with Iran's help he plans to build a "nuclear village" in Venezuela. Supporting Iran's claims that its nuclear ambitions are for peaceful purposes, Chavez stated, "there is not a single proof that Iran is building a... nuclear bomb." The matters I am about to discuss belie that claim.

II. Ties to Venezuela Make Iran More Dangerous

In the past year my Office has publicly announced two investigations that highlight the efforts of Iran to procure weapons materials despite U.S. and international economic sanctions designed to prevent Iran from developing long-range missile capacity and nuclear technology for military purposes. Our efforts uncovered a pervasive system of deceitful and fraudulent practices employed by Iranian entities to move money all over the world without detection, including through banks located in the jurisdiction I am responsible for protecting – Manhattan. Why did Iran go to these lengths? I believe the answer is simple: In order to pay for materials necessary to develop nuclear weapons, long-range missiles, and road-side bombs.

I believe the nature of Iran's relationship with Venezuela makes for a more dangerous Iran. The Iranians, calculating and clever in their diplomatic relations, have found the perfect ally in Venezuela. Venezuela has an established financial

system that, with Chavez's help, can be exploited to avoid economic sanctions. As well, its geographic location is ideal for building and storing weapons of mass destruction far away from Middle Eastern states threatened by Iran's ambition and from the eyes of the international community.

To demonstrate the Iranian regime's commitment to advancing its nuclear ambitions and long-range missile capacity, I would like briefly to describe the cases brought by my office. The tactics used in these cases are instructive and should send signals to law enforcement, intelligence agencies, and military commands throughout the world about the style and level of deception the Iranian's employ to advance their interests. This is particularly important in examining the threats posed by the deepening ties between Ahmadinejad and Chavez.

In January of this year my office announced a deferred prosecution agreement with the U.K. bank, Lloyds TSB. From 2001 – 2004, Lloyds, on behalf of Iranian banks and their customers, engaged in a practice known as "stripping," in which the bank intentionally participated in a systematic process of altering wire transfer information to hide the identity of its clients. This process allowed the illegal transfer of more than \$300 million of Iranian cash despite economic sanctions

prohibiting Iranian access to the U.S. financial system. We currently have investigations into similar misconduct by other banks.

In April of this year we announced the indictment of company called Limmt, and its manager, Li Fang Wei, a rogue provider of metal alloys and minerals to the global market. Limmt's business included selling high strength metals and sophisticated military materials, many of which are banned from export to Iran under international agreements. Limmt was also banned by OFAC from engaging in transactions with or through the U.S. financial system for its role in the proliferation of weapons of mass destruction to Iran. Our investigation revealed that despite sanctions, Li Fang Wei and Limmt used aliases and shell companies to deceive banks into processing payments related to the shipment of banned missile, nuclear and so-called "dual use" materials to subsidiary organizations of the Iranian Defense Industries Organization. Please note the first version of this statement refers only to U.S. banks. In fact, banned materials were generally purchased in Euros and processed through European banks.

Based on information developed by my office, the Iranians with the help of Venezuela are now engaged in similar economic and proliferation sanctions-busting schemes.

For years I have stressed the importance of transparency in financial transactions. In the realm of preventing money laundering and terror financing, the concept of “know your customer” is the starting point in any scheme designed to detect suspicious transactions. For wire transfers denominated in U.S. dollars, the transactions almost always clear through correspondent accounts in the United States, and usually at banks based in Manhattan. Ideally, Manhattan banks have a clear picture of the sender and beneficiary of the funds, even in cross-border transactions.

Venezuela is not currently the subject of a U.S. or international economic sanctions program that places significant restrictions on the ability of Venezuelan banks to conduct business with the United States, including accessing U.S. banks to clear international U.S. dollar transactions. Presently, banks in the U.S. processing wire transfers from Venezuelan banks rely almost exclusively on the Venezuelan bank to ensure the funds are being transferred for legitimate purposes. I have little faith that this is effectively being done, and the Iranians, aware of this vulnerability, appear to be taking advantage of it.

The ostensible reason the Iranian-owned bank Banco Internacional de Desarrollo (BID) was opened in Caracas was to expand economic ties with Venezuela. Our sources and experiences lead me to suspect an ulterior motive. A foothold into the Venezuelan banking system is a perfect “sanctions-busting” method - the main motivator for Iran in its banking relationship with Venezuela. Despite being designated by OFAC we believe that BID has several correspondent banking relationships with both Venezuelan banks and banks in Panama, a nation with a long-standing reputation as a money laundering safe-haven.

This scheme is known as “nesting.” Nested accounts occur when a foreign financial institution gains access to the U.S. financial system by operating through a U.S. correspondent account belonging to another foreign financial institution. For example, BID who is prohibited from establishing a relationship with a U.S. bank could instead establish a relationship with a Venezuelan or Panamanian bank that has a relationship with a U.S. bank. If the U.S. bank is unaware that its foreign correspondent financial institution customer is providing such access to a sanctioned third-party foreign financial institution, this third-party financial institution can effectively gain anonymous access to the U.S. financial system.

In Venezuela, Ahmadinejad and the hard-line Mullahs have found an ally who has stood by them as they crushed political freedoms and defied world consensus on its nuclear program. Both countries have pledged mutual scientific, technical and financial support. There is little reason to doubt Venezuela's support for Ahmadinejad's most important agenda, the development of a nuclear program and long-range missiles, and the destabilization of the region. For Iran, the lifeblood of their nuclear and weapons programs is the ability to use the international banking system to make payments for banned missile and nuclear materials. The opening of Venezuela's banks to the Iranians guarantees the continued development of nuclear technology and long-range missiles. The mysterious manufacturing plants, controlled by Iran, deep in the interior of Venezuela, give even greater concern.

III. With Iranian assistance Venezuela is bound to become a destabilizing force in Latin America

So why is Chavez willing to open up his country to a foreign nation with little in shared history or culture? I believe it is because his regime is corrupt, hell-bent on becoming a regional power, and fanatical in its approach to dealing with the U.S. The diplomatic overture of President Obama in shaking Chavez's hand in April at the Summit of the Americas in Trinidad and Tobago is not a reason to assume a diminished threat from our neighbor to the south. In fact, with the groundwork

laid years ago, we are entering a period where the fruits of the Iran-Venezuela bond will begin to ripen.

That means two of the world's most dangerous regimes, the self-described "axis of unity," will be acting together in our backyard on the development of nuclear and missile technology. And it seems that for terrorist groups they have found the perfect operating ground for training and planning, and financing their activities through narco-trafficking.

Sound like the making of a story you've heard before? In 1962, President Kennedy stared down a nuclear threat to the United States when a leftist populist leader with a strong anti-American streak joined forces with the Soviet Union to bring nuclear weapons in close proximity to our borders. JFK ended the Cuban missile crisis through resolve and tough diplomacy. Although the same threat level does not yet exist in Venezuela, the United States needs to be focused on Iran's expansionism wherever it occurs.

Conclusions

The Iranian nuclear and long-range missile threats and creeping Iranian influence in the Western Hemisphere cannot be overlooked. My office and other law

enforcement agencies can play a small but important role in ensuring that money laundering, terror financing, and sanctions violations are not ignored, and that criminals and the banks that aid Iran will be discovered and prosecuted. We all know that stopping the flow of illicit funds has a direct correlation to curbing wrongful conduct. But certainly law enforcement in the U.S. alone is not enough to counter the threat effectively.

As for Venezuela, the world must no longer assume that Chavez is bluffing when he speaks. It is important that the public generally, and responsible government officials in particular, be aware of the growing presence of Iran in Latin America. And it is necessary to urge Venezuela's neighbors to understand the sinister implications of Iran's presence in the region. Brazil, whose constitution prohibits nuclear weapons, can play a significant role in influencing Chavez. Finally, the U.S. and the international community must strongly consider ways to monitor and sanction Venezuela's banking system. Failure to take action in this regard will leave open a window susceptible to money laundering use by the Iranian government, the narcotics organizations with ties to the Venezuelan government, and the terrorist organizations that Iran supports openly.

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