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New Stage in US Use of Financial Sanctions as Strategic Weapon? Levey Departs
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Update: *Feb. 5, 2011 (see below)*

Stuart Levey, who helped put the US Treasury at the center of US national security strategy and policy-making during a career that spanned the Bush and Obama administrations, has announced his retirement.

The policy-making legacy he leaves behind, central to the enhanced unilateral use of financial and economic sanctions against "rogue" states by the Bush and Obama administrations, underscores the need for a broader understanding of the ways in which US global policy functions. Specifically, at a time when the US faces costly failures on the battlefield in Iraq and Afghanistan, and growing social unrest across the Middle East and Africa, its hidden financial weapons retain their near mystical power to coerce recalcitrant nations.

"Near mystical" is appropriate, because the combination of a lack of detailed public information about the damage sanctions are inflicting on countries like Iran and North Korea and the overwhelming yet unquestioning bipartisan support in Washington for sanctions makes these instruments of coercion poorly understood.

Since become Under Secretary for Terrorism and Financial Intelligence in 2004, Levey has directed Treasury's enforcement, regulatory and intelligence functions to disrupt financial support to those alleged to engage in international terrorism or financial criminality. In this capacity he has travelled across Asia, the Middle East and Europe to press foreign governments and global financial institutions to cut their financial ties with entities in Iran, North Korea and other countries that the Treasury claims are involved in WMD proliferation, terrorism or such financial crimes as money laundering.

The Obama administration has named David S. Cohen to replace Levey. Both Levey and Cohen are graduates of Ivy League law schools. According to the *Wall Street Journal*, both once worked as partners at the same Washington law firm. Cohen left private practice to become Levey's deputy in 2009. Earlier he had a stint in the Treasury Department during the Bill Clinton administration.

As a result of Levey's efforts, North Korea, the leading target of US-led international economic sanctions for decades, was largely though not totally cut off from international banking and commerce for a period of nearly two years from 2005 to 2007, a devastating situation for a country forced to pay cash for many business transactions because the world denies it credit. Even today, North Korea's ability to participate normally in global business continues to face restrictions, though only Treasury officials and senior global banking managers cajoled and coerced by Treasury from behind closed doors into supporting sanctions enforcement know the details.

In the case of Iran, a number of important private and state banking institutions in that country have been placed on a Treasury sanctions blacklist. Media reports and comments by Treasury officials and even a few Iranian government leaders paint a picture of an increasingly isolated Iran, unable to do business with most Western and Asian financial institutions despite the leverage afforded by its large oil and gas reserves, and forced to pay higher transactions costs to circumvent sanctions and maintain normal trade. To insure its anti-Iran sanctions bite, Levey and his colleagues regularly travel the world, meeting with public and private banking officials in countries that do business with Iran, to warn them that they court loss of reputation and placement on Treasury's blacklist if they refuse to adhere to Treasury's demands to sever financial ties with Iran. Because a cut-off from the US market, the most lucrative in the world, would be devastating, Levey and his colleagues report that their warnings are usually heeded.

Levey "has been hailed by both Republicans and Democrats for reimagining the use of financial warfare since moving to the Treasury in the wake of the Sept. 11, 2001, terrorist attacks on the U.S.," said the *Wall Street Journal* in a flattering portrayal.

The *Journal* also quoted Tom Donilon, President Barack Obama's national security adviser, as crediting Levey for having "built the U.S. government's effort to combat terrorist financing from the ground up, and created a highly effective, world-class organization that has made Treasury an integral player in U.S. national-security policy."

White House counterterrorism advisor John Brennan said in a statement that Levey "has helped save lives, and our country owes him a strong debt of gratitude."

The American Jewish Committee (AJC), which presented Levey with its Distinguished Public Service Award in 2009 and is a consistent advocate of hardline policies toward Iran, issued a press release that "expressed admiration" for, as AJC Executive Director David Harris put it, his "extraordinary impact on national and global security" and said he was "a towering force in seeking to thwart Iran's drive for nuclear weapons, as well as in interrupting the flow of funds to terrorist-sponsoring states and groups."

In contrast, the *Asia-Pacific Journal* (APJ), *Asia Times* and other online publications have looked closely at the consequences of the global financial sanctions campaign orchestrated by Treasury under Levey's direction.

John McGlynn, writing at the APJ in July 2007, analyzed North Korea's cutoff from the global financial system that resulted when Treasury sanctioned Banco Delta Asia (BDA), a small bank in Macau holding North Korean deposits, in September 2005. At the time Treasury charged BDA and North Korea with conspiring to commit a number of illicit financial acts, one of which was that BDA had a "special relationship" with North Korea that "specifically facilitated the criminal activities of North Korean government agencies and front companies. For example, sources show that senior officials in Banco Delta Asia are working with DPRK officials to accept large deposits of cash, including counterfeit U.S. currency, and agreeing to place that currency into circulation."

McGlynn, however, found that Treasury had failed to provide any evidence of wrongdoing, writing:

> *None of these charges have been accompanied by conclusive or convincing evidence of wrongdoing. It is a list of allegations, which are by their nature almost impossible to verify since the basic factual information needed to confirm criminality, such as dates, sums of money involved and names of individuals or DPRK [North Korea] entities involved, is absent.*

The BDA-North Korea sanctions based on these unproven accusations disrupted delicate Six Party (China, the US, Japan, Russia and North and South Korea) negotiations over implementation of an agreement reached in 2005 to denuclearize the Korean Peninsula and create a peace and security compact for Northeast Asia, the world's last Cold War outpost. Negotiations eventually resumed, but broke down again in late 2009.

One of the costs of the failure to implement the 2005 agreement, together with the election of the Lee Myung-bak government in South Korea, is that throughout 2010 North and South Korea were on the brink of a second Korean War, largely because of intensification of a six-decades dispute over maritime territorial and resource rights in the West Sea. There have been signs in recent days that the two war-divided countries may soon sit down for talks, which could help de-escalate recently heightened military tensions and pave the way for resumption of the Six Party process.

As for BDA, it remains on Treasury's blacklist of unilaterally sanctioned financial institutions. The bank's alleged wrongdoing with and on half behalf of North Korea still remains publicly unproven.

In March 2008, another article by John McGlynn examined a Treasury announcement that month that strongly advised the global banking industry to start viewing all Iranian banks as an unacceptable risk to the international financial system. When read in conjunction with other Treasury statements concerning Iran, the purpose of the announcement was to advance Washington's campaign to ostracize the third member of George Bush's axis of evil from global commerce and trade. It was fairly obvious that, against Iran, the US was trying to impose the kind of comprehensive sanctions approach that had been so successful during the 1990s in bringing Iraq's economy to its knees and eviscerating basic medical care and other social services.

It was also obvious that Treasury was following a particular modus operandi, as parallels with the BDA-North Korea sanctions were present. The "real impact" of the BDA-North Korea sanctions, Treasury undersecretary Stuart Levey told members of the American Bar Association in early March 2008, was that "many private financial institutions worldwide responded by terminating their business relationships not only with [BDA], but with North Korean clients altogether." Levey and his Treasury colleagues had come up with a way to use the global banking sector to implement banking sector sanctions against an entire country. Through a little extraterritorial legal arm-twisting of the international banking community, the US was able to put "enormous pressure on the [North Korean] regime - even the most reclusive government depends on access to the international financial system," said Levey. This gave Washington a great deal of leverage in its diplomacy over the nuclear issue with North Korea. As Levey told the gathering of US lawyers, "we are currently in the midst of an effort to apply these same lessons to the very real threat posed by Iran." However, "Iran presents a more complex challenge than North Korea because of its greater integration into the international financial community."

Like the BDA-North Korea case, the sanctions imposed by Treasury on Iran's banks are based on unproven allegations and have no legal standing. The allegations have never been tested in a US court nor, despite important obvious foreign policy implications, examined at a US Congressional public hearing.

Now that Stuart Levey is about to step down, what can be said about the kind of legacy he leaves behind that also serves as a coda to the North Korea and Iran financial sanctions stories mentioned above?

Levey has accomplished unaccountable control over, and the privatization of a considerable amount ofm US foreign policy. Under Levey the Treasury has won a seat at the major councils addressing US global issues. Information concerning the evidence (if any) of wrongdoing that supports application of sanctions against a country or its financial institutions and Treasury's coercive power is applied to major world banks in sanctions implementation and enforcement. Such information, critical both to democratic control and oversight of US foreign policy by US citizens and their Congress, and to global assessments of the compatibility of sanctions with international law (several United Nations conventions, such as the 1970 Declaration on Principles of International Law concerning Friendly Relations and Cooperation among States, prohibit the use of economic, political or any other type of measures to coerce states), is shared not with the US public, the US Congress or the UN but in secret with the world's private bankers and select foreign government officials.

The reasons for sanctions (US Treasury only makes allegations, never presents supporting evidence), how they are implemented (by

which banks/financial institutions around the world) and their impact on the target country (the national economy, social services, medical system, vulnerable populations such as poor women and children, etc.) remain mostly hidden behind a veil of secrecy. The possibilities for a vast amount of unseen human suffering are obvious.

Articles in Asia-Pacific Journal of interest:

- John McGlynn, The US Declaration of War on Iran
- John McGlynn, North Korean Criminality Examined: the US Case. Part I
- John McGlynn, Financial Sanctions & North Korea: In Search of the Evidence of Currency Counterfeiting & Money Laundering Part II
- John McGlynn, Banco Delta Asia, North Korea's Frozen Funds & US Undermining of the Six-Party Talks: Obstacles to a Solution. Part III

Additional articles:

- Peter Lee, "China in America's Sanctions Crosshairs," *Asia Times*, 2010
- Ruediger Frank, "The Political Economy of Sanctions Against North Korea, " *Asian Perspective*, Vol. 30, No. 3, 2006

Update Feb. 5, 2011: Peter Lee at *Asia Times* has written an extensive piece on Stuart Levey and the political events surrounding US Treasury's blacklisting of Banco Delta Asia.

See: Peter Lee, Good-bye, Mr Insubordination, *Asia Times*, February 4, 2011.

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