Testimony

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Before the U.S. House of Representatives Committee on Foreign Affairs

Regarding

Iran: Recent Developments and Implications for U.S. Policy

July 22, 2009

Chairman Berman, Ranking Member Ros-Lehtinen, and distinguished members of the Committee, thank you for the opportunity to speak with you today.

I have been asked to focus on Iran's vulnerability to current and potential U.S.-imposed and internationally imposed sanctions. Disappointingly, the Obama Administration's outstretched hand has thus far been met with a clenched Iranian fist. Until now, that outstretched American hand has been accompanied by the maintenance of existing sanctions and the threat that if Iran does not negotiate constructively, sanctions will be increased. Congressional sanctions bills -- including several excellent bills introduced by Chairman Berman, Ranking Member Ros-Lehtinen, Congressman Sherman, and other Members of this Committee – have served as a kind of Sword of Damocles hanging over the head of the Iranian regime.

Secretary Clinton told this Committee exactly three month ago today that "by following the diplomatic path we are on, we gain credibility and influence with a number of nations who would have to participate in order to make the sanctions regime as tight and as crippling as we would want it to be." There was also a desire to not jeopardize engagement by sending a strongly adversarial opening signal to the Iranians. These are important goals, and that particular diplomatic path was the right one to take under the circumstances.

In the course of these last three months, Iran's nuclear program has raced forward, and Iran's leadership has continued to insist there are no incentives that could induce it to halt or even meaningfully limit its nuclear program. It has become increasingly clear that if the Iranian regime is going to be peacefully persuaded to halt its illegal nuclear program,[1] we will first need to change its cost-benefit calculus. The Iranian regime's

[1] The United Nations Security Council, in its Resolution 1737 of December 2006, explicitly ordered Iran to "without further delay suspend . . . proliferation sensitive nuclear activities," including "all enrichment-related and reprocessing activities" and "work on all heavy water-related projects," and "provide such access and cooperation as the IAEA

recent particularly flagrant abuses of human rights, coupled with its accelerating nuclear program and longstanding support for terrorism, have lost it sympathy in many nations and made it even clearer than it was before that this regime is not going to obey the law for the law's sake. Sadly, this is an offender that will only obey the law when it believes the cost of violation exceeds its benefits.

In light of this, and the regime's brutal and repressive measures to crush the post-election protests, it is time both to increase the weight of the Sword of Damocles hanging over the Iranian regime's head and begin lowering the sword. This does not mean we should stop talking to the Iranians. Nor does it mean that we should either take existing incentives off the table or refuse to consider even more enticing incentives. It does mean that we cannot continue to rely on an outstretched hand, incentives and the current level of sanctions. In a moment, I will suggest some ways in which the sanctions threat to Iran can be increased and made more imminent.

But first, a threshold question: Can strong sanctions really contribute to stopping an illicit nuclear weapons program? Yes, the international community has learned in recent years that strong sanctions can contribute to stopping illicit nuclear weapons programs.[2] For example, strong UN Security Council sanctions were an important factor in inducing Libya's government both to forsake terrorism and completely and verifiably relinquish its nuclear, chemical, and biological weapons programs.[3] As a result, Libya allowed a team of British and American government experts to enter Libya and completely dismantle its WMD infrastructure by April 2004. That should be our goal with regard to Iran. In addition, it was discovered, in the wake of the U.S. occupation of Iraq, too late unfortunately, that strong UN Security Council sanctions had destroyed Iraq's nuclear weapons program and succeeded in preventing Saddam Hussein from restarting it between the Gulf War in 1991 and the coalition occupation of Iraq in 2003.[4]

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requests to be able to verify" these suspensions and "to resolve all outstanding issues." Rather than comply with this legally binding Security Council mandate, Iran has persisted in openly and admittedly accelerating its enrichment-related and other prohibited activities. In its June 5, 2009 report, the International Atomic Energy Agency (IAEA), an arm of the United Nations, stated that Iran "has not suspended its enrichment related activities or its work on heavy water related projects as required by the Security Council" and, "contrary to the request of the [IAEA] Board of Governors and the requirements of the Security Council," Iran continues to refuse access and cooperation deemed necessary by the IAEA to address "the possibility of military dimensions to Iran's nuclear programme." Iran's nuclear program is thus flatly in violation of international law – not just according to the Bush and Obama Administrations – according to the UN.

[2] Readers interested in a more detailed discussion of these and other precedents for strong sanctions stopping nuclear programs may wish to refer to Orde F. Kittrie, *Averting Catastrophe: Why the Nuclear Nonproliferation Treaty is Losing Its Deterrence Capacity and How to Restore It*, 28 MICH. J. INT'L L. 337 (2007).

[3] See, e.g., GARY CLYDE HUFBAUER, JEFFREY J. SCHOTT, KIMBERLY ANN ELLIOTT AND BARBARA OEGG, ECONOMIC SANCTIONS RECONSIDERED (3rd ed.) 12-13 (2007)("[T]he surprise decision by Libyan President Muammar Gadhafi in 2003 to renounce weapons of mass destruction was partly influenced by his desire to end the decade-old U.S. sanctions and to gain access to American oil field technology and know-how.")

[4] See Central Intelligence Agency, COMPREHENSIVE REPORT OF THE SPECIAL ADVISOR TO THE DCI ON IRAQ'S WEAPONS OF MASS DESTRUCTION (Sept. 30, 2004 and March 2005 addenda), available at http://www.gpoaccess.gov/duelfer; George A. Lopez & David Cortright, *Containing Iraq: Sanctions Worked*, FOREIGN AFF., July/Aug. 2004; GARY CLYDE HUFBAUER, JEFFREY J. SCHOTT, KIMBERLY ANN ELLIOTT AND BARBARA OEGG, ECONOMIC SANCTIONS RECONSIDERED (3rd ed.) 12 (2007)("UN-authorized sanctions denying Saddam Hussein unlimited access to Iraq's oil revenues, coupled with the periodic use of force, provided UN inspectors with enough leverage to find and destroy Iraq's stockpiles and facilities for producing chemical, biological, and nuclear weapons. These accomplishments were not fully revealed, however, until after the US invasion of Iraq in 2003.")

However, the sanctions imposed on *Iran* by the international community thus far are much weaker than the sanctions that helped stop the Iraqi and Libyan nuclear weapons programs. Indeed, the Iran sanctions are weaker than the arms embargo imposed by the Security Council on Liberia[5] during its civil war, the arms and petroleum embargo imposed on Sierra Leone in response to its May 1997 military coup,[6] the complete embargo imposed on the Federal Republic of Yugoslavia during the Bosnian crisis,[7] and the complete embargo imposed on Haiti in response to its 1991 military coup.[8]

In contrast, the entirety of UN Security Council sanctions on Iran thus far consist only of the following: 1) UN members have been ordered to stop supplying Iran with certain specified nuclear and ballistic missile items and technology; 2) a freeze of overseas assets of a couple dozen named Iranian officials and institutions; 3) a ban on the export of arms by Iran; and 4) a ban on overseas travel of a handful of Iranian officials.[9] Such sanctions are far too weak to a) persuade Iran's leadership that the benefits of proceeding with its nuclear program are outweighed by the sanctions cost of proceeding with the program, b) meaningfully contain Iran's nuclear program, or c) deter other countries from someday following Iran's lead.

That is unfortunate, because Iran's heavy dependence on foreign trade leaves it potentially highly vulnerable to strong economic sanctions.

Why are the Security Council sanctions on Iran so weak? In considerable part because Russia and China have used their vetoes over Security Council sanctions to protect their lucrative trade with Iran. Europe has played a more constructive role, but could do much better. Europe supplies one-third of Iran's imports (including a high proportion of Iran's sophisticated machinery needs and some 30 percent of Iran's total

[5] See, e.g., Security Council Resolution 1521 (Dec. 22, 2003) (prohibiting provision to Liberia of "arms and related materiel of all types," barring "direct or indirect import of all rough diamonds from Liberia," and banning import of all "timber products originating in Liberia").
[6] See, e.g., Security Council Resolution 1132 (Oct. 8, 1997) (banning travel by members of the Sierra Leone military junta, and prohibiting "the sale or supply to Sierra Leone ... of petroleum and petroleum products and arms and related materiel of all types").
[7] See, e.g., Security Council Resolution 713 (Sept. 25, 1991) (imposing a "general and complete embargo on all deliveries of weapons and military equipment to Yugoslavia"); Security Council Resolution 757 (May 30, 1992) (prohibiting all imports from the Federal Republic of Yugoslavia (FRY) and all exports, except medicine and certain foodstuffs, to the FRY; barring provision of funds to government, commercial undertakings, and persons of and within the FRY; prohibiting all aircraft travel to and from the FRY; suspending scientific, technical, cultural, and sports exchanges with the FRY); Security Council Resolution 820 (Apr. 17, 1993) (prohibiting provision in relation to the FRY of all except certain services and freezing foreign assets of government and commercial undertakings of the FRY).
[8] See, e.g., Security Council Resolution 841 (June 16, 1993) (prohibiting the sale or supply to Haiti of "petroleum or petroleum products or arms and related materiel of all types"; freezing foreign assets of Haiti's government); Security Council Resolution 917 (May 6, 1994) (banning travel by Haitian coup participants, military, police, and their immediate families; prohibiting all imports from Haiti; prohibiting all exports to Haiti except medicines, food, and informational materials).
[9] See Security Council Resolution 1737 (December 27, 2006); Security Council Resolution 1747 (March 24, 2007); Security Council Resolution 1803 (March 3, 2008).

gasoline).[10] If Europe were to impose a comprehensive or well-targeted embargo on Iran, it might quickly succeed in coercing Iran to cease its nuclear weapons program. The EU exported about $15 billion worth of goods to Iran in 2008 (led by Germany's $5.7 billion in exports to Iran, a ten percent increase over 2008). According to one estimate, some two-thirds of Iranian industry relies on German engineering products. Iranians reportedly distrust Chinese and especially Russian industrial equipment because it is neither cutting-edge nor reliable. Although vital for Iran, exports to Iran are less than one percent of the EU's total worldwide trade and represent a total of less than $3 billion in annual profit to the EU. Despite this relatively cheap price there is currently no sign that the EU plans to impose such vigorous additional sanctions against Iran. There is even less hope of the Security Council doing so.

Congress can increase U.S. leverage over Iran by putting these foreign countries and companies that keep the Iranian economy afloat to a business choice, a choice between doing business with Iran and doing business in the United States. The U.S. Treasury has successfully put foreign banks to such a choice, convincing more than 80 banks, including most of the world's top financial institutions, to cease all or some of their business with Iran.

The result has been increased pressure on the Iranian regime. For example, in November 2008, a group of 60 Iranian economists called for the regime to drastically change course, saying that President Ahmadinejad's "tension-creating" foreign policy has "scared off foreign investment and inflicted heavy damage on the economy."[11] During (and after) the recent Iranian presidential campaign, Ahmadinejad's opponents blamed him and the sanctions engendered by his combative foreign policy for the country's economic woes. Additional sanctions could contribute to reaching a tipping point at which Iran's ruling regime may decide the benefits of proceeding with its nuclear program are outweighed by the sanctions cost of proceeding with the program.

The following are some ways in which Congress could both increase and make more imminent the sanctions threat to Iran:

1) The Iran Refined Petroleum Sanctions Act (IRPSA) -- introduced by the Chair, the Vice Chair, the Ranking Member, and several other leaders of this Committee -- is an excellent bill, likely to have a significant impact on the handful of foreign companies that provide Iran with some 40 percent of its gasoline. These companies have in recent months reportedly included Vitol (a Swiss/Dutch firm), Trafigura (Swiss/Dutch), Reliance Industries (Indian), Total (French), and occasionally Glencore (Swiss) and Shell (Dutch).[12] Since U.S. energy companies are already prohibited from selling fuel to Iran,

[10] European Commission Bilateral Trade Relations: Iran, http://ec.europa.eu/trade/issues/bilateral/countries/iran/index_en.htm.

[11] Borzou Daragahi, "Economists in Iran Criticize Ahmadinejad," *Los Angeles Times*, Nov. 10, 2008, at A3.

[12] The Energy Information Administration of the United States Department of Energy states as follows in a report, dated February 2009, which was available on its website at http://www.eia.doe.gov/cabs/Iran/Oil.html as of July 21, 2009: "Large, multinational wholesalers such as BP, Reliance, Total, Trafigura, and Vitol provide Iran with gasoline." Several trade publications list Vitol, Trafigura, Total, and Reliance as the leading suppliers of gasoline to Iran as of April and May 2009, with BP having dropped off , Reliance back on the list following a two month hiatus, and occasional references to Glencore and Shell. See Paul Sampson, "Iran Opposition Calls for Oil Flow Halt,"

it should not be hard for lawmakers to back legislation that keeps these foreign suppliers from continuing to pick up that business.

If IRPSA is enacted, Iran will likely have to respond by rationing fuel, a step the BBC has called “dangerous” for the government of “an oil-rich country like Iran, where people think cheap fuel is their birthright and public transport is very limited.”[13] Squeezing Iran’s gasoline imports would remind the Iranian people that instead of choosing to invest in improving refining capacity to meet Iran’s growing demands, the Iranian government has chosen to invest in a nuclear program that is contrary to international law, economically inefficient, and has resulted in five condemnatory Security Council resolutions, international isolation, and various sanctions targeting Iran.

Having once served as a Congressional aide myself, I know that the legislative process takes time, especially during August. President Obama recently said that “we will take stock of Iran's progress” at the time of the G-20 summit meeting on September 24-25. French President Sarkozy stated that decisions on a next round of Iran sanctions will be made at the G-20 summit. Over the last eight years, Iran has crossed one redline or deadline after another without paying any price. This time must be different. I urge the Committee to do what it takes to position this bill for immediate enactment if no significant progress is made by the time of the G-20 summit meeting. I urge the Committee also to encourage the Executive Branch to lay the groundwork, to put in place the necessary interagency mechanisms, and begin collecting relevant data, so that when

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International Oil Daily, June 23, 2009 (“If there is no letup in the bloodshed, pressure could grow on companies such as India’s Reliance and Swiss trading duo Vitol and Trafigura to stop supplying gasoline to Iran**,** while US lawmakers are stepping up calls for sanctions targeting Iran's products imports.”)*;* Paul Sampson, “Reliance Risks US Backlash With Iran Sales,” International Oil Daily, June 9, 2009 (“Reliance is one of around half a dozen companies supplying Iran with gasoline. So far this year, the two largest have been Swiss traders Trafigura and Vitol, which both use ports in the United Arab Emirates from which to transship most of their cargoes. More sporadic shipments come from Total and Glencore.”); Paul Sampson, *“*Iran Dismisses US Gasoline Sanctions Threat,*”* International Oil Daily, May 6, 2009 (“Right now, there are around half a dozen suppliers of gasoline to Iran, which currently imports about 140,000 barrels per day of the product, mostly from the United Arab Emirates. So far this year, the two biggest suppliers have been Switzerland-based traders Vitol and Trafigura, while Glencore and French oil major Total also feature on the list. India's Reliance Industries has returned to the scene after a break of several months; shipping sources say India's biggest private-sector company supplied at least three 35,000 ton cargoes in April from its giant Jamnagar refinery in northwest India.”); Amber Corrin, “U.S. Congress Eyes Sanctions on Iran Petroleum Suppliers,” Global Refining & Fuels Report, May 6, 2009 (“Iran's main gasoline suppliers include Vitol (Switzerland/The Netherlands), Trafigura (Switzerland), Total (France), Reliance Industries (India), Glencore (Switzerland) and Shell (The Netherlands)."); Daniel Goldstein, “Iran facing further energy isolation from US,” Platts Oilgram News, May 4, 2009 (“Companies providing gasoline to Iran include the Swiss-Dutch firm Trafigura, India's Reliance Industries, Switzerland's Glencore, and oil major Total."); Paul Sampson, *“*Matching House Move, Senators Target Iran's Gasoline Imports,” Oil Daily, April 30, 2009 ("Iran, which now imports up to 140,000 barrels per day of gasoline to meet domestic demand, has relied on a small number of suppliers this year. The two largest are Swiss traders Vitol and Trafigura , while Total and Glencore have chipped in with the occasional cargo."); Paul Sampson, “Bipartisan Group of US Lawmakers Targets Iran's Gasoline Imports,” Oil Daily, April 24, 2009 (“According to Gulf shippers, the biggest supplier of gasoline to Iran in March was Swiss trader Vitol, which supplied at least six cargoes, with French major Total and Swiss-Dutch firm Trafigura delivering most of the rest.")*;* Samuel Ciszuk, “U.S. Legislators Target Gasoline Imports in Suggested New Sanctions Against Iran,” Global Insight, April 23, 2009 ("Iran's main gasoline providers are Dutch/Swiss traders Vitol and Trafigura, Swiss Trader Glencore, and supermajors Total and BP.") The gasoline trade with Iran is relatively opaque. The most current publicly available information on who is selling gasoline to Iran is generally to be found in trade press reports, which are often sourced to anonymous oil traders. These reports can be difficult to confirm independently. For that reason, the U.S. government should make sure that it has the most current, accurate information before it sanctions or otherwise applies pressure on companies thought to be selling gasoline to Iran.

[13] “Iran Fuel Rations Spark Violence,” BBC News, June 27, 2007.

IRPSA and any other sanctions bills are passed, the Executive Branch is ready to implement them.

2) Congress can and should, in the meantime, continue its smaller steps to squeeze Iran's suppliers of refined petroleum and other strategic goods. Steps such as:

a) Enacting the provision, introduced by Representatives Kirk and Sherman and included in the House Foreign Operations Appropriations Act, that would prohibit the U.S. Export-Import Bank from providing loan guarantees to Iran's suppliers of gasoline and other refined petroleums.

b) Holding hearings to shine a spotlight on Iran's providers and question whether they are doing business with the Iranian Revolutionary Guard Corps (IRGC) or other sanctioned entities. Also, encouraging the Executive Branch to determine whether any of Iran's suppliers of refined petroleum and other strategic goods are doing business with the IRGC or other sanctioned entities, and thus subject to sanction themselves on that basis. Given recent events in Iran, Iranian whistleblowers may now be willing to come forward with such information. Such scrutiny would, at a minimum, put Iran's suppliers on notice that they are assuming a significant risk in conducting this business, the risk of providing fuel to Iranian organizations and individuals designated as terrorist entities by the U.S. government. As my colleague Mark Dubowitz recently put it: "Fairly or not, Iranians and others may come to believe that these companies are fuelling the armored vehicles and motorcycles used to brutally repress those standing for freedom on the streets of Tehran."[14]

c) Encouraging the Executive Branch and governments at the state and local level to use their own discretion and market power to ask their major contractors and loan beneficiaries whether their foreign arms are doing business with Iran and, if so, to put such companies to a business choice between the U.S. governmental and Iranian markets. Earlier this year, the Department of Energy chose to purchase oil for the Strategic Petroleum Reserve from Vitol, Iran's leading supplier of gasoline, and Shell.[15] Los Angeles International Airport reportedly continues to buy some $600 million a year

[14] Mark Dubowitz, "Hitting Tehran Where it Hurts," Wall Street Journal (Europe), July 14, 2009.

[15] On February 27, 2009, seven Representatives, including several leading members of this Committee, sent a letter to U.S. Secretary of Energy Stephen Chu calling for the contract to be reconsidered. DOE has since determined that the contract with Vitol was viable and would be completed, though Secretary Chu promised that future contracts with the Swiss firm would undergo "hard review." Ian Talley, "DOE Says Vitol's Contract to Fill Petroleum Reserve Is Viable," *Wall Street Journal*, Apr. 30, 2009, and Ian Talley, "US Energy Secy: Future Dealings With Vitol To Undergo Hard Review," *Wall Street Journal*, May 1, 2009. Secretary Chu's promise that future dealings with Vitol would undergo a "hard review" sent a message to Iran's suppliers that there is a cost to their continued business dealings with Tehran. However, as of June 2009, there was no indication that Chu's statement had deterred Vitol from continuing to supply gasoline to Iran. See, e.g., Paul Sampson, "Iran Opposition Calls for Oil Flow Halt," International Oil Daily, June 23, 2009 ("If there is no letup in the bloodshed, pressure could grow on companies such as India's Reliance and Swiss trading duo Vitol and Trafigura to stop supplying gasoline to Iran**,** while US lawmakers are stepping up calls for sanctions targeting Iran's products imports."); Paul Sampson, "*Reliance Risks US Backlash With Iran Sales,*" *International Oil Daily, June 9, 2009 (*"Reliance is one of around half a dozen companies supplying Iran with gasoline. So far this year, the two largest have been Swiss traders Trafigura and Vitol, which both use ports in the United Arab Emirates from which to transship most of their cargoes.").

of jet fuel from Vitol.[16] The Los Angeles Metro Transit Authority is reportedly going to vote this week on whether to open the bidding to Siemens for a $300 million contract to make rail cars for the LA subway[17] (according to the Wall Street Journal, Siemens provided the Iranian regime with sophisticated equipment for spying on its citizens[18]). Congressman Sherman is among those leading the fight against Siemens. This is all important, indeed potentially pivotal, leverage. One key reason why the Iranian people so often blame the results of Treasury's financial measures on the Iranian regime rather than the U.S. government is that there has not been one large-scale U.S. government action on which the Iranian government could focus public ire. Instead, as with the parable of the frog in the pot, Treasury actions have turned up the heat gradually, leading one European bank one week to quietly curtail its presence in the Iranian market then another the next week, and so forth. It may, to the extent possible, be best to try to replicate this effect with Iran's gasoline suppliers, with the U.S. federal, state and local governments, taking a relatively low public profile, persuading one energy company one week to halt supplies to Iran then another the next week, and so forth. Should an interagency working group identify sufficient, existing executive branch leverage over Iran's gasoline suppliers, the suppliers could be quietly persuaded to exit the market without the need for passage and enactment of legislation which might provide the Iranian government with a bit more of a rallying cry.

3) While IRPSA is a potent bill that will significantly increase the cost to Iran's regime of proceeding with its nuclear program, a cutoff of Iran's refined petroleum supplies may not be sufficient to convince the Iranian regime that the benefits of its nuclear program are outweighed by the sanctions costs of proceeding with the program. There are a number of provisions in other Iran sanctions bills that I urge be passed alongside IRPSA – to help put Iran's regime over its tipping point. Consideration should be given to writing the provisions so as to enable the Administration to maximize its leverage by implementing them in a graduated manner, perhaps tied to detectable additional Iranian steps towards a nuclear arsenal, should they occur, or Iranian failure to meet future deadlines.[19] These additional provisions include:

a) Provisions that would cut off most remaining direct U.S. trade with Iran. According to recent reports by the Associated Press and other sources, the U.S. had

[16] In an April 27, 2009 press release, Vitol stated that Los Angeles International "airport consumes about 38 million barrels (1.6 billion gallons) of jet fuel per year" and "PFTC, a wholly owned subsidiary of Vitol Inc., supplied around 20 percent of that volume in 2008." See http://vitolnews.blogspot.com/; http://www.reuters.com/article/pressRelease/idUS224594+27-Apr-2009+MW20090427. Thus Vitol supplied about 7.6 million barrels of jet fuel to Los Angeles International Airport in 2008. In mid-June 2009, the price of jet fuel, as noted at the website of the International Air Transport Association (IATA), was $78.90 per barrel. See http://www.iata.org/whatwedo/economics/fuel_monitor/index.htm. The Los Angeles International Airport jet fuel deal was thus worth about $600 million a year to Vitol at that price.

[17] Dan Weikel, "MTA takes issue with potential contractor's ties with Iran," L.A. Times, July 17, 2008.

[18] Christopher Rhoads and Loretta Chao, "Iran's Web Spying Aided By Western Technology," Wall Street Journal, June 22, 2009, at http://online.wsj.com/article/SB124562668777335653.html.

[19] See KENNETH M. POLLACK ET AL, WHICH PATH TO PERSIA? OPTIONS FOR A NEW AMERICAN STRATEGY TOWARD IRAN 31-41 (Brookings: June 2009).

$685 million in exports to Iran in 2008 and about $100 million in imports from Iran.[20] If the United States is going to take pressure off the Ahmadinejad regime by ensuring that the Iranian people have enough bread to eat, the U.S. could insist on some concessions in return, including at least an assurance that the Iranian people will be told of the U.S.'s friendly gesture towards them. Unfortunately, the Bush Administration apparently received no reciprocal concessions from Iran. Iran's nuclear program has accelerated since the wheat sales began in mid 2008 (due to a drought in Iran). Meanwhile, rather than thanking the United States, the Iranian government, through its Agriculture Jihad Ministry, is denying it is "buying even one kilogram of wheat directly from America."[21] In addition, it will be harder for the United States to convince Europe to put stronger sanctions on Iran if the United States does not itself stop trading directly with Iran. President Clinton had in 1995 banned essentially all U.S. trade with Iran. However, the U.S. had in 1999 and 2000, in a gesture to the relatively moderate Iranian President of that time, Khatami, eased the trade ban to allow U.S. commercial sales of food to Iran and exports from Iran to the U.S. of Iranian nuts, dried fruits, carpets and caviar. An Associated Press article last year described the seventeen-fold increase in U.S. trade with Iran during the Bush Administration.[22] A senior Bush Administration official who was at that time working on outreach to Europe regarding Iran told me that the information contained in this article on U.S. trade with Iran, which was picked up in many European newspapers, did tremendous damage to U.S. efforts to convince Europe to tighten European sanctions on Iran. The U.S. should re-close these exceptions to direct trade with Iran.

b) Provisions, such as those in H.R. 1327, that would encourage and facilitate state and local divestment from companies doing business with Iran.

c) Provisions that would prevent, or at least strongly discourage and reduce, the transshipment, reexportation, or diversion to Iran through third countries of sensitive goods, services or technology.

d) Provisions, such as those in H.R. 2375, that would invigorate the application of sanctions against IRGC supporters and affiliates. It has also been suggested that sanctions target Iran's *bonyads*, charitable organizations that control as much as half of Iran's economic activity and are known for their endemic corruption, which serves as a critical source of graft for

[20] Sharon Theimer, "Iran Buying More from U.S. in Spite of Tensions," Associated Press Financial Wire, June 21, 2009; "In 2008, Iran Bought Much More from U.S.; U.S. Bought Much Less from Iran," Iran Times International, March 20, 2009.
[21] See articles at http://www.iranvnc.com/en/floater_article/1/5031 and http://www.payvand.com/news/08/oct/1004.html.
[22] Sharon Theimer, "From Bull Semen to Bras, Iran Still Buys American Products," Associated Press, July 9, 2008, available at, e.g., http://www.heraldextra.com/content/view/272636/36/ .

various regime officials.[23] According to a recent Brookings study, sanctioning the *bonyads* would not only hit at institutions of importance to the regime but "would also take aim at organizations widely loathed by the Iranian people."[24]

e) Provisions, such as those in H.R. 1208, that would strengthen and clarify the existing provisions of the Iran Sanctions Act.

f) Provisions that would discourage insurance companies from insuring sensitive shipments to Iran. Were such legislation enacted, it would be harder for refined petroleum shipments to reach Iran's shores even if suppliers were willing to continue selling refined petroleum to Iran. If the insurers – many of which are based in Britain, Germany and other allied countries – were willing to continue insuring shipments despite the U.S. legislation, they would almost certainly demand an increased political risk premium, leading to higher costs for Iran.[25]

g) Both section 201 of H.R. 1400, which passed the House last Congress by a vote of 397-16, and section 104 of S. 3445, the Dodd bill in the last Senate that was the Senate's most refined Iran sanctions bill, included provisions that would make U.S. parent companies liable for actions by their foreign subsidiaries that, if committed by the parent, would violate U.S. sanctions on Iran. There continue to be news reports of such foreign subsidiaries of U.S. companies engaging in business transactions with Iran. If engagement fails, cutting off such transactions would a) be an important additional means of putting pressure on Iran and b) prevent such transactions from making a mockery of U.S. sanctions on Iran and making it easy for foreign countries and companies to say "I see U.S. companies still doing business with Iran why should we stop."

In crafting some of these provisions, Congress will have to balance the merits of sanctions that allies consider to be extraterritorial applications of U.S. law against the need to win support from those allies for further multilateral sanctions. However, our allies have already failed for years to adopt strong sanctions against Iran and it is now crunch time, with Iran's nuclear program and probably the entire nuclear nonproliferation regime at a tipping point. The U.S.'s considerable leverage over Iran's suppliers of refined petroleum and other strategic goods may mean that aggressive unilateral sanctions could have a dispositive impact on Iran's economy and thus its nuclear program. In the face of persistent Russian, Chinese and European reluctance to impose strong sanctions on Iran, aggressive U.S. unilateral sanctions may turn out to be our last, best hope for peacefully convincing Iran that the cost of its nuclear program is too high.

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[23] KENNETH M. POLLACK ET AL, WHICH PATH TO PERSIA? OPTIONS FOR A NEW AMERICAN STRATEGY TOWARD IRAN 31 (Brookings: June 2009).
[24] Id.
[25] See Mark Dubowitz, "Hitting Tehran Where it Hurts," Wall Street Journal (Europe), July 14, 2009.

An Iranian nuclear arsenal will have a very negative impact on U.S. and global security, and the United States should be willing to pay a high price to prevent such an arsenal.

The 110th Congress passed no Iran sanctions legislation. If Iran acquires a nuclear arsenal, history may not look kindly on the 110th Congress's inability to take action while there was still time. I urge this Congress to do better.

Thank you.