REAUTHORIZATION OF THE
IRAN AND LIBYA SANCTIONS ACT

HEARING
BEFORE THE
COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
ONE HUNDRED SEVENTH CONGRESS
FIRST SESSION
ON
REAUTHORIZATION OF THE IRAN AND LIBYA SANCTIONS ACT OF 1996

JUNE 28, 2001

Printed for the use of the Committee on Banking, Housing, and Urban Affairs
## CONTENTS

**THURSDAY, JUNE 28, 2001**

<table>
<thead>
<tr>
<th>Opening statement of Chairman Sarbanes</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepared statement</td>
<td>40</td>
</tr>
<tr>
<td>Opening statements, comments, or prepared statements of:</td>
<td></td>
</tr>
<tr>
<td>Senator Miller</td>
<td>2</td>
</tr>
<tr>
<td>Senator Schumer</td>
<td>4</td>
</tr>
<tr>
<td>Prepared statement</td>
<td>41</td>
</tr>
<tr>
<td>Senator Hagel</td>
<td>11</td>
</tr>
<tr>
<td>Prepared statement</td>
<td>41</td>
</tr>
<tr>
<td>Senator Carper</td>
<td>14</td>
</tr>
<tr>
<td>Senator Corzine</td>
<td>15</td>
</tr>
<tr>
<td>Senator Stabenow</td>
<td>17</td>
</tr>
<tr>
<td>Senator Enzi</td>
<td>44</td>
</tr>
<tr>
<td>Senator Bunning</td>
<td>45</td>
</tr>
<tr>
<td>Senator Kennedy</td>
<td>46</td>
</tr>
</tbody>
</table>

## WITNESSES

<table>
<thead>
<tr>
<th>Gordon Smith, a U.S. Senator from the State of Oregon</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepared statement</td>
<td>45</td>
</tr>
<tr>
<td>E. Anthony Wayne, Assistant Secretary for Economic and Business Affairs, Accompanied by: Ambassador James Larocco, Deputy Assistant Secretary for Near Eastern Affairs, U.S. Department of State</td>
<td>6</td>
</tr>
<tr>
<td>Prepared statement</td>
<td>52</td>
</tr>
<tr>
<td>Stephanie Bernstein, Justice for Pan Am 103</td>
<td>20</td>
</tr>
<tr>
<td>Prepared statement</td>
<td>53</td>
</tr>
<tr>
<td>Patrick Clawson, Director for Research, Washington Institute for Near East Policy</td>
<td>24</td>
</tr>
<tr>
<td>Prepared statement</td>
<td>56</td>
</tr>
<tr>
<td>Bradley Gordon, Legislative Director, American Israel Public Affairs Committee</td>
<td>26</td>
</tr>
<tr>
<td>Prepared statement</td>
<td>58</td>
</tr>
<tr>
<td>William Reinsch, President, National Foreign Trade Council</td>
<td>28</td>
</tr>
<tr>
<td>Prepared statement</td>
<td>62</td>
</tr>
<tr>
<td>William F. Martin, Chairman, Washington Policy &amp; Analysis</td>
<td>31</td>
</tr>
<tr>
<td>Prepared statement</td>
<td>65</td>
</tr>
</tbody>
</table>

## ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

Prepared statement of Willard M. Berry, President, European-American Business Council | 74 |
REAUTHORIZATION OF THE
IRAN AND LIBYA SANCTIONS ACT

THURSDAY, JUNE 28, 2001

U.S. Senate,
Committee on Banking, Housing, and Urban Affairs,
Washington, DC.

The Committee met at 10:45 a.m., in room SD–538 of the Dirksen Senate Office Building, Senator Paul S. Sarbanes (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN PAUL S. SARBANES

Chairman SARBANES. Let me call the Committee to order.

The Banking, Housing, and Urban Affairs Committee meets this morning to hear testimony with respect to the reauthorization of the Iran and Libya Sanctions Act, commonly known as ILSA. This Act, which was passed by Congress in 1996, expires on August 5 of this year, therefore, we face an immediate reauthorization question.

I would like to note for the record that there is strong support in the Congress for the reauthorization. Seventy-seven Senators have cosponsored such legislation, led by Senators Schumer and Smith, who are to appear before us shortly. In the House of Representatives, the International Relations Committee on June 20, passed a 5 year reauthorization of ILSA, including in it a strengthening of the Libyan component. That came out of the Committee on a vote of 41 to 3.

ILSA was enacted in 1996, in response to Iran's support for terrorism and its pursuit of weapons of mass destruction. Concerning Libya, ILSA was enacted to compel the regime in Tripoli to abide by all of the U.N. Security Council Resolutions concerning the bombing of the Pan Am 103 flight.

ILSA requires the President to impose two out of a list of six sanctions against foreign firms that invest in the energy sectors of Iran and Libya, respectively. It should be noted that under the terms of ILSA, its application would end to Libya if the President of the United States determined that Libya had fulfilled all U.N. Security Council Resolutions relating to the bombing of Pan Am 103. For Iran, ILSA would terminate if Iran ceases its efforts to acquire weapons of mass destruction and is removed from the State Department's list of state sponsors of terrorism. ILSA does contain a Presidential waiver for U.S. national interest reasons or if the parent country of a violating firm agrees to impose economic sanctions on Iran.

Let me just briefly turn to each country.
The latest State Department report—"Patterns of Global Terrorism"—states, and I quote the State Department now:

Iran remains the most active state sponsor of terrorism in 2000. Its Revolutionary Guard Corps and Ministry of Intelligence and Security continue to be involved in the planning and execution of terrorist acts and continue to support a variety of groups that use terrorism to pursue their goals.

Iran is also stepping up its efforts to acquire weapons of mass destruction. The latest unclassified CIA report to Congress on worldwide acquisition of weapons of mass destruction notes:

Iran remains one of the most active countries seeking to acquire weapons of mass destruction and advanced chemical weapons technology from abroad. In doing so, Tehran is attempting to develop an indigenous capability to produce various types of weapons—chemical, biological, and nuclear—and their delivery systems.

As for Libya, it has fulfilled only one aspect of the U.N. Security Council Resolutions relating to the Pan Am 103 bombing—handing over suspects for trial. It has not fulfilled the requirement to pay compensation for the families of the victims, to accept responsibility for the actions of its intelligence officers, and to fully renounce international terrorism.

In fact, on April 19, President Bush stated, and I quote him:

We have made it clear to the Libyans that sanctions will remain until such time as they not only compensate for the bombing of the aircraft, but also admit their guilt and express remorse.

Because Iran and Libya have clearly not fulfilled the requirements of the ILSA legislation, I think to terminate these sanctions would send the wrong message, and therefore, I support reauthorizing this legislation.

Just last week, indictments were handed down by our Justice Department in the Khobar Towers bombing case, in which 19 of our airmen in Saudi Arabia were killed in 1996. Attorney General Ashcroft stated publicly at the time that Iranian officials, "I am now quoting the Attorney General: Inspired, supported and supervised members of Saudi Hizballah, which carried out the attack."

We have delayed the hearing this morning, as I think everyone knows, because there were votes on the floor of the Senate. I hope that does not create any inconvenience.

We have, I think, a very good panel of witnesses that we are going to be hearing from this morning. First, we are going to hear from the two original cosponsors of the legislation, our colleagues, Senators Schumer and Smith.

Then we will go to a panel that will include two witnesses from the State Department. And then we will go to a second panel, which includes a number of people from the private sector that we are looking forward to hearing from.

With that, I will turn to my colleagues for their statements.

Senator Miller, do you have an opening statement?

COMMENT OF SENATOR ZELL MILLER

Senator MILLER. No, thank you, Mr. Chairman.

Chairman SARBADES. All right. Senator Smith, I think I saw you come in first, why do we not proceed in that order.
STATEMENT OF GORDON H. SMITH
A U.S. SENATOR FROM THE STATE OF OREGON

Senator SMITH. Thank you, Mr. Chairman.

This bill truly may be one where, as our Nation pursues its national interests, we may be running up against our national values. And Senator Schumer and I are here to stand for the proposition that we must not surrender our national values.

Mr. Chairman, I thank you for allowing me to testify before the Senate Banking Committee regarding the reauthorization of the Iran and Libya Sanctions Act, or ILSA. I am proud to be here with my colleague from New York, Senator Schumer, who has been a stalwart and outstanding advocate of ILSA and its reauthorization.

Our legislation, as we are here before you today, has 76 co-sponsors and we expect more to sign on now that the legislation has been introduced. It is truly a bipartisan effort and we hope to have the reauthorization signed into law before the August 5 expiration date.

Iran continues to support international terrorism and is developing weapons of mass destruction at an alarming rate. Iran is the leading state sponsor of international terrorism in the world.

Iran not only finances Hizballah, Islamic Jihad, and Hamas, reportedly providing them $100 million a year, but also trains them and supplies them with munitions. Further, we now hear reports that Iran has moved on from proliferation to proliferator, with exports of fuel and missile guidance systems to export to other terrorist states.

Mr. Chairman, it is not in my statement, but as I read the news, the rhetoric of the leaders of Iran, even of their moderates, they speak in terms of the extermination of Israel, of its elimination, removing it from the map, and that is something that we cannot take as anything but deadly serious.

Also, Libya still refuses to abide by the United Nations Security Council Resolutions regarding the bombing of Pan Am 103, which requires that Tripoli formally renounce terrorism, accept responsibility for the actions of its government officials, convicted of masterminding the bombing, provide information about the bombing and pay appropriate compensation to the families of the victims. Further, Libya is a prime suspect of many past terrorist operations.

ILSA threatens the imposition of economic sanctions against foreign entities investing in Iran and Libya’s energy sectors. It has been very effective. Of 55 major petroleum projects for which Iran has sought foreign investment in the last 5 years, only a half dozen or so have received any foreign investment, and none have been completed. Without such investment, Iran’s oil production will continue to decline, as will its ability to pay for its expensive weapons programs.

While I have never been a strong supporter of unilateral sanctions as an effective diplomatic weapon, I do believe that ILSA is an exception. ILSA works.

We can and must continue to send a signal to those governments in the Middle East that sponsor terrorism that the U.S. Government will do all it can to work against their goals to prevent new holocausts and to stand by our allies, such as Israel.
I hope that this Committee will swiftly and favorably report out this legislation and that it will pass quickly on the Senate floor. And I look forward to your questions.

Chairman SARBANES. Thank you very much, Senator Smith.

Senator Schumer.

STATEMENT OF SENATOR CHARLES E. SCHUMER

Senator SCHUMER. Thank you, Mr. Chairman. I want to thank you for holding this hearing and for granting Senator Smith and me the opportunity to open this hearing. And I want to thank Gordon Smith, who on every issue we have worked on is just a terrific partner to work with. And I thank him for his true leadership on this legislation.

I know we are beginning late here today, so I will try to be brief. I think that is all right because everyone on this Committee is acquainted with what ILSA is all about, and 16 of the 20 Members of this Committee signed as original cosponsors. Senator Smith and I introduced the bill a few weeks ago with a total of 77 original cosponsors. So, let me just say a few words.

There has been movement on the part of the Administration and some here in Congress to weaken ILSA by watering down its provisions. Many of these people would do away with ILSA altogether, but because of the enormous support in Congress for the 5 year reauthorization, their strategy is to reduce the extension of ILSA to 2 years and add new waiver provisions that would effectively kill the bill.

I am here today to say that ILSA must be renewed fully intact for a 5 year term. Over the past 5 years, Iran and Libya have done nothing to show they would be welcomed into the community of nations and benefit from better relationships with the United States and our allies. Despite the election of the so-called moderate President Khatami in 1997, Iran remains the most active sponsor of terrorism and has been feverishly seeking to develop weapons of mass destruction, as Senator Smith has outlined.

Just last week, a Federal grand jury found that Iranian government officials, quote, “supported and directed” the Hizballah terrorists who blew up the Khobar Towers in Saudi Arabia, killing 19 brave American servicemen. Iran proudly supports Hamas, whose most recent claim to fame was sending a suicide bomber into a crowded disco in Tel Aviv, killing 21 young Israelis and injuring dozens more.

These are not actions worthy of American concessions. I agree completely with Gordon Smith. This is an issue of morality. What would the world think when its greatest power relaxes sanctions on a nation, two nations, that have shown themselves to be so outside the family of nations, not simply engaged in a dispute, not simply trying two sides to an argument, but some of the most dastardly acts that we have seen?

The bottom line is simple. If these nations are serious about entering the community of nations and seeing their economies benefit from global integration, they must change their behavior. The argument that we should lift sanctions in hopes that Iran and Libya might change their behavior is backward reasoning, backward
logic, backward morality. And so, I would hope, Mr. Chairman, that we would continue ILSA.

I just want to say a few words about sanctions policy in general. I think it is understandable that the Administration would want to review U.S. sanctions policy to make sure it is working effectively. But ILSA is about the best we have. It is highly flexible. It grants the President full waiver authority on a case-by-case basis. It contains a menu of sanctions, ranging from a slap on the wrist to more serious economic retaliation. And its sunset provisions are profoundly reasonable.

If we are not going to maintain ILSA, then we are not going to maintain any sanctions policy at all. And I think there are a couple of reasons that we are the greatest country in the world. One is our economic might, but another is that Statue of Liberty that stands so proudly in the harbor of the city that I come from, New York. It is a beacon of freedom. It is a beacon of what is right.

We are known as a country who tries to do the right thing. To simply cave in to economic pressure at this point in time, I think, would not only hurt our relationships in the Middle East. It would do some serious harm to the greatness of this country. And so, I urge that ILSA be reauthorized.

Chairman SARBANES. Thank you.

Jefferson, right back at the beginning of the Republic said that—I am trying to paraphrase it now. I will get the actual quote and put it in the record—but that staying true to our national values actually served our national interest, that that was encompassed within the concept of national interest and therefore, we ought not to allow ourselves to fall into the habit of thinking that somehow, they are contradictory to one another. And I think it is important to think of it in this context. I have no questions.

Senator Miller.

Senator MILLER. No questions, Mr. Chairman. Thank you and thank the witnesses.

Chairman SARBANES. Thank you all very much and thank you for the leadership you have taken on this issue.

We will now turn to our panel with our two representatives from the State Department, Anthony Wayne, Assistant Secretary for Economic and Business Affairs and Ambassador James Larocco, who is the Deputy Assistant Secretary for Near East Affairs. Presumably, gentlemen, you have worked out between yourselves who is to go first.

Mr. WAYNE. Yes. Thank you, Mr. Chairman. I think I will, if it suits you, make an introductory statement and then we will both take questions.

Chairman SARBANES. I think it would be helpful if you pulled the microphone closer.

Mr. WAYNE. Sorry.

Chairman SARBANES. You have to really speak right into it in order to be heard.
STATEMENT OF E. ANTHONY WAYNE, ASSISTANT SECRETARY 
FOR ECONOMIC AND BUSINESS AFFAIRS 
ACCOMPANIED BY AMBASSADOR JAMES A. LAROCCO 
DEPUTY ASSISTANT SECRETARY FOR NEAR EASTERN AFFAIRS 
U.S. DEPARTMENT OF STATE

Mr. WAYNE. Mr. Chairman, if it meets with your approval, I 
would make a shortened introductory statement, submit a longer 
statement for the record, and then we would both be available to 
take your questions.

Chairman SARBRANES. Fine. And let me say, because I want to 
put it in after the statements of Senators Schumer and Smith, I 
have a statement from Senator Kennedy, who was not able to be 
with us, but the statement and its attachments will be included in 
full in the record.

Thank you.

Mr. Wayne, please go ahead.

Mr. WAYNE. Thank you very much, Mr. Chairman. We are very 
pleased to have the opportunity to appear before this Committee 
today and to testify regarding S. 994, on the renewal of the Iran 
and Libya Sanctions Act.

My name is Tony Wayne. I am the Assistant Secretary for Eco-

nomic and Business Affairs at the State Department. And I am 
happy to be accompanied by Jim Larocco, who has just returned 
from being our Ambassador in Kuwait and is currently serving as 
the principal Deputy Assistant Secretary in our Near Eastern Af-

fairs Bureau. He is actually the Acting Assistant Secretary today, 
as Bill Burns is with Secretary Powell in the Middle East.

As you know, Mr. Chairman, the Administration supports the re-

newal of ILSA, in its original form, but for 2 years, rather than the 
5 years proposed. We entirely share the concerns of Congress, the 
concerns that you mentioned and that your two colleagues men-
tioned, about the objectionable policies and behaviors of Iran and 
Libya. Opposing those behaviors and those policies and changing 
them is a top priority. We have repeatedly condemned Iran's pur-
suit of weapons of mass destruction and the missile delivery sys-
tems for them, and its support of terrorism, including support for 
those using violence to oppose peace in the Middle East. Although 
no Iranian individual was charged in the recent indictments re-

tated to the Khobar bombing, the investigation confirmed, as you 
noted, our concerns about Iranian support for terrorism and that 
those are well-founded.

As for Libya, it has not yet complied with the relevant U.N. Se-

curity Council Resolutions and we are focused on securing Libya's 
compliance with those Security Council obligations, including the 
payment of appropriate compensation and acceptance of responsi-
bility of Libyan officials in connection with the bombing of Pan Am 
Flight 103.

The Administration's decision to support a 2 year renewal re-

flects no diminution in our concern about the objectionable behavior of Iran and Libya. Our concerns in these areas continue to be 
reflected in a wide variety of policies and actions—their designation 
as state-sponsors of terrorism, our continued efforts to bolster 
international cooperation to stop terrorist activities.
We are also playing a leadership role in the multilateral, non-proliferation area, in such regimes as the Missile Technology Control Regime, the Nuclear Suppliers Group, the Australia Group, and the Wassenaar Agreement, where we work in close partnership with our European allies and other member governments, to restrict the ability of countries such as Iran and Libya to have access to the equipment, technology, and materials necessary to develop weapons of mass destruction and long-range missiles.

Rather, our support for a 2 year term reflects this Administration’s view that sanctions should be reviewed, thought about, and debated at frequent intervals. Sanctions, as you know, Mr. Chairman, are one set of tools that we have to pursue our national interests and our important national values. As we are working to counter such abhorrent practices as proliferation and terrorism, we need to build effective international cooperation. We need to regularly reevaluate our sanctions tools, assessing how well they are working, whether they should be altered or amended, whether they can be fine-tuned, whether there are other instruments or approaches that should be applied, whether there are unintended effects and how to take those into account.

And this process of reevaluation affords a further opportunity for all points of view to be heard as we look at how best to pursue our national values and objectives. In sum, we believe that regular reevaluation is essential to ensure that we are attacking critical problems in the most effective way.

Questions about effectiveness, impact, cost, and relevance inevitably arise in connection with any sanctions regime. ILSA is no exception, particularly since its approach is indirect. It focuses on investment, in order to limit revenue, rather than focusing directly on actions by Iran and Libya to procure weapons of mass destruction or to support terrorism. It targets petroleum-sector investors—many of them from friendly countries whose cooperation we need in working toward nonproliferation and counterterrorism goals—rather than targeting parties who are engaged in inherently objectionable behavior.

The Administration, Mr. Chairman, is embarking on an overall review of sanctions policy that will include examining the cost and effectiveness of our sanctions efforts—in general, and with respect to specific sanctions laws, such as ILSA.

For its part, the State Department believes that economic sanctions laws should reflect several common sense principles. They should allow the President sufficient flexibility to modify or terminate sanctions as conditions change, or as he sees fit in balancing other important U.S. interests. They must be part of an integrated policy that considers other options and weighs the costs and benefits of economic sanctions for the range of U.S. interests. In general, sanctions should be directly targeted at objectionable behavior by foreign governments or entities that threaten our values or interests, and should minimize the unintended harmful consequences. Sanctions that are indirectly targeted are likely to be less effective and need to be weighed with particular care for unintended effects. When sanctions are appropriate, it is far preferable that they be employed through a multilateral approach. We may, however, occasionally need to be prepared to act unilaterally when
necessary to defend important U.S. values and interests. As we have said, in general, we believe that sanctions should be reviewed periodically and relatively frequently.

Finally, I want to stress that, whenever possible, any decision to impose sanctions should be the product of collaboration and consultation between the Administration and Congress. Through a close dialogue, we can make sanctions more rational, more coherent, and more effective in support of U.S. foreign policy and national security interests.

We are grateful for this opportunity to appear before you and we would be happy to respond to any of your questions.

Thank you.

Chairman SARABANES. Thank you.

Ambassador Larocco, did you want to add anything?

Mr. LAROCCH. No, I have no additional remarks.

Chairman SARABANES. I am a little puzzled by your references to fine-tuning and flexibility, since the statute, as currently written and as proposed for extension, provides quite a broad waiver authority to the President, does it not?

Mr. WAYNE. It does, Senator.

Chairman SARABANES. I mean, the President can, by determining that it is important and that it is a national interest. It is not even a national security interest determination. He can waive the application of the sanctions. Is that right?

Mr. WAYNE. Correct.

Chairman SARABANES. What is the problem, then, with extending it for another 5 years since the President has that authority? Or let me put the question this way. If I accept your argument that you need frequent and periodic review, with which the Congress would involve itself, would it not be reasonable in that circumstance to tighten up the waiver authority very significantly if you are going to shorten the time period?

In other words, suppose we did a 2 year time period, but eliminated the waiver authority? Then every 2 years, we would have a chance to look at this thing. Meanwhile, the sanctions would go into effect, so you get a shorter time period, but you do not then have the same latitude to waive the sanctions.

Now, we have a longer time period, which we think serves some other important purposes, but you do have this waiver.

What is your reaction to that?

Mr. WAYNE. I think, as you pointed out in your introductory statement just now, the waiver authority in this bill is broad. And as I tried to talk about, we think there are several different things that it is important to have in an approach to sanctions in general and in this bill.

Chairman SARABANES. Would you rather have a broad waiver authority and a 5 year period or a very narrow or no waiver authority at all and a 2 year period?

Mr. WAYNE. Mr. Chairman, what I think we very much favor is a 2 year period on this of the current bill without any changes. I do not think there is a downside in that. What we are very much proposing is that we all have the opportunity to come together in 2 years and again look at the set of issues.
Chairman SARBANES. Why would it not be an invitation to Gaddafi to wait out the period and not pay the compensation?

Mr. WAYNE. No, sir, I do not think it would be, because there is no sign at all that we would not renew ILSA again in 2 years.

Chairman SARBANES. Well, I do not know. I mean, here we are trying to renew it and we thought the obvious thing to do would be to take it out for another 5 year term. And you are here telling us, no, just do it for 2 years. Then while you support the legislation, most of your statement has been spent sort of questioning the whole notion of sanctions.

Mr. WAYNE. I am sorry, sir, if I was not clear in that or if my statement conveyed a different impression than I intended to.

What we are suggesting is that sanctions, an important tool in our foreign policy, need to be used carefully and as are other tools, need to be reviewed and discussed and debated on a frequent basis, and that as we have looked back, sir, over the past decade in the range of sanctions that have been used and that we have undertaken, that one of the lessons that we think we have drawn from that is that there should be a periodic and frequent review of them for all sanctions, not just ILSA. But in general, that this would be a good practice to have.

Chairman SARBANES. Of course, the legislation as written gives the President the opportunity to conduct that review at any time and with considerably flexible authority, then, to act upon it.

Well, I want to put one other question to you and then I will yield to my colleagues. Is the Supreme Council for National Security the Iranian decisionmaking body for establishing major Iranian security policies?

Mr. LAROCCO. That is my understanding. It is very clear that while President Khatami has the title of president, that the true authority in the country for many decisions remains in the hands of what we would consider to be the hard-line conservatives.

Chairman SARBANES. Is that exercised through the Supreme Council for National Security? That is the decisionmaking body for national security policies.

Mr. LAROCCO. That is my understanding.

Chairman SARBANES. Now is President Khatami a member of the Supreme Council for National Security?

Mr. LAROCCO. I would have to check that, sir. I do apologize. I have only been here for one week and I would have to look further into that.

Chairman SARBANES. Well, for the record, it is my understanding that he is a member of the council, as is the supreme religious leader, the Ayatollah Khamene’i, and the minister of intelligence and a number of others.

So, if that is the case, clearly, the president is not out of the loop in these national security decisions. Would that be correct?

Mr. LAROCCO. I was not suggesting that he is out of the loop, sir.

Chairman SARBANES. Senator Schumer.

Senator SCHUMER. Thank you, Senator.

I want to follow up on the last part of Senator Sarbanes’ question. I would just like to know, you know, we had a time when we were trying to improve relations with concessions and nice talk and
everything about that. I think there was more hope about Khatami a year or two ago than there is today.

I think you have seen a hardening of opinion because people have seen nothing. And in fact, a large number of people I speak to think Khatami is nothing more—this is not everybody. But there is a group who think he is nothing more than a puppet, a way of saying, hey, look. We have this guy who is not as bad as the rest of us out there and he has no control over anything.

When has this softening policy in whatever way ever produced results with Iran, and what results are they?

Clearly, if we go to the Administration’s recommendation, it is going to look like an olive branch, a softening. And the question is, when has softening worked in the past? Or why isn’t it equally or even more plausible to say, if they get the feeling, being hard-line as they are, being as ideological as they are, thinking that they have the message from God, as they do, say, see, our tough nastiness is working. The west is weakening. And if we act even nastier, maybe they will even next time have a weaker bill.

So just give me some logic as to why we should not be as strong as we have been when to me at least I have seen no change. It is not that Khatami is the new kid on the block any more. In fact, you can argue that things have gotten worse. Support for Hamas has gotten worse, the arrest of the 13 and conviction of the 10 Jewish citizens that, for all practical purposes seems as if it was done for their religion, their nuclear program, everything.

Tell me where there has been some element. What makes the Administration decide to do this? Is it that there is some evidence in the past that when olive branches or little winks were extended, that it produced results? Is it an attempt to try it again even though it has not worked? Is there some information you have that we do not?

Mr. LAROCZO. Senator, if I could first comment about the Iranian situation. I think it is important to set that framework.

To begin with, I think we have all seen, and we had great hopes when the election of President Khatami took place, that there would be some changes in policy.

But it has become very clear, even with his reelection now, that while there has been broad-based support for reform, and we are talking primarily because of demographics of the younger population. They enfranchise their voters at the age of 15. This support has not been translated into the kind of policies that we believe serve our interests or, in many respects, the interests of those same constituencies.

We have seen in the short-term, even now, continued crackdown on dissidents and closing of newspapers, at the same time as we have stated in our patterns of global terrorism, it is very clear that there has been no diminution in terms of their support for terrorism, and their active support for terrorism, particularly directed at peace efforts. At the same time they continue dogged pursuit of weapons of mass destruction. So, I want to make that very clear.

If we are taking a look at the aspirations of the people, we have to conclude that they are longer-term, but they are not short-term.
And so, you are correct in the sense that the leadership of that country continues to take them in a direction that does not serve our interest.

Senator SCHUMER. Give me the logic as to why a weakening—it will be perceived as a weakening—of ILSA would change any of that. My guess is that if you talk to some of the young people, the dissidents, privately, they probably say, keep the heat on the Government as much as you could.

Mr. WAYNE. Senator, I guess I would say to that that we do not see a 2 year renewal versus a 5 year renewal as a weakening. It is the same law that we support renewing. We think it just makes sense to come together in 2 years and again have a discussion.

Senator SCHUMER. We could do that anyway. We are open to discussion. I am. I am sure all of my colleagues are, any time of day. We could have a discussion any time we sit.

We could write in the 5 year that 2 years from now, there shall be a little conclave and we shall discuss this and reevaluate.

But clearly, it would be perceived as a weakening. Whether you intend it to be or not, you certainly would admit that some could make the plausible argument that it is a weakening. And there are a lot better ways in my judgment of indicating that we have to reevaluate based on, hopefully, some change in action, without saying, let this expire in 2 years.

I still do not see the logic if, as Ambassador Larocco has honestly and forthrightly stated, we have not seen any change in policy.

Mr. WAYNE. Senator, we believe, one, no diminution in our concern, as Ambassador Larocco said. No change in our policy.

In fact, just yesterday, you may have noted we announced some new steps taken under another law, the Iran Nonproliferation Act, to sanction companies for certain dealings with Iran.

Senator SCHUMER. Do you not think that some would perceive it as such?

Mr. WAYNE. Certainly some might perceive it as such. But we are making very clear that that is not what it is. Our convictions remain as firm as ever, that we need to respond effectively to this objectionable behavior.

And we just think that coming back in 2 years, we would have a good opportunity to see where we are and discuss it again and discuss the range of issues.

Senator SCHUMER. Thank you, Mr. Chairman.

Chairman SARBANES. Senator Hagel.

STATEMENT OF SENATOR CHUCK HAGEL

Senator Hagel. Mr. Chairman, thank you. I apologize for being late. I have through my staff monitored this. This is a very important issue.

I find myself much in the minority on this issue and certainly do not agree with my friend and colleague from New York on the issue. And I would first like to ask unanimous consent that a statement and a speech be allowed to be included in the record.

Chairman SARBANES. It will be so included.

Senator Hagel. Thank you, Mr. Chairman.

Mr. Chairman, I would like to offer a couple of thoughts and then a question within my timeframe.
It is my opinion that a face-value policy, which I consider this policy to be—meaning that it is in face only. It is not enforceable, has not been enforced. We have not pulled the trigger on this. We have deferred the tough decisions—is not the right way to do this. And I say that because if the focus is on terrorism and proliferation and the interest of America in the Middle East, the interest of Israel, the interest of our friends and allies, the civilized world, then I find this legislation, this law that we are looking at renewing, a bit farcical.

What are we accomplishing? Senator Schumer has asked some good questions. But I think the better questions are, what results has ILSA produced? What clout do we have? What can we do?

Symbolism is important. This is an imperfect world. Surely there are forces within Iran that are moving in the right direction. It may take a generation. But I start with Israel's position here as well.

Why is this in the best interest for this policy to arbitrarily, unilaterally, needlessly make enemies for Israel and the United States of this new generation of Iranians coming up, born after 1979, which is a large, large percentage of that population? And we are getting nothing for it.

Has terrorism stopped? Has proliferation stopped?

You might be able to enlighten us on that point. It seems to me that we as a great power should be far more imaginative here in finding a better way to do this than to just say, well, let us wait just five more years and see how the world looks.

There are very little margins of error left in the world today. And if you break this down even further into information gathering, when we are shut out of a nation and trying to figure out what is going on in that country, how does that serve our interests, to be shut out? How does that serve our geopolitical, strategic, and economic interests, to be shut out? I do not see how that does.

I do not think you make the Middle East more stable. I do not think you bring more security to Israel by this kind of policy, which, again, unless you can tell me otherwise, has not produced any results. The one time that I am aware of, the South Pars decision that President Clinton gave a waiver to Total, the rest of the issues we are studying, we are looking at.

I am not aware of the fact that President Clinton pulled the trigger on any of these issues. And in fact, if he did, what would we get? We are alienating much of the Middle East. We are alienating our friends and our allies. And I guess more to the point, this is a multilateral effort.

We do not combat the twin scourges of terrorism and proliferation unilaterally. It is impossible to do that.

So, I think the far wiser course of action for the interests of this country and for Israel is to find a better way to do this. And surely, we are capable of doing that. We have a lot of smart people in Congress. We have a lot of smart people on the outside. I think the President has surrounded himself with some pretty smart people, starting with the two of you, and Secretary Powell. It seems to me that we can figure this out.

I want to go on record, I suspect in an unequivocal way, my opposition to this. Again, I recognize that I may have two votes with
me and I may be exaggerating one. Nonetheless, somebody has
to give another point of view here and I am incapable of being
that articulate, but I will try to continue to give another view on
this issue.

Now with the time I have, if I have any left, the yellow light is
on. Maybe I will get a question in.

Let us take the question that my good friend from New York
asked. What results have there been? Give me an example, or as
many as you can, of what ILSA has produced in the way of tangible
evidence on how we have stopped terrorism and proliferation.

Mr. WAYNE. Thank you, Senator. Let me take a crack at that
first. As I think was evident in a number of the statements, it is
clear that Iran continues to support terrorism and it continues to
pursue the weapons of mass destruction and their delivery systems.
That speaks of itself. Those remain very, very serious problems.

If you look at the effectiveness of ILSA, there are a number of
different measures. And I know some of the other panelists will
comment on this.

If we look at oil production, Iran has continued to be able to meet
or exceed its quota in OPEC.

If we look at the price of oil and the money that is been received
in that, I guess I would say another way, the price of oil globally
has been a much more powerful determinant of how much money
Iran takes in than probably any other factor.

When oil prices were low at $10 a barrel, their income dropped.
It is currently about $25 a barrel and their income has soared.

We do believe that ILSA did have, and has had some deterrent
effect with those seeking to invest in Iran. The exact weight of that
is very hard to measure because Iran is not an easy place to do
business, even for those who are willing to do business there.

I even read in the Financial Times yesterday an article about
current debates going on within Iran among different power cen-
ters about whether to accept certain foreign oil deals that have
been put forward. There are just a lot of problems in doing busi-
ness there. So to weigh out the effects of deterrents of ILSA and
other factors is a hard thing to do and there can be different anal-
yses of that.

Using our dialogue about ILSA, we have regularly called our
opposition to investment in Iran to the attention of others. When
we have press reports of companies that are going in there we
have regularly had a dialogue with the companies and with their
governments on that, expressed our opposition, expressed why we
oppose this.

We have during this period, I think, deepened our cooperation
with a number of our friends and allies in the nonproliferation area
and in the counterterrorism area because they accept our goals and
our objectives to change that objectionable behavior. And we have
made a number of steps during the last 5 year period to improve
those regimes.

Chairman SARBANES. Thank you.

Senator Carper.
COMMENTS OF SENATOR THOMAS R. CARPER

Senator CARPER. Thank you, Mr. Chairman. To our witnesses, I would like to start out by saying that I apologize for missing your statements. I have them and I will read them.

I have run for State-wide office 11 times in Delaware and served in the Senate, the House, and as Governor. I have a real interest in the political system in our State and in politics and follow it rather closely in our country.

I am also intrigued by the political changing scene in Israel and have been a student from afar and a visitor to the country from time to time.

I am intrigued by what is going on politically in Iran and followed the recent elections with some interest, and the preceding elections with equal interest.

My recollection is that voter turn-out this last time was down a bit, but those who seemed to be voting for reform were a greater percentage than had previously occurred.

I hear what you are saying about Iran continuing to pursue the development of weapons of mass destruction and supporting terrorism, none of which we want or like.

Having said that, I know that there are substantial numbers of people in Iran who want to change the status quo in their country. And you may have said this in your testimony, but I would just ask of you, what policy or policies do we pursue to strengthen the hand of those in Iran who genuinely seek reforms, who seek to lift the repression and to take a different path? What policy or policies can we take to strengthen their hand rather than to weaken it?

Mr. LAROCCHO. Thank you very much. I think I would like to start out by saying how much I appreciate your comments and note that Secretary Powell, when he appeared in his confirmation hearing, did note that Iran is indeed an important country in the region and to our interest, that it is undergoing profound change from within. It is very, very clear that the aspirations, particularly of the younger people, are for reform, political and democratic reform, and economic reform.

What we have been doing consistently is to speak out in support of that reform and particularly for human rights, for freedom of expression, for all the freedoms that we cherish. We believe by doing that, they are getting a clear message. And this we believe is extremely important in broadcasting the messages to them.

So that is what I would like to offer to you on that.

But I think we need to be very clear on this: we believe that our influence is in fact quite limited. This is a true domestic reform effort. It is coming from within. It is grassroots. It is not coming from the top. It is coming from the bottom up. And so, our best influence is indeed to be consistent in what we say and to support all those reforms and further democratization, since we believe that this is a longer-term process, as you noted yourself.

Senator CARPER. Mr. Wayne, would you like to add anything to that?

Mr. WAYNE. I think I agree with Ambassador Larocco.

Senator CARPER. I had the privilege of meeting with several representatives of the Administration a couple of weeks ago to discuss this issue at some length. And they were calling for an extension
of ILSA of 2 years rather than 5 years. And that would apply to both Iran and to Libya. Is that correct?

[Mr. Wayne. Nods in the affirmative.]

Senator CARPER. Does it make any sense to consider treating the two separately, one the extension of the provisions of the legislation for 2 years and the other for 5 years? Does that make no sense at all? What are the problems with doing that? Two years for Iran, five for Libya.

Mr. WAYNE. Well, we would have to think about that, Senator. Our position has been, as you correctly put it, that we would favor a 2 year rollover of the law as it is.

Senator CARPER. Okay. Mr. Ambassador.

Mr. LAROCCH. I think it is fair to say that our concerns related to Iran are far different than our concerns related to Libya and the situations are different. That is all I can say.

Senator CARPER. You say the concerns are different. Can you just elaborate on that a little bit?

Mr. LAROCCH. Yes. Our concerns with Iran as we know are related to some of our most important national security interests when it comes to development of weapons of mass destruction and the development of the capability to deliver those weapons of mass destruction to some of our most important allies, including Israel, and our strategic interest in the energy field that could be threatened by that.

At the same time, we have primarily a unilateral framework which we try to work in consultations with our friends and allies to prevent Iran from developing those weapons of mass destruction in particular and to try to curb the terrorism.

In the case of Libya, we have a multilateral framework that has been agreed upon and that we adhere to strictly. And we believe to this point, while it has been very painful for the families and it has been much too slow, it is something that we and the international community has stuck with. It is a different situation. But that is all I wanted to point out from a policy point of view.

Chairman SARBANES. Senator Corzine.

COMMENTS OF SENATOR JON S. CORZINE

Senator CORZINE. Thank you, Mr. Chairman, for holding this hearing. And I appreciate the folks who are testifying and their insights on this, I believe, truly important issue.

I feel very strongly, both history and not only as it relates to Iran and Libya, but in other instances, that economic sanctions end up having influence.

I also understand that we cannot let the perfect be the enemy of the good and therefore, I can identify with some of the things that the Senator from Nebraska talked about. But I believe that there is some influence that comes about by diminished economic activity that flows from sanctions.

There has been profound changes, as you verbalized, within Iran. Haven’t these sanctions had some relevance to making that a possibility? And is it not part and parcel of some of the elements of change that are occurring, knowing that everything has a balance sheet? There are pluses and minuses associated with all. But are
we not moving in a better direction than we would otherwise be if we did not have these sanctions in place?

I feel very strongly that we should keep them in place by my own understanding of those changes. But I would like to hear the reason that these have not been effective as was suggested by one of the Senators, relative to my own impression that they have had a meaningful impact.

Mr. Wayne. Let me, if I could, Senator, take a first crack at that. First, it is important to remember that we have a whole series of different kinds of sanctions in place with Iran, and with Libya, also. In both cases, we have identified them as state supporters of terrorism for a long time, which in and of itself brings a number of sanctions with that.

So, I think that we would fully and totally agree that sanctions are an important tool that we have. They have had an effect, all the way from the very symbolic effect of signaling that this is not acceptable behavior, to concrete effects in specific areas.

Our nonproliferation sanctions and actions that have taken in the multilateral arrangements have clearly cut off the supply of technology and weapons and equipment, as have a number of the other sanctions.

As I said in the case of ILSA, and you will hear, you will get several different measurements of the effectiveness of this, we do think that there has been a deterrent effect from ILSA to add to the questioning that companies have had when they have considered investing.

Chairman Sarbanes. There are some countries, significant economic players, whose companies have not invested in Iran, who otherwise might have been expected to do so. Is that not the case?

Mr. Wayne. That is the case. But in all cases, when you are talking about a hypothetical, it is a hard thing to measure.

I guess that is what I would say. We do think, that there has been some deterrent effect. We know that we have had good conversations with other governments and people about the bad behavior, about why we believe that there should be no investment in Iran’s petroleum industry. The exact weighing of that is a hard thing to do.

Senator Corzine. Without ILSA, I can be clear that, from my own experience, the secondary implications of how one company deals with another would not be an issue that was addressed at all in those relationships and partnerships and joint ventures if this Act were not in place. And so it has to, in practical impact, have some flow-through to those relations.

Mr. Wayne. Yes. But I think it is also fair to note that it also have effect with our friends and allies who consider this to be a unilateral imposition of our preferences on them.

In the European Union, there is a European Union-wide rule that forbids any company in the European Union from complying with ILSA.

So, there are other tensions that come up as we seek to implement this law, as we have been doing and will do if it is renewed.

I do not know, Ambassador, if you want to add anything to that. [Mr. Larocco. Nods in the negative.]

Senator Schumer. Senator Stabenow.
COMMENTS OF SENATOR DEBBIE STABENOW

Senator STABENOW. Thank you, Mr. Chairman. I first want to apologize for coming into the Committee late. All four of my Committees have met this morning at the same time.

[Laughter.]
And so, I am seriously considering joining the discussion on cloning in order to be able to achieve my assignments.

[Laughter.]
I wanted to be sure to be here, though, to indicate my pleasure of being a cosponsor of this bill and the importance of the reauthorization of the Iran and Libya Sanctions Act.

I would ask one question and I apologize if you have already addressed this issue this morning. But I would like to know your thoughts concerning lowering the threshold trigger for Libya to coincide more with the trigger for sanctions with Iran. If you could just speak for a moment regarding that, I would appreciate it.

Mr. WAYNE. Well, we favor a rollover of the bill without any changes in it. We have in the case of Libya and Iran, in both cases, since the bill has been in place for 5 years, there is an understanding of those limits and of the rules and regulations with our friends and allies.

In the case of Libya, as Ambassador Larocco mentioned earlier, a great part of the effectiveness in dealing with Libya has been the fact that there have been U.N. Security Council Resolutions passed. And there has been an international and multilateral consensus that exists and still exists in urging Libya to do the right thing. There is a need to maintain and even bolster that pressure, that international consensus.

We believe approving a renewal of the bill in its current form would be the most propitious for maintaining that international consensus.

Senator STABENOW. Mr. Ambassador, would you want to add anything to that?

[Mr. Larocco. Nods in the negative.]
Senator STABENOW. Thank you, Mr. Chairman.
Chairman SARBADES. Thank you very much.
Senator Hagel, did you have anything else?

Senator HAGEL. If I could take a minute or two, Mr. Chairman, I would like to follow up on a couple of the points that were made here. The response that you each have given to some of the questions here about the results—and I have yet to hear a tangible result of where you can point to that proliferation, terrorism was stopped, oil is still running rather well out of Iran. Show me something, rather than just some reference, to, well, these are difficult, tangible kinds of things to put on the record here.

Intelligence, for example. Do you think we know more about Iran? Do you think we know enough about Iran? Do we know enough about what Senator Carper was talking about in regard to what is going on in Iran?

Maybe there is no reform effort going on. I think there is. I think Senator Carper thinks there is. I think a number of people think there is.
And with these sanctions and a continuation, how then do we reinforce that reform effort? How do we by symbolism that I have heard many times from the two of you gentlemen, how do we through symbolism or any gesture give these people any hope?

What we do is continue to allow ourselves to be vilified—and Israel—by these actions, and whose interest does that serve? Certainly, the mullahs, who are in charge.

What no one is saying here, and we should be very clear about this, is that Mr. Khatami is an Islamic Thomas Jefferson. I do not think anybody believes that. I do not. I think I have a pretty clear understanding of the real world. I have lived in the real world.

And so, it is not a matter of being weak-kneed about our foreign policy. But what I think we should focus on always in foreign policy is what works, what is effective.

I am going to ask you each again, if you could give the Committee some tangible evidence of where ILSA has produced some real change. Has there been less oil pumped, for example, in Iran?

Mr. WAYNE. What I can say for sure is that they have continued to meet their OPEC production quota during this period of time.

Now, I am not an oil expert. I think you will hear from some people who studied this on the next panel. Whether there are differences between what might have been a projected production and what the current production is, I am not expert to say.

All I can really say is they have met their OPEC quotas during that period.

Senator HAGEL. Well, what does that mean? So, you are crediting ILSA for not allowing to go beyond meeting the OPEC projections?

Mr. WAYNE. I think the effect of not having additional investment, foreign investment, coming into their oil sector has meant that they have not exploited new areas and they have not maximized their production in existing areas. And I think ILSA has had some effect in that.

The exact weight of ILSA versus the difficulty of doing business in Iran, of having Iran manage this complex buy-back procedures that they were doing—

Senator HAGEL. But the fact is that when President Clinton gave the waiver to Total, didn't that allow Total to put some investment into Iran?

Mr. WAYNE. It did.

Senator HAGEL. Why are we touting ILSA as being effective?

Mr. WAYNE. Well, I do know that none of the new projects, even those that have started, have yet come on stream in this. I believe even the one project, the South Pars project.

Senator HAGEL. You give ILSA credit for that, even though President Clinton gave the waiver, waived ILSA.

Mr. WAYNE. I believe the deterrent effect of ILSA has had an effect in that process.

Senator HAGEL. I do not understand how, but Mr. Ambassador, one of your people gave you a note. Maybe you have the answer. [Laughter.]

Mr. WAYNE. It was the one reminder that none of the projects have come on line.

Senator HAGEL. He works for you. Therefore, we do not have an answer.
Mr. LAROCCO. If I could just add something, Senator.

Senator HAGEL. Yes.

Mr. LAROCCO. Drawing from my own recent experience, having been Ambassador to Kuwait the last 4 years and having spoken with many businessmen who do business in Iraq, there are many factors. And it would be very difficult to single out anything.

Frankly, one of the main reasons why there is not investment in Iran is because they simply have a totally ossified economic system that is not conducive to investment. They are not part of the WTO. They do not have a rule of law in commercial behavior that is recognized that is conducive to investment.

That is a factor. I leave it to Tony and, as he said, that perhaps ILSA is a factor as well.

But I think we need to keep in mind that it is going to be very difficult to measure any one factor in terms of why Iran does not have more investment than it has.

Senator HAGEL. All the more reason just to go another 5 years blindly into the black hole of ILSA.

Thank you, Mr. Chairman.

Chairman SARBNES. Well, we could continue for quite a while, but we have another panel and I am anxious to get to them, so I am going to close this out.

I want to make just a couple of observations in doing so. One, the Jefferson quote that I was searching for at the outset of the hearing, which some will recall is: “The interests of a Nation, when well understood, will be found to coincide with their moral duties.”

I would like to make just two observations. You all may submit something in writing if you choose to.

I think most observers would accept the proposition that there would have been more investment from abroad in Iran’s oil industry without ILSA than there has been with ILSA.

Now, it is difficult to quantify that. I know of very few people who would say that it has not had any impact, perhaps a substantial impact. You can point to certain countries where companies have not gone in, where they might otherwise have been expected to do so. And I think it acts as a general restraint. You do not quarrel with that, do you, Mr. Wayne?

[Mr. Wayne. Nods in the negative.]

Chairman SARBNES. You shook your head. Why do you not say no so we can get it on the record?

Mr. WAYNE. No, Mr. Chairman.

Chairman SARBNES. The other point is, there is all this talk about reform in Iran, but I think there are a number of observers who perceive that reform as directed toward domestic issues and not toward international issues.

In other words, at least thus far, there doesn’t seem to be a reform that is addressed toward changing Iran’s role in the Middle East, its spoiler role in the Middle East, changing its support for terrorism outside, shifting markedly on weapons of mass destruction. I do not see anything that reflects that. Has not the focus of this, “reform” movement, been primarily on internal domestic matters?

Mr. LAROCOCO. Mr. Chairman, that is absolutely correct. From what we have seen and observed, it is very clear that the reform
that is taking place is primarily for domestic political rights and 
economic reform.

However, many people, I think even in the region, interpret that 
as a move toward moderation. But to move to the next level and 
say that this would necessarily have an impact on foreign policy is 
something that would be very difficult to conclude, which is why, 
for example, Secretary Powell said that, despite our differences, we 
believe that we need not preclude greater interaction with the Ira- 
nians to talk over these issues.

Chairman SARBANES. Well, gentlemen, thank you very much. We 
appreciate your testimony.

Mr. WAYNE. Thank you, Mr. Chairman.

Mr. LAROCCH. Thank you.

Chairman SARBANES. And now, we will move on to our con- 
cluding panel. If they would come forward and take their places at 
the table, we would appreciate that very much.

Ms. Bernstein, I know that you had to adjust your schedule in 
order to be with us this morning and we very much appreciate 
that. And I know you may have to depart, depending upon how 
long this panel continues. So, I think we will lead off with you. Ms. 
Bernstein is here representing the Justice for Pan Am 103 group.

STATEMENT OF STEPHANIE L. BERNSTEIN
JUSTICE FOR PAN AM 103

Ms. Bernstein. Thank you, Senator Sarbanes. It is particularly 
gratifying to be here today since you are one of my Senators and 
I thank you for your support, and for providing me with this oppor- 
tunity to testify before the Banking Committee today.

I am here to support the extension of the Iran and Libya San- 
tions Act because my husband, Michael S. Bernstein, was one of 
270 people, including, as you know, 189 U.S. citizens, murdered in 
the Lockerbie bombing. This savage crime was placed squarely at 
the feet of the Libyan government on January 31 of this year, when 
a high level Libyan intelligence operative was convicted of 270 
counts of murder.

My husband was a Federal employee. He was Assistant Deputy 
Director of the Office of Special Investigations at the Department 
of Justice. This office finds, denaturalizes, and deports those who 
participated in Nazi atrocities during World War II. Mike grad- 
uated with distinction and high honors from the University of 
Michigan, and received his law degree from the University of Chi- 
cago, where he was an Associate Editor of the Law Review. He was 
36 years old.

Mike was a valued member of the Criminal Division at the De- 
partment of Justice, where he was given the Department’s Special 
Achievement Award in 1986. In a memo to Criminal Division Em- 
ployees after Mike’s death, Assistant Attorney General Edward 
S.G. Dennis wrote that after joining the Department from the 
Washington firm of Covington and Burling, Mike “quickly estab- 
lished himself as an outstanding trial lawyer whose persistent but 
low-key approach to his work won him the respect and highest 
praise from both his colleagues and his adversaries.” Colleagues at 
the Justice Department wrote in a memorial notice placed in The 
New York Times that Mike was a “lawyer’s lawyer, whose clarity
of purpose, intellectual gifts, sound and ethical judgment, exceptional wit, and boundless compassion and good will earned him a place of deep affection and respect in the hearts of all who were privileged to know him.”

Mike chose to use his gifts in the service of his country as an example for our children, who were ages 7 and 4 at the time he was murdered. In a letter to my daughter, Sara, Assistant Attorney General Edward Dennis wrote that her Dad, “expressed his love for you, in part, through his work and his efforts to build a better world through service to the public good.”

I have told you a little about Mike because I think it is important to convey the scale of the mayhem committed by the government of Libya on December 21, 1988.

As The Lord Advocate of Scotland stated on January 31, in his remarks to the Scottish Court prior to the sentencing of the defendant, Abdel Basset al-Megrahi: “More than 400 parents lost a son or daughter, 45 parents lost their only child, 65 women were widowed, 11 men lost their wives. More than 140 children lost a parent and 7 children lost both parents.”

The Scottish Court wrote in its opinion that Megrahi was acting under orders from the Libyan government: “The clear inference which we draw from this evidence is that the conception, planning and execution of the plot which led to the planting of the explosive device was of Libyan origin.”

Since the verdict, the Bush Administration has been firm in its public insistence that Libya abide by the terms of the United Nations Security Council Resolutions. These require that Libya accept responsibility for the bombing, disclose all it knows about the bombing, fully renounce international terrorism, and pay appropriate compensation to the families.

In addition, the Administration has indicated that the investigation into the Lockerbie bombing is still open. This was conveyed to me and other family members in meetings held over the last several months with Secretary of State Powell and Attorney General Ashcroft.

Indeed, Secretary Powell stated that: “However we resolve this and however we move forward from this point on, we reserve the right to continue to gather more evidence and to bring more charges and new indictments. . . . So accepting responsibility as a leader of a nation, and as a nation, does not excuse other criminals who might come to the fore and be subject to indictment.”

Unfortunately, pressures on the Administration from the oil industry have revealed cracks in this resolve. Shortly after the verdict, a draft report of Vice President Cheney’s Energy Task Force was leaked, and we learned that one of the options under consideration was dropping the unilateral United States sanctions against Libya. Although these sanctions predate the Lockerbie bombing, the families felt that such a move would send the wrong message to the Libyans. After protests from the families and from our allies in the Congress, this was dropped from the final report.

More recently, in arguing for a 2 year rather than a 5 year extension of ILSA, a senior State Department official was quoted in a Reuters article as saying that our Government has begun to “reas-
“Gaddafi: “He is older and wiser and more mellow in his old age. We have been fairly clear in documenting the change.”

This new and mellow Gaddafi is news to me. I wish that the unnamed senior official could have been present on March 16 of this year at a conference on United States-Libya relations after the Lockerbie trial sponsored by the Atlantic Council, the Middle East Institute, and the Woodrow Wilson Center. I was a speaker at the conference, along with Ambassador Dorda, the Libyan Ambassador to the United Nations, who was allowed by the State Department to travel to Washington for the day to participate.

With the exception of myself and a Libyan expatriate, the remarks of the other presenters were measured and extended a hand to the government of Libya to rejoin the family of civilized nations once the conditions stated in the U.N. sanctions were met. Ambassador Dorda responded with a lengthy tirade stating that the United States was responsible for many of the bad things which have happened to Libya over the last 200 years, beginning with U.S. forces fighting the Barbary pirates. He said that there was no evidence that Libya was involved in the “so-called” Lockerbie bombing. In commenting on the United States bombing of Libya in 1986 after the La Belle Disco bombing by Libya, Dorda, who was slightly wounded in the United States retaliation along with his son, asked: “Who is the terrorist and who is the victim?”

Dorda said that the indictment of the two Libyans for the Lockerbie bombing in 1992 was “only political,” and designed to pressure the Security Council. He went on to say, however: “Let’s forget about the past.” Dorda described the unilateral United States sanctions as “useless,” stating that Libya can get anything it wants from anywhere. He referred to allegations that the Libyan government has been involved in terrorist activity as “so-called terrorism.” He denied that his government has ever trained, financed, or supported terrorists. “We never supported terrorism.”

This tirade by Ambassador Dorda was no doubt fueled by Libyan allies in the international community such as Nelson Mandela, who helped arrange the agreement which persuaded Gaddafi to turn the suspects over for trial. After the verdict, Mandela accused the United States and Great Britain of having “moved the goalposts” on the issue of lifting the U.N. sanctions: “The condition that Gaddafi must accept responsibility for Lockerbie is totally unacceptable. As President for 5 years, I know that my intelligence services many times did not inform me before they took action. Sometimes I approved, sometimes I reprimanded them. Unless it is clear that Gaddafi was involved in giving orders, it is unfair to act on that basis.”

Unfortunately, the Libyans have been given succor by the United States oil industry as well. In February of this year, Archie Dunham, the Chairman and CEO of Conoco, said that he was “very optimistic” that the Bush Administration would lift the unilateral sanctions against Libya, in part because of the President and Vice President’s ties to the industry.

International pressure, influence from the oil industry, and the intransigence of the Libyan government all argue for a 5 year extension of ILSA. I am concerned that a 2 year extension will send a message to the Libyans that we are not serious about seeing that
they live up to their obligations, allowing them to run out the clock. It is important to add that the impact of ILSA on Libya will end immediately if the President determines that Libya has met the requirements of the United Nations Security Council Resolutions dealing with the Lockerbie bombing. It is up to the Libyans.

In addition, I urge this Committee to support two changes in the existing law. First, I believe that we must close the loophole which has permitted oil companies to add on to contracts signed prior to enactment of ILSA. Second, we must reduce the threshold for violation of the law from $40 million of investment to $20 million, as is the case with Iran. These changes in ILSA are supported by my group, Justice for Pan Am 103, as well as by Victims of Pan Am Flight 103, the largest group of family members.

For 12½ years, the Lockerbie families and our allies in Congress have kept pressure on three administrations to find and hold accountable those who carried out the bombing of Pan-Am 103. Our support in Congress has been bipartisan. Our supporters understand that the bombing of Pan Am 103 was an attack on the United States, and that we must show countries like Libya that when they attack our civilians, they will not enjoy the benefits of participating in the community of nations which abide by the rule of law. Our supporters understand that doing business with terrorists is not good business. Those who have stood by us know that “constructive engagement,” or whatever diplomatic terms are used to pretty up our dealings with regimes which murder innocents around the world, will not prevent future terrorist attacks, and will only expose our naivety, and worse, our citizens, to further attacks.

The next several months will be critical. Megrahi’s attorneys have filed an appeal. There will be attempts by the Libyans and their supporters to get the families to back off. On February 13 of this year, a London-based attorney who has advised the Libyans was quoted as follows: “The more the United States sticks to the original agreement that the aim of the process was the surrender and trial of the two accused, the more the Libyans will cooperate and compensate the families.”

The Lockerbie families do not seek justice as something for which we bargain in the bazaar. The suggestion that the families would trade the pursuit of justice for money is cynical and dishonors the memories of our loved ones. A British expert on Libya was quoted in the same article as follows: “Gaddafi knows he is going to have to pay compensation. The question is whether he can control the domestic agenda and curb his own tongue over the next few months, and whether extremists on the other side of the Atlantic among the families and their supporters in Congress can be kept under control.”

I hope that you will join me and other Lockerbie family members in showing the Libyans and their apologists that, when it comes to pursuing justice, we will not be “kept under control.”

Thank you.

Chairman SARBANES. Thank you for a very strong statement.

Mr. Clawson.
STATEMENT OF PATRICK CLAWSON
DIRECTOR FOR RESEARCH
THE WASHINGTON INSTITUTE FOR NEAR EAST POLICY

Mr. Clawson. Thank you.

Chairman SARBANES. We will include everyone's full statement in the record. And so, you can proceed on that assumption as you make your comments.

Mr. Clawson. Thank you, Mr. Chairman. Thank you for having me here today.

After the election of President Mohammed Khatami in 1997, there was an expectation that the reformist tide would win out over the hard-liners in Iran. So far, that has not been the case. Despite some progress the reformers have made on the domestic scene, little has changed in terms of those Iranian policies that pose the greatest threat to U.S. interests and allies.

The prospects are so poor that Khatami will do much to change Iranian policy during his second term. Indeed, what is striking about Khatami's situation is how little he offers to address Iran's most pressing problems, namely, the stagnant economy, political repression, and security threats.

Washington has offered to reduce restrictions on Iran and to resolve differences in a step-by-step process, so long as the process is reciprocal rather than one-sided. To demonstrate its continued interest in such a process, and to show its support for the Iranian reform program, the United States should take further steps to relax those sanctions which hit the Iranian people as distinct from the Iranian government. As with the effort to make the sanctions on Iraq smarter by concentrating more on the regime and less on the people, so too the sanctions on Iran could be changed to facilitate people-to-people exchanges. In particular, the current rules forbid transactions incidental to education and to nongovernmental organization activities, with the practical effect of making education and NGO activities very difficult. For example, the rules allow Iranians to study at American universities, but Iranians have great difficulty taking the English language exam required by American universities because payment for that exam is considered a forbidden transaction. I would strongly urge that Congress express to the Administration its desire to promote a dialogue of civilizations with Iran by lifting the restrictions on activities incidental to education and on people-to-people exchanges conducted by American nonprofit organizations.

The United States should also continue its efforts to encourage government-to-government dialogue with Iran. Iran has refused to talk with the United States, not vice-versa. Iran has the only government in the world which refuses to talk to the United States. It is Iran which generates isolation, not the United States. We have consistently called for dialogue, which Iran consistently refuses.

At the same time as it pushes for diplomatic dialogue and extends a hand of friendship to the Iranian people, the United States should continue to press the Iranian government. In particular, the U.S. Government should reduce the Iranian government's income so long as Tehran uses extra money to finance terrorism and purchase destabilizing weapons.
We cannot stop Iran’s weapons of mass destruction programs, but we can slow them greatly. And personally, I am optimistic that some day there will come a change in Iran and that there will be a new government which will not be interested in pursuing those weapons programs, so that if we can slow them, we will achieve ultimately success.

It is in this context that we should consider the renewal of ILSA. The Iranian government and every major oil industry magazine in the United States have said that ILSA reduces Iran’s ability to attract investment in its oil and gas industry.

Iran has privately announced $11 billion in foreign oil deals. But that is hot air. Very few of those announced deals are now proceeding. Indeed, yesterday’s *Financial Times* reported how one of the largest deals is at risk of unraveling. And ILSA is a major reason that few such investments have actually proceeded.

I am a frequent traveler to Japan, which is worried about United States reactions to an investment that it is considering. To be sure, ILSA’s impact is limited. Iran’s oil income depends much more on the price of oil than on ILSA. We can all speculate about where the price of oil will go. No one has a good record at making predictions, because none of us can tell how OPEC politics will play out. Economic models have a singularly bad record at forecasting oil prices, precisely because oil prices are as much a matter of geopolitics as of markets. One thing we can know for sure is that Iran has always been the most hawkish member of OPEC, that is, arguing for the highest possible price. The more powerful Iran is, the more likely it will campaign for tight OPEC quotas that drive the price up.

ILSA has reduced Iran’s ability to export oil in order to finance its arms programs, but at the same time ILSA has exacerbated trade tensions with America’s most important allies including the European Union states. Most in Europe regard ILSA as too intrusive on Europe’s turf. I have never understood how the United States and the European Union decide which issues are sufficiently important that the two sides will risk a trade war. Offhand, I would have said that bananas are less of a threat to U.S. security and prosperity than are prospective Iranian nuclear missiles. But with strong support from the American business community, the U.S. Government has proposed far-reaching sanctions against banana offenders, while Iranian proliferation of terrorism has not been seen as rising to that level of importance. I beg to differ. Indeed, I would be prepared to accept Europe’s silly banana trade rules if Europe agreed to stop investing in Iranian oil and gas.

However, there is a real issue of how to use ILSA to press Europe to be more helpful in containing Iran’s destabilizing behavior.

ILSA has already had a positive effect at promoting multilateral cooperation against proliferation. Indeed, then-Secretary of State Albright explained that the European Union’s accelerated cooperation about Iranian proliferation was the reason why the United States granted a waiver to the ILSA provisions regarding the South Pars project.

My preferred approach would be for the Administration to make creative use of provisions already in ILSA for a country waiver;
that is, a waiver on all investment from a country, as distinct from a waiver applying to only one project. The Administration should interpret those provisions broadly to allow consultations with the EU on measures that the EU may take to reach our common objective of countering proliferation and terrorism. For instance, it would be very useful if the EU countries joined with the United States in applying pressure on Russia, China and North Korea to stop the proliferation of dangerous nuclear and missile technologies to Iran.

In short, ILSA is a good law, and it provides the flexibility to allow the Administration to conduct vigorous diplomacy. ILSA will not stop Iranian or Libyan terrorism or proliferation. It will not even stop all foreign investment in their oil industries. But ILSA will reduce the income available to those governments and therefore, put a crimp in some of their most dangerous activities.

Chairman Sarbanes. Thank you very much.

The bell that just rang signaled that there is a vote on. I think the most sensible thing to do is to take a brief recess and I will go and vote and then I will return and we will hear the balance of the testimony and have questions for the panel.

Now, Mrs. Bernstein, I understand you may have to go and if that is the case, we quite understand and we very much appreciate your coming today and we particularly appreciate your very strong and focused statement.

The Committee stands in recess.

[Recess.]

Chairman Sarbanes. The Committee will resume.

Why don’t we continue moving across the table. Mr. Gordon, we will go to you.

STATEMENT OF BRADLEY GORDON
LEGISLATIVE DIRECTOR
AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE

Mr. Gordon. Thank you, Mr. Chairman.

I want to thank you and the Committee for holding this hearing on the renewal of the Iran and Libya Sanctions Act, ILSA, and for inviting me to testify before you this morning. The American Israel Public Affairs Committee strongly supports the efforts led by Senators Smith and Schumer to extend ILSA for another 5 year period.

I thought I would use my time to address some of the issues that I have heard already this morning and respond to them.

There are roughly three general criticisms that people make of ILSA, and Senator Hagel touched on a couple of them. One is that unilateral sanctions do not work and ILSA in particular is not working and that it only serves to isolate us.

I think it is important, first of all, for us to define what we mean by “work.” I believe the point of ILSA is to raise the costs and delay the time it takes Iran to get weapons of mass destruction. Their petroleum production capability is now only 60 percent of what it was during the Shah’s time. They are in desperate need of foreign investment in order to keep oil production at its current level. If it does not receive that investment, its production capability will continue to decline. And so, although it may have been able to keep meeting its OPEC allotments until now, in fact, their
production capability is declining. The CIA predicts that without that foreign investment, Iran will become a net energy importer by the end of this decade.

So, I would argue that in fact ILSA is working both to deter that investment and that it is raising the costs and delaying the time that it takes Iran to develop weapons of mass destruction.

Second, I would argue that unilateral sanctions do sometimes work. In the early 1980's, Argentina, Brazil, and Chile all had nuclear weapons programs. We imposed unilateral sanctions. We delayed the time it took to get them. And political change occurred in all three countries and none of them have nuclear weapons programs today.

The United States led, vis-à-vis South Africa, with unilateral sanctions that ultimately led to multilateral sanctions and change occurred there.

We imposed unilateral sanctions with China because of its missile proliferation and it eventually, as a result of those sanctions, signed up to the MTCR guidelines. So, in fact, economic sanctions do sometimes work, even unilateral ones.

ILSA in particular is working, as we already noted this morning, that it has deterred foreign investment, that it does create uncertainty in the minds of investors. And as I look in comparative terms, Qatar, over the last 5 years, a much smaller country with a much smaller energy potential for development, has received twice as much foreign investment than did Iran over that same period of time.

And with respect to the fact that ILSA isolates us from our allies, I would point to what the State Department said this morning, that in fact, over the last 5 years that ILSA has been law, we have deepened our nonproliferation cooperation with our allies. That is what the State Department asserted during this same period of time.

Moreover, there are times in which American leadership is absolutely vital. This new Administration has already demonstrated this principle several times in its young life, where it has differed from our allies on issues. I do not believe the general notion that unilateral sanctions or that ILSA is not working applies. In fact, ILSA is working.

The second kind of general criticism about ILSA is, my God, it actually might work, and in so doing, would remove needed energy supplies from the world.

And so, the logic of this argument is that we should allow investment in Iran, thereby increasing our dependence on Iran's oil and, by the way, help them get the wherewithal to afford weapons of mass destruction. It is a curious logic.

Moreover, I would argue that the amount of proven petroleum reserves in the world is around 1 trillion barrels. If you removed Iran entirely from that, there would still be well over 900 billion barrels of proven oil reserves in the world.

Many, many countries with proven reserves are not under sanctions. Venezuela has a proven reserve of 72 billion barrels. Mexico, 28 billion barrels, Brazil and Argentina, 10 billion barrels. In the Caspian region, there are 20 to 35 billion barrels. In Africa, which desperately needs the development, there are 25 billion barrels.
China has 25 billion barrels of proven reserves. And I have not even touched the Middle East, where most countries who have oil potential are not under U.S. sanctions.

And the third criticism that people make about ILSA, and we heard it this morning, is that there is a reform effort in Iran, and our sanctions legislation hurts our ability to deal with moderates.

Well, it is an interesting argument. I would argue that if one looks at the last election in Iran, there were over 800 candidates for president. The clerical Council of Guardians which approves candidates, allowed 10 to run. The Iranian people voted for the most moderate allowed to run, and that was President Khatami.

But when you remove 98 percent of the political spectrum, it is hard to argue that someone who might stand to the left of that remaining 2 percent is a moderate. And he may be in favor of some domestic liberalization, but he has given no indication that he is at all in favor of moderation on the issues of concern to the United States—with respect to weapons of mass destruction, support of terrorism, and calling for the destruction of Israel.

I do believe that the overwhelming majority of Iranians do want political change in Iran, and that is precisely the point. By maintaining our sanctions regime on ILSA, we give them the fortitude to carry on that struggle, to produce political change in Iran. We encourage their reform efforts.

Yes, the regime does vilify the United States and it does vilify Israel. But the people who are pushing for change in Iran are opposed to those people who are vilifying the United States in Iran.

Over the last several years, we have tried to engage the Iranians. It is they who have said, no, not us. I argue that in fact we need to hold out hope to the people who are really trying to produce change in Iran so that some day, we might look forward to deepened relations with an Iran that is not pursuing weapons of mass destruction, nor supporting terrorism.

Thank you, Mr. Chairman.

Chairman SARBANES. Thank you very much, Mr. Gordon.

Mr. Reinsch.

STATEMENT OF WILLIAM A. REINSCH
PRESIDENT, NATIONAL FOREIGN TRADE COUNCIL, INC.
VICE CHAIRMAN, USA*ENGAGE

Mr. REINSCH. Thank you, Mr. Chairman. Let me say it is a pleasure for me to be able to call you Mr. Chairman.

Chairman SARBANES. Well, it is always a pleasure for the Committee to have a former staff person come back before us. We are delighted to see you.

Mr. REINSCH. Thank you. I am glad to be back. I think I am outnumbered on this one, but it is nice to be here, anyway.

The thought crossed my mind that it would be simpler, rather than deliver my statement, to insert into the Committee record the speech that Senator Hagel gave yesterday to the American Iranian Council, which I thought was a far more eloquent description of the situation than anything that I am going to say.

I would ask, Mr. Chairman, if he has not inserted it himself, that you include it in the record because I think it is a very thoughtful statement on the subject.
Chairman SARRANES. Actually, we did put it in. Senator Hagel asked that we put it in.

Mr. REINSCH. Wonderful. Thank you.

The National Foreign Trade Council and USA*Engage, a broad-based coalition of over 670 American companies and trade and agricultural organizations that support sanctions reform, also oppose ILSA extension.

We support ILSA’s goals—“preventing proliferation of weapons of mass destruction and the means to deliver them, and acts of international terrorism”—and we support full compliance by Libya with U.N. Security Council Resolutions regarding Pan Am Flight 103. However, we believe ILSA has been ineffective and counter-productive to American interests, and it has no chance of achieving its goals.

We support the Administration’s thorough review of United States policy toward Iran and Libya, and, if Congress is not prepared simply to let ILSA expire, we would urge you to agree to the Administration’s request for a 2 year renewal to allow time to conduct its review of sanctions policy.

Certainly, sanctions in this complex part of the world should be reviewed more frequently than every 5 years, and we believe that the statutory limit that is imposed by this act serves as an action-forcing event that prompts and assures such review, which might otherwise not take place.

At this point, 5 years after enactment, we believe any objective review of the record will conclude that ILSA has not achieved its own objectives and that it has created collateral damage to U.S. interests.

The reality is, as several previous witnesses have said, that it is the world price of oil that determines Iran and Libya’s income from oil and gas production, not United States sanctions. And it is that rising price level that is encouraging now exactly the investment ILSA sought to block. Foreign investment in Iran or Libya’s energy sector is increasing with total disregard for ILSA and in full confidence that this United States secondary boycott will never be implemented.

Last March, the Congressional Research Service reported that $10.5 billion worth of foreign investment has taken place in Iran’s oil and gas sector since 1997. Iran expects an additional $1.5 billion to be invested in its petrochemical sector this year. These investments are from France, Canada, Italy, the Netherlands, the U.K., Japan and Norway—companies from our closest allies and most important trading partners, which have not joined our sanctions nor have been deterred by the threat of ILSA.

Just last week, The Wall Street Journal reported that British Petroleum, Royal Dutch Shell, Italy’s ENI, France’s TotalFinaElf, and Spain’s Cepsa were making $4 billion in new investments.

The only success of our sanctions policy toward Iran and Libya has been ceding those markets to our foreign competitors.

My written statement, Mr. Chairman, has some examples of what the consequences of our policy have been that I will not read now in the interest of time.

We believe that unilateral sanctions have not only failed to achieve their stated purposes, but also we believe they cannot
achieve those purposes. To prolong their life may provide the illusion of taking action and cause us to feel better, but nothing more. Equally important, if the benefits are ephemeral, the costs are real. Unilateral sanctions are doing significant damage to U.S. commercial prospects at a time of economic downturn and energy shortage.

A recent study shows that if we were actually successful in reducing Iran and Libya’s oil production, it would have the perverse consequence of raising world oil prices, increasing revenues to the sanctioned countries, and costing United States consumers over $150 billion.

More broadly, referring not only to ILSA, but also to the executive orders that are in place, to the extent that U.S. exports to these countries are prohibited, American workers and farmers are damaged and U.S. consumer product manufacturers are seriously compromised in their future competitiveness in those markets.

Foreign affiliates of United States companies, where they need parent company approval, are also excluded from Iran and Libya. Yet, foreign affiliate sales are three times as large as total United States exports—$2.4 trillion in 1998.

Some argue that ILSA has not worked because it has not been tried. In fact, ILSA could not have worked. ILSA forces the President either to implement sanctions that he knows will be ineffective, or to waive the law.

That is what happened in 1998, when the Clinton Administration waived ILSA sanctions on Russian, French, and Malaysian companies. It took this action, among other reasons, to prevent retaliation against U.S. firms and to avoid provoking a trade war with the European Union, which regards secondary boycotts such as ILSA as illegal under the World Trade Organization.

It is also ironic that U.S. law prohibits American companies from cooperating with secondary boycotts. Yet in the case of ILSA, we are imposing one and insisting that our allies comply with it, which can only undercut our efforts to weaken the Arab boycott of Israel.

Implementation of ILSA today, just as the United States is preparing for a new round of global trade talks in which EU cooperation is crucial, would involve this country in another bitter trade dispute with the European Union. The reauthorization of ILSA for any period of time puts us at serious odds with our major allies and threatens cooperative action on a range of issues, including policy toward Iran and Libya.

Nor does the inclusion of Presidential waiver authority mitigate the negative impact of a reauthorized ILSA. If the Act is waived, it becomes meaningless. If it is not waived, the negative effects that I have cited in this testimony will be exacerbated.

We are convinced that expanded private contact with Iran, including business contact, will reinforce positive trends in that country in the long-term.

But let me be very clear, Mr. Chairman. A Congressional decision to let ILSA expire is not a concession to Iran or to Libya. Renewing ILSA sends a decidedly negative message that ignores any changes that have taken place since 1996 and sends a powerful message to our European allies that we are continuing a failed unilateral policy.
Allowing ILSA to expire would send the signal that I think Senator Carper was talking about in his remarks and would clear the way for a new policy based on current realities, one better tailored to U.S. interests and policy objectives.

Acceding to the Administration’s requests for a 2 year extension will at least permit a sober reconsideration of policies that will serve the U.S. national interest. We believe the choice is clear.

Thank you, Mr. Chairman.

Chairman SARBANES. Thank you very much.

Mr. Martin.

STATEMENT OF WILLIAM F. MARTIN
CHAIRMAN, WASHINGTON POLICY & ANALYSIS

Mr. MARTIN. Thank you, Mr. Chairman. It is a pleasure to be here today to speak on the issue that has come up quite a few times today—the effect of sanctions on world oil markets.

I would like to make a stab at that, even though Mr. Clawson correctly said that so often we have been poor in our forecasting. I have been at this 25 years since being a modeler at MIT and also served as U.S. Deputy Secretary of Energy.

We use a model which has been endorsed by the Senate Energy and Natural Resources Committee and, in fact, we are using that model to look at Senate and Administration energy policies at the moment, and their impact. This model is called WPA Global.

It is very important in looking at oil markets to recognize that, presently, we do have a relatively tight oil market. And it is very interesting to note that even in the last 3 years, the oil price has fluctuated, on the one hand, at $13 and up to $40. The reason for this is that there is less flexibility in the oil market than there has been in past years, due to a number of reasons.

First, the ability of OPEC and non-OPEC countries to provide surge capacity has been limited.

Second, demand is growing very rapidly, particularly outside the United States and Europe, especially in China and India.

And third, inventories of oil are very low. This is very important to understand because oil prices are today, and probably in the future, going to be set at the margin.

As we look out 6 years, and in this analysis, we looked out to the year 2008, we looked at two cases. What would happen to oil markets if sanctions were continued for Iran, Iraq and Libya? And what would happen to the oil market if sanctions were lifted? What would be, for example, the impact on American energy security and prices to consumers, and what, indeed, would be the revenue gains or subtractions to the sanctioned governments?

If we were to lift sanctions in the next few years, almost five million barrels a day of oil would be put on the world oil market. Also, if we keep sanctions, five million barrels a day would be left off.

If we keep sanctions, we estimate that the world oil price will rise to $40 per barrel by 2008. This is in light of growing world demand. But we have also been rather optimistic about supply. We, for example, assume the equivalent of 10 ANWAR’s comes on to the market. But even in this optimistic supply case, if we keep sanctions, oil prices are likely to rise to the $40 range.
If, however, we lift sanctions and five million barrels a day comes on to the world oil market, then we believe that oil prices will remain in the mid-$20 range.

So the difference between with sanctions and without sanctions is roughly $15 a barrel over the period. Now what does this mean in practical terms?

Well, in practical terms, this means that we reward Iran, Iraq and Libya with roughly $63 billion more in revenue by 2008 if we keep sanctions. At the same time, American consumers will pay about 50 cents more per gallon of gasoline. The average household will pay about $400 more per year to fuel its vehicles, with these sanctions.

So, the bottom line, are sanctions effective, I am actually saying that they can be made effective. And indeed, the more effective sanctions are, the more we do not provide waivers to multinational oil companies, the reality is the more effective they are for also Iran, Iraq and Libya, because we are rewarding them with higher income because by keeping five million barrels a day off the market, we dramatically increase their revenue.

Let me say that our analysis was done independently, but there are other analyses which have recently been done which come to the same conclusion.

I quote, for example, Ed Morse, a former editor of Petroleum Intelligence Weekly, Amy Jaffe of Rice University, and a recent study by the American Petroleum Institute.

The reality is that these sanctions, if effective, might ultimately hurt our consumers and, indeed, help the sanctioned countries.

I think this is certainly open to debate. All of our assumptions are here and for inspection. But what it really shows is that we need—I think the Administration’s point that they need perhaps more time to negotiate really truly effective sanctions with the allies is very worthwhile.

If we are serious about weapons of mass destruction, terrorism, and interference with the peace process, as I believe many witnesses have pointed out today, then the extent that this can be made a multilateral effort and not a unilateral effort, we will actually have more impact.

Thank you, Mr. Chairman.

Chairman SARBRANES. Thank you very much.

Do you favor a multilateral imposition of sanctions on Iran?

Mr. MARTIN. What I would like to see, Mr. Chairman, is something very similar to what we did in the early 1980’s when we had Siberian pipeline sanctions on the Soviet Union.

Like today, we were in as much of a row with our allies as we were with the country that we were trying to target, which was the Soviet Union, who had imposed martial law on Poland.

What we did with the allies is, after a terrible year of going back and forth with the trade war, we decided that we would do a series of studies with the allies to look at the underlying issues of sanctions. How could they be made more effective?

My recommendation for President Bush as he goes to the G–8 this year is to do precisely that—engage the allies in a series of studies. What is the impact of sanctions on oil markets? How can
we make multilateral controls on militarily useful technology stick when it comes to Iran, Iraq and Libya?

Maybe the Administration might even say, for a year, we will not give a waiver. In other words, until these studies are done, until we are satisfied there is a multilateral approach to this, we are going to be tough and we are going to implement ILSA.

Chairman SARBANES. I take it that you favor objective multilateral sanctions against Iran.

Mr. MARTIN. Again, I am not an expert on what Iran is doing as these other experts are.

Chairman SARBANES. All right.

Mr. MARTIN. But to the extent that it can be multilateral, if these problems are as severe as people have stated, absolutely.

Chairman SARBANES. Mr. Reinsch, does the National Foreign Trade Council favor lifting the trade and investment ban on United States firms investing in Iran?

Mr. REINSCH. Yes, sir, we would because we do not support unilateral sanctions. That is not on the table with respect to this legislation, but yes.

Chairman SARBANES. I just want to understand what your position is and where you are coming from.

Mr. REINSCH. Yes. We believe that unilateral sanctions are ineffective and that is one that is ineffective.

Chairman SARBANES. Now if these sanctions are so ineffective, why are Iran and Libya complaining about them so strenuously? And why, as one of the witnesses testified, in all the oil magazines, are there extensive stories about the impact of these sanctions?

Who wants to take a crack at that? Go ahead. Bill, I do not want to cut you off.

If, as is asserted, they are just not working and do not have any impact, why these complaints about them?

Mr. REINSCH. Well, I can see why the target countries are always going to complain about these things. Because they regard them as, from their point of view, unjustifiable measures that they would complain about whether they were being effective or not.

I am not surprised that they complain. I mean, I would hardly expect them to welcome them. I thought that the statements of the Libyan Ambassador that Mrs. Bernstein quoted saying that the sanctions were not having an effect—we can get whatever we want—that was a complaint about the sanctions, but it was not a statement that they were having an impact on the country. The truth of these things I think is probably contained in some statements that were made in the dialogue with the previous panel.

Making a decision to embark on an extensive oil investment is not a small consideration. It is a multiyear project. There are many aspects of it that create a high degree of risk, that do not have anything to do with foreign policy or sanctions.

As you will notice from my comments, many of these investments are from consortia, in which there are many partners. Why someone invests or does not is often very difficult to sort out.

What I believe is happening now, in part, I think, for the reasons that Mr. Martin cited, is while immediately after the enactment of ILSA there was some decline, or at least people not going forward with investments in Iran and Libya because of the uncertainty gen-
erated by the Act and also because of economic conditions at that
time, I think we have reached the point in the last 4 or 5 months
where that is fairly rapidly changing.

The economic considerations, the price, make the investments
more favorable. The Iranians have begun to make decisions about
bids that they have solicited in the past and have been sitting on.
So many of these decisions, these things that I think Mr. Clawson
referred to, investments that have been out there, but nobody has
spent any money yet, are beginning to move into the stage where
money is going to be spent because the Iranian government is
starting to make decisions. And then you have in just the last few
weeks an increasing number of European countries announcing
that they are going to go into the country.

So things are changing. And I think the record of ineffectiveness,
if you will, will be much more dramatic 3 months from now than
it was 3 months ago.

Mr. Clawson. If I may make a comment, Mr. Chairman.

Chairman Sarbanes. Mr. Clawson.

Mr. Clawson. I would quite agree with Mr. Reinsch that the rea-
sons why one invests in a multibillion-dollar project are many and
complex.

What I find impressive is that the leaders of Iran and of Libya
blame the United States on a regular basis and blame ILSA sanc-
tions on a regular basis for preventing investment in their country.

Now perhaps they are using the ILSA restrictions in part as an
excuse for their own shortcomings. Well, if I can get credit for mak-
ing the sun rise in the east, I am happy to claim it. It makes me
look much more powerful.

And if, indeed, the Iranian and Libyan leaders and the Iranian
and Libyan people believe that we are responsible for the lack of
investments in their country, all the better because it means that
they recognize that they are paying, or they think that they are
paying, a very high price for the kind of terrorism and proliferation
activities that they are engaged in.

So, I would quite agree that there are many reasons why they
have had difficulty attracting investment, including their own in-
competence. And I happen to believe that that incompetence will
certainly continue.

But to the extent that we can claim credit for that, I think that
that makes U.S. foreign policy better off.

Chairman Sarbanes. Mr. Gordon.

Mr. Gordon. I would say two things. First is, yes, there are a
variety of factors that go into making that kind of decision. But the
uncertainty inherent in ILSA I think adds to the complications
when one wants to make those decisions.

Second, I would point to the fact that the State Department itself
indicated that during this period of time that ILSA has been
around, one, it has deterred investment and; two, it has heightened
our cooperation with our allies on nonproliferation efforts.

I would further say that, to assert that by removing sanctions,
amost five million barrels of oil would be put on the world market,
assumes that there would be a full investment in Iran, despite the
problems that have been associated with investment in Iran. And
I guess I would argue, why not invest elsewhere? If the petroleum
can be found elsewhere, why invest in Iran and Libya and Iraq when one could find significant places elsewhere to invest that energy dollar?

Mr. Reinsch. May I follow up on one point he just made, Mr. Chairman?

Chairman Sarbanes. Certainly.

Mr. Reinsch. Maybe I misheard what the State Department's representative said, but I do not think they said that ILSA has heightened our cooperation with the EU or the Europeans on nonproliferation matters. I think they said that we have had an extensive degree of cooperation with them on other nonproliferation matters that has proceeded, nonetheless.

Mr. Gordon. I was referring to the point that ILSA in effect would hurt us with our allies. In fact that has not been the case because during that period of time when ILSA supposedly was hurting us with our allies, we were deepening our cooperation.

Mr. Reinsch. It has not been the case because we have not implemented it and we waived the single case that came up.

Mr. Clawson. Quite the contrary. Secretary of State Albright specifically said that the reason why she was waiving ILSA on South Pars was because of accelerated cooperation on these issues.

Now you may call the Secretary of State a liar, but that was the reason which was cited by the Secretary of State in explaining why the waiver was granted. It was precisely because of that accelerated cooperation that a waiver was granted.

Chairman Sarbanes. Well, I think that is an important point.

At the time that the Clinton Administration granted the waiver, it followed on some extended negotiations led by Stuart Eizenstat, who is, in my judgment, a very skillful negotiator, with the EU to try to avoid a trade confrontation over ILSA in the Helms-Burton Cuba sanctions law. You had both of those outstanding.

And that agreement contributed to the decision by the Clinton Administration to waive the ILSA sanctions on that project that was determined to be a violation. The European Union pledged to increase cooperation with the United States on nonproliferation and on counterterrorism.

Now, we need to go back and check how carefully that has been followed through on, but they were seeking to get something back for it.

I am kind of interested. The New York Times on June 22, which was not even a week ago, June 22 of this year, has this headline: “14 Indicted by United States in 1996 Saudi Blast. Iran Link Is Cited. Bomb Killed 19 Airmen.” Then the story begins.

Attorney General John Ashcroft said at a news conference that while the attack was carried out by the Saudis and a Lebanese National, all members of the anti-American militant group, Hizbollah, he blamed unnamed officials in Iran for the attack. Mr. Ashcroft said they inspired, supported, and supervised members of Saudi's Hizbollah.

Then later they say in this article: “With dozens of references to Iran, the indictment demonstrated that American investigators were convinced that Iran was behind the attack. But the indictment also seemed to be carefully worded to avoid a direct accusation against Iranian officials or the government in Tehran, an
allegation that could have provoked demands in Congress for military retaliation.

The White House has not considered such a step, a senior administration official said.

Now what do you think the United States should do about a country that is engaged in this practice. Well, let me ask you, first of all, do you dispute that they are embarked on a program to obtain weapons of mass destruction? Does anyone at the table dispute that?

Mr. REINSCH. No, I would not, based on my past experience.

Chairman SARBANES. All right. Does anyone at the table dispute that Iran is providing support for terrorism and deserves to have been cited by the State Department in its report? In fact, they say they were the leading—

Mr. GORDON. Leading sponsor, sir.

Chairman SARBANES. The leading sponsor of terrorism. Does anyone dispute that?

Mr. GORDON. No, sir.

Mr. REINSCH. No.

Chairman SARBANES. All right. Now, you get this asserted involvement in the bombing of the Khobar Towers in Saudi Arabia. By all reports, they are doing their best to undermine the Mideast peace process. Is it the view that we should simply have a normal relationship with such a country?

Mr. GORDON. It is not our view, sir. We believe that we should do everything we can to maintain the status of Iran as a rogue regime and put it outside the family of nations until they are prepared to make the necessary policy changes to rejoin the family of nations. And in fact, by so doing, we encourage the very forces in Iran who want that, who seek that change.

Chairman SARBANES. Mr. Martin, did you want to address that?

Mr. MARTIN. I think you made it very clear. All I am saying is, if we truly want to be effective in our approach to a belligerent nation and, again, it must be done in a multilateral sense. We need to work hard to get our allies with us on this.

Chairman SARBANES. That is not always possible. The others may not join with us. What do we do then? Nothing?

This article suggests that there was some possibility of using military action. We get some arguments here where people do not want any economic action. I do not know. Do they want to push us to military action or do they want to push us to doing nothing? And how can you do nothing in the face of these kinds of activities?

Let me ask you this question. What has Iran done over the last few years that would lead us to think that they are moderating and trying to reach some accommodation with the United States?

Mr. GORDON. Absolutely nothing, sir.

Chairman SARBANES. Does anyone have anything to cite in that regard?

Mr. REINSCH. I would just say that I think that Ambassador Larocco addressed that question better than I could. And his answer, I think, was in two parts, that as far as the Government is concerned, essentially what Brad just said—nothing. There are, however, other forces of change in the country that the State Department seems to think are potentially favorable, moderating
forces that are not yet reflected in any Government change, but that our overall policy ought to be to try to encourage the development of those forces.

Chairman SARBANES. Well, Mr. Clawson, I think, addressed that in a very sophisticated way in his statement and I thought he had some interesting suggestions as to how to encourage that aspect or dimension of a potential relationship, much more on a people-to-people basis and through the nongovernmental organizations.

But that still leaves us with the question of how we deal with the regime. If the regime has not changed, as you say, I agree with Senator Schumer. I do not think you can come in here and go to 2 years instead of 5 years and plausibly argue that that does not represent an easing or some further accommodation by the United States. Why would that not then be a victory for the hard-liners who said, we did not do anything? We just hung in there. And now the United States is partially bowing to us and, you know, our policy sort of worked.

Plus, I would like someone at the table, if they have it, to give me any evidence that shows that the so-called reform movement in Iran, which may in fact have some validity as it addresses domestic matters, how the society functions, the degree of oppression, the amount of secularism versus religious rule, sort of the openness of society in that sense, which I do think is probably important to a lot of the young people in which they place emphasis, I see no signs that that is reflected in support for terrorism, obtaining these weapons of mass destruction, playing the role of a regional power in terms of upsetting the potential stability in the area.

Does anyone have any support for the proposition that this so-called reform effort extends into that arena?

Mr. REINSCH. I do not, Mr. Chairman. But we are in touch with some people who would be pleased to speak to that for the record.

Mr. GORDON. As far as I can tell, Mr. Chairman, there are not. And I am reminded of the debate that occurred in the Senate in 1986, when the Senate was considering the South African Sanctions Act on apartheid. The argument was made there that by imposing unilateral sanctions, we were in fact hurting the very people we wanted to help.

But the stronger argument was that those very people themselves want American leadership on this effort, want us to impose those sanctions, and it helped produce the change which we have so welcomed in South Africa.

It seems to me that the same argument applies here. The forces that could lead to change in Iran do not want to see America appear to be weaker on Iran.

Mr. REINSCH. That argument would be more compelling if, as in the case of South Africa, most of the rest of the world joined in.

Mr. GORDON. It took American unilateral leadership to begin with and then the rest of the world eventually did.

Mr. REINSCH. I think that is a fair point. And this is a question that we discussed with one of Mr. Gordon’s colleagues in the House hearing, the question of the role of leadership versus followership and at what point do you throw in the towel and recognize futility? At what point do you continue on? I think that is a fair question.
You can argue in the case of South Africa that American leadership made a difference.

Chairman SARBANES. And is it your view that we are at the point here at which you throw in the towel on Iran and Libya?

Mr. REINSCH. Well, looking at it, frankly, from my previous experience in the nonproliferation area, with respect to places where there is a multilateral consensus, which would be Iraq via the U.N., and also Libya to a degree, and certainly up until the trial with the U.N., there was a high degree of multilateral cooperation and respect for those resolutions.

There is not and has not been in Europe the same degree of cooperation on export controls, for example, with respect to Iran, despite numerous American demarches over 20 years on that subject.

I think, frankly, your recitation of the history of what Stu did is quite correct. He reached an accommodation, I assume, where we agreed to waive and they agreed to do certain things that Secretary Albright alluded to.

That is one of the few examples of some success that we had. I think, overall, you can argue that cases like ILSA generally and most of the time, make the situation worse rather than better.

Now if the incumbent Administration makes the same deal, or indicates that it intends to administer this law the same way, which I do not think they have said yet, but if they did, I think that would ease some of the European concern about it. But then it raises the question, if they are going to waive it every time and if they are going to say that up front, why are we passing it?

Chairman SARBANES. The fact that it is there I think clearly has been a deterrent to investment in the Iranian oil industry.

If ILSA were not on the scene, had not been on the scene, I think you would have had a much more significant effort to invest in Iran and much further pressure for the United States to join in the effort to invest in Iran. But it is clear that some have been dissuaded from doing that.

Mr. CLAWSON. Mr. Chairman, also, I would propose that one of the reasons to renew ILSA is precisely so that we can have a new round of negotiations with the Europeans and get something additional from them.

Chairman SARBANES. Yes, I do not understand why it is a problem to extend this for 5 years if the waiver authority of the President stays as it is.

Mr. GORDON. We can negotiate and get something for it.

Chairman SARBANES. He can waive it if it is determined that it is necessary and he can use it as a weapon to negotiate an answer. If you take it off the books, none of that is going to be available to him. Now if you want to cut it to 1 year or 2 years, but no waiver, and then they come back to the Congress every 1 or 2 years, and we are in the position of driving the negotiations, that is a different approach. Does the Foreign Trade Council want that?

Mr. REINSCH. We have actually had some discussions about that, Mr. Chairman. We have, I think, some differences amongst our members on that question.

I would say that is probably a little bit too Machiavellian for us, in the sense that if you did that and did not waive it, the trade war we would have with Europe would be so significant, we would
actually get rid of it faster than if we continued on with the current practice of pretending that it exists and then not enforcing it. But that is a little bit too clever for us, Mr. Chairman. We would not advocate that.

Chairman SARBAKES. I am told that Iran has stepped up its involvement in Hamas and Islamic Jihad over the last few months. Does anyone at the table have any information on that?

Mr. Gordon. Yes, that is exactly correct, Mr. Chairman, they have. They have increased funding. They have had conferences with the leaders of Islamic Jihad and Hamas in Tehran and in Beirut to coordinate and step up activity of their terrorism.

Mr. Clawson. And I am sorry to report that it was the chairman of the Iranian modulas, the leader in the Iranian parliament of the reform movement who convened the session Mr. Gordon is referring to in Tehran, at which Iran’s leaders spoke about the need to eliminate Israel and the number of prominent Iranian moderates, including the President, Mr. Khatami, also spoke about getting rid of the scourge of Israel in the region.

Chairman SARBANES. Well, gentlemen, thank you very much. We appreciate your coming and we appreciate your testimony, both your oral testimony and the written statements, which will be included in the record and, obviously, by perusing them, I know a great deal of care and thought went into them and we appreciate that very much.

The Committee stands adjourned.

[Whereupon, at 1:10 p.m., the Committee was adjourned.]

[Prepared statements and additional material supplied for the record follow:]
PREPARED STATEMENT OF SENATOR PAUL S. SARBANES

The Banking Committee meets this morning to hear testimony on the issue of reauthorization of the Iran and Libya Sanctions Act, commonly known as ILSA. This Act, which was passed by Congress in 1996, expires on August 5 of this year unless Congress reauthorizes it. I would like to note for the record that there is strong support in the Congress for a 5 year reauthorization, as 77 Senators have cosponsored such legislation, led by Senators Chuck Schumer and Gordon Smith who appear before us today. In the House of Representatives, the International Relations Committee on June 20 passed a 5 year reauthorization of ILSA, including a strengthening of the Libyan component of the legislation, by a vote of 41 to 3.

ILSA was enacted in 1996 in response to Iran’s support for terrorism and its pursuit of WMD (weapons of mass destruction)—policies that not only threaten the United States but our allies as well. Concerning Libya, ILSA was enacted to compel the regime in Tripoli to abide by all of the U.N. Security Council Resolutions concerning the bombing of the Pan Am 103 flight.

ILSA requires the President of the United States to impose two out of a list of six sanctions against foreign firms that invest more than $20 million and $40 million in the energy sectors of Iran and Libya, respectively. It should be noted that ILSA would end if the President of the United States determines that Libya has fulfilled all U.N. Security Council Resolutions relating to the bombing of Pan Am 103. For Iran, ILSA would terminate if Iran ceases its efforts to acquire weapons of mass destruction and is removed from the State Department’s list of state sponsors of terrorism. ILSA also contains a Presidential waiver for U.S. national interest reasons or if the parent country of a violating firm agrees to impose economic sanctions on Iran.

Let me now turn to Iran. Iran’s support for terrorism continues unabated. Indeed, the latest State Department report, Patterns of Global Terrorism, states: “Iran remained the most active state sponsor of terrorism in 2000. Its Revolutionary Guard Corps (IRGC) and Ministry of Intelligence and Security (MOIS) continued to be involved in the planning and execution of terrorist acts and continued to support a variety of groups that use terrorism to pursue their goals.” Iran is also stepping up efforts to acquire WMD. The latest unclassified CIA report to Congress on worldwide WMD acquisition notes that: “Iran remains one of the most active countries seeking to acquire WMD and ACW (Advanced Chemical Weapons) technology from abroad. In doing so Tehran is attempting to develop an indigenous capability to produce various types of weapons—chemical, biological, and nuclear—and their delivery systems.”

As for Libya, it has fulfilled only one aspect of the U.N. Security Council Resolutions related to the Pan Am 103 bombing—handing over suspects for trial. Libya has not fulfilled the requirement to pay compensation for the families of the victims, to accept responsibility for the actions of its intelligence officers and to fully renounce international terrorism. I would like to point out that President Bush on April 19 of this year stated: “We have made it clear to the Libyans that sanctions will remain until such time as they not only compensate for the bombing of the aircraft but also admit their guilt and express remorse.”

Because Iran and Libya have clearly not fulfilled the requirements of the ILSA legislation, I think to terminate these sanctions would send the wrong message.

Just last week, indictments were handed down by our Justice Department in the Khobar Towers bombing case in which 19 of our airmen in Saudi Arabia were killed in 1996. Although the Justice Department did not indict Iran, Attorney General Ashcroft stated publicly that Iranian officials “inspired, supported and supervised members of Saudi Hizbollah,” which carried out the attack.

I would like now to introduce our distinguished group of witnesses. In our first panel, our colleagues, Senator Chuck Schumer and Senator Gordon Smith, will start off with their testimonies. Senator Schumer is a Member of this Committee and Senator Smith is a Member of the Foreign Relations Committee. Both are the original cosponsors of the ILSA renewal legislation and are very knowledgeable about the issue. They will be followed by two witnesses from the State Department, the Honorable E. Anthony Wayne, Assistant Secretary of State for Economic and Business Affairs, and Ambassador James Larocco, Acting Assistant Secretary of State for Near Eastern Affairs, both of whom will present the Administration’s position.

In the second panel we will hear from Mrs. Stephanie Bernstein of the Justice for Pan Am 103 group; Dr. Patrick Clawson, Director for Research at The Washington Institute for Near East Policy; Mr. Bradley Gordon, Legislative Director for the American Israel Public Affairs Committee; Mr. William Reinsch, President of the National Foreign Trade Council; and Mr. William Martin, Chairman of Washington Policy & Analysis.
PREPARED STATEMENT OF SENATOR CHARLES E. SCHUMER

Thank you, Mr. Chairman: I want to thank you for holding these hearings and for granting Senator Smith and me the opportunity to open this hearing. And I want to thank Gordon Smith, who, on every issue we have worked on, is just a terrific partner to work with. I thank him for his true leadership on this legislation. I know we are beginning late here today, so I will try to be brief. I think that is all right, because everyone on this Committee is acquainted with what ILSA is all about, and 16 of the 20 Members of this Committee signed as original cosponsors. Senator Smith and I introduced the bill a few weeks ago with a total of 77 original cosponsors.

So let me just say a few words. There has been movement on the part of the Administration and some here in Congress to weaken ILSA by watering down its provisions. Many of these people would do away with ILSA altogether, but because of the enormous support in Congress for the 5 year reauthorization, their strategy is to reduce the extension of ILSA to 2 years and add new waiver provisions that would effectively kill the bill.

I am here today to say that ILSA must be renewed fully intact for a 5 year term. Over the past 5 years, Iran and Libya have done nothing to show they would be welcomed into the community of nations and benefit from better relationships with the United States and our allies. Despite the election of the so-called moderate President Khatami in 1997, Iran remains the most active sponsor of terrorism and has been feverishly seeking to develop weapons of mass destruction, as Senator Smith has outlined.

Just last week, a Federal grand jury found that Iranian government officials, “supported and directed” the Hizbollah terrorists who blew up the Khobar Towers in Saudi Arabia, killing 19 brave American servicemen. And Iran proudly supports Hamas, whose most recent claim to fame was sending a suicide bomber into a crowded disco in Tel Aviv, killing 21 young Israelis and injuring dozens more.

These are not actions worthy of American concessions. I agree completely with Gordon Smith. This is an issue of morality. What would the world think when the world’s greatest power relaxes sanctions on a nation, two nations, that have shown themselves to be so outside the family of nations, engaged in some of the most dastardly acts that we have seen?

The bottom line is simple. If these nations are serious about entering the community of nations and seeing their economies benefit from global integration, they must change their behavior. The argument that we should lift sanctions in hopes that Iran and Libya might change their behavior is backward reasoning, backward logic, backward morality. And so I would hope, Mr. Chairman, that we would continue ILSA.

I just want to say a few words about sanctions policy in general. I think it is understandable that the Administration would want to review U.S. sanctions policy to make sure it’s working effectively. But ILSA is about the best we have. It is highly flexible. It grants the President full waiver authority on a case-by-case basis. It contains a menu of sanctions, ranging from a slap on the wrist to more serious economic retaliation. And its sunset provisions are profoundly reasonable.

If we are not going to maintain ILSA, we are not going to maintain any sanctions policy at all. And I think, you know, there are a couple of reasons that we are in the greatest country in the world. One is our economic might, but another is that Statue of Liberty that stands so proudly in the harbor of the city I come from, New York. It is a beacon of freedom. It is a beacon of what is right.

We are known as a country who tries to do the right thing. To simply cave in to economic pressure at this point in time, I think, would not only hurt our relationships in the Middle East, but also it would do serious harm to the greatness of this country. And so I urge that ILSA be renewed.

—

PREPARED STATEMENT OF SENATOR CHUCK HAGEL

The greatest threats facing mankind today are those from the increasing proliferation of weapons of mass destruction and the growing scourge of terrorism. I fully agree with the objectives of the Iran and Libya Sanctions Act (ILSA). Combating proliferation and terrorism must remain at the forefront of our foreign policy. I do not agree, however, with a “face value” policy that seeks to combat these twin scourges unilaterally. ILSA cannot work. It has not worked. Right objectives but wrong policy.

We fight proliferation and terrorism through coordinated multilateral action, a strong intelligence capability, a strong national defense, and a strong economy. We
accomplish this through engagement in the world, not isolation or unilateral action. We accomplish this through leadership. ILSA embodies none of these essential elements. ILSA does not directly sanction Iran or Libya—it directly sanctions our allies and friends. It should be clear that this is a policy that contradicts our end-game—stemming the tide of proliferation and terrorism—by breaching the spirit of multilateralism so necessary to achieve success.

Instead of stopping proliferation and terrorism, ILSA has strengthened and encouraged the forces within Iran that are served by a policy of continued hostility toward the United States. These forces include radical Iranian clerics, Saddam Hussein, and radical Islamic forces throughout the Middle East focused on the elimination of the United States from the region, and the destruction of Israel. Israel is served by far sighted and wise policies that help open the eyes of the next generation of Iranians to the real possibilities for improving their lives—hope, peace, prosperity and stability. Israel’s purposes are not served by polices that needlessly alienate this group. ILSA sends Iran’s youth, which represents over 60 percent of its population, the very message Iran’s mullahs want them to hear—the United States is our enemy.

By discouraging a Western presence in Iran, we have also cut ourselves off from a source of information on terrorism and proliferation. We are left flailing for solutions to a problem we cannot fully understand. It is unlikely that we will ever pull the ILSA trigger, we never have . . . another example of the fundamental flaws in this law. It is unenforceable. The United States does not have legal jurisdiction over the commercial activities of foreign firms in foreign markets. Imposing unilateral sanctions that condition access to our financial markets on foreign policy considerations is a very risky business.

A new relationship with Iran will require a change in attitude by both countries. We should start with ILSA. ILSA should not be renewed. It has no deterrent capability and is self-defeating for America. The United States is surely capable of developing a more imaginative and relevant policy toward Iran. We are a great Nation, and we should act like one.

* * *

REMARKS BY SENATOR CHUCK HAGEL
TO THE AMERICAN IRANIAN COUNCIL
JUNE 27, 2001

The greatest threats facing mankind today are those from the increasing proliferation of weapons of mass destruction. Nuclear, biological and chemical weapons and their delivery vehicles are the most heinous and destructive forces on earth.

Nations face the growing threat of terrorism—a threat that we have often found ourselves ill-prepared and unequipped to handle. The brave men and women of America’s military and foreign service who have given their lives ensuring our security—the names associated with the tragedies at our embassies in Kenya and Tanzania, the Khobar Towers in Saudi Arabia and the USS Cole in Yemen to name a few—are forever burned in America’s memory. All Americans are grateful for their sacrifice and the sacrifice of their families.

Terrorism is the scourge of our time and the ultimate act of cowards. Terrorism does not distinguish between combatants and civilians, nor does it exclude children or the elderly. . . . nor does it care. We remember the terrorist act of Pan Am Flight 103. This was the act of cowards. Libya must take full responsibility for the murder of all 244 passengers, 15 crew, and 11 residents of Lockerbie, Scotland.

To deal with this reality, we must develop policies that are coherent, relevant and far-sighted to combat the dual threats of proliferation and terrorism. It does not serve our interests if we adopt policies that have only “face value.” It does not serve our interests if we fail to consider the long-term consequences of our actions by focusing on only the short-term.

Our goal is to stop proliferation and terrorism. We do this through coordinated multilateral action, a strong intelligence capability, a strong national defense and a strong economy. We accomplish this through engagement in the world, not isolation. We accomplish this through leadership. We do not accomplish this with policies that are reactive and unimaginative. We do not accomplish it with unilateral sanctions and specifically the Iran and Libya Sanctions Act (ILSA).

Congress will now be debating the relevance of unilateral sanctions embedded in the Iran and Libya Sanctions Act passed in 1996. ILSA was conceived as an unilateral action by the United States to tighten sanctions on Iran. Its goal was to stem Iran’s weapons of mass destruction programs and support for terrorism, by crippling
investment in its petroleum sector. Since we could not convince our allies to join us in isolating Iran, we threatened our allies with sanctions.

It is important to remember that ILSA does not directly sanction Iran—it directly sanctions our allies and friends. It should be clear that this is a policy that contradicts our end-game—stemming the tide of proliferation and terrorism—by breaching the spirit of multilateralism so necessary to achieve success. We need the support and cooperation of our allies and friends. Stopping proliferation and preventing a multilateral effort. We should not be implementing policies that alienate the very allies and friends needed to accomplish that goal . . . and do nothing to advance it.

ILSA compels the President to impose sanctions on foreign firms engaging in substantial investment in the Iranian or Libyan petroleum sectors. Some of these sanctions, like the procurement sanction against U.S. Government contracts, could violate our international obligations under the World Trade Organization. Other sanctions that would condition access to our financial markets threaten our own long-term interests much more than any firm or nation we might sanction.

U.S. financial markets are the world’s model for transparency, consistency, and trustworthiness, attracting $200 billion a year in new corporate bonds, $20 billion a year from the European Union alone. Pursuing policies that would endanger this trust is a very risky business.

If we begin to condition access to our financial markets on foreign policy considerations, we also begin to generate doubt in those who may choose to invest in the United States. We are not the only choice for investors and source of capital. This would threaten not only our continued economic growth, but also the continued success and expansion of the global economy. Economic despair creates instability. Instability is the breeding ground for terrorism. We must be ever vigilant to this reality. An unstable world is a dangerous and unpredictable world.

ILSA serves to isolate us. It isolates us from the forces of change growing within Iran. Iran’s reformist President Mohammad Khatami was reelected on June 8 with a landslide 77 percent of the vote, up from 69 percent in 1997. The Iranian public categorically rejected the slate of nine far more conservative candidates. Within Iran, Khatami represents the hope for reform and greater personal freedom—the democratic majority of Iran’s 70 million citizens want to move in. A farsighted and realistic foreign policy would seek to encourage this trend. ILSA does the opposite. ILSA strengthens the hand of the hardline mullahs and leaves the reformers without any gesture of support or encouragement. Symbolism is important.

President Khatami faces a powerful block of conservative clerics who oppose loosening personal freedoms and moderating Iran’s foreign policy. This block is also served by any policy that shows the United States to be the aggressive and implacable enemy of Iran. Obviously, we must approach Iran with our eyes wide open. Khatami is no great friend of the United States, or an Islamic Thomas Jefferson, but he does represent change in Iran that coincides with our national interests. We must encourage this trend with openness, not isolation.

Iran closed itself to the West after its 1979 revolution. It is now beginning to open the door. Iran seeks trade and Western investment. It seeks access to the West. If we have learned anything in the last decade, it is that a policy of openness, encouraged by the United States, will bring change, and sometimes even revolutionary change for the better. I believe there is some evidence that there are forces for change and reform in Iran.

By isolating ourselves from Iran we have also blinded ourselves to the actions and intentions inside Iran. ILSA discourages a Western presence in Iran. Combating proliferation and terrorism requires information-gathering. The closer to the source, the better the information. With ILSA, we have moved no closer to building the groundwork for our own future presence in Iran. This is an important, but often overlooked, consequence of this ill-considered law. By cutting ourselves off from a source of information on terrorism and proliferation, we have been left flailing for solutions to a problem we cannot, by our very policies, fully understand.

ILSA has not stopped proliferation. ILSA has not stopped terrorism. It has, however, strengthened and encouraged the forces within Iran that are served by a policy of continued hostility toward the United States.

The United States has appeared weak to these forces. Although threatening sanctions, we have chosen not to use them. In 1998, President Clinton chose to waive sanctions against French, Russian, and Malaysian firms investing in a major petroleum development project, the Iranian South Pars. Originally, this contract was going to an American firm, Conoco. The President waived the sanctions against the foreign firms investing in Iran, as provided for under ILSA, for reasons of national interest.
The United States does not have legal jurisdiction over the commercial activities of foreign firms in foreign markets. It is unlikely that we will ever pull the ILSA trigger... another example of how fundamentally flawed this law. More important, now that we have deferred ILSA once, the commitment to use ILSA becomes increasingly more difficult to make. Foreign firms know this—ILSA has lost its credibility and thus lost its deterrent capability.

Can the United States impose sanctions under ILSA once we have already chosen to defer them for a chosen few? Inconsistency is not the mark of a great power. The national security of the United States is not served by isolating Iran. Iran's strategic importance in the region cannot be underestimated.

Located at the intersection of Asia and the Middle East, and bordering both the Caspian region and the Persian Gulf, there are few areas of the world more important to our long-term economic, strategic, geo-political and energy security. Iran affects and impacts our long-term Iraqi policy. Whether we like it or not, Iran is a key player. We cannot isolate it from the very region from which it belongs.

The United States will be better served in the long-term by recognizing this and by designing policies that seek our common interests and act on them. Implacable hostility between the United States and Iran serves no one except radical Iranian clerics, Saddam Hussein, and radical Islamic forces throughout the Middle East focused on the elimination of the United States from the region, and the destruction of Israel.

Sixty percent of Iran's 70 million citizens are under the age of 25. They are impressionable. They are looking for a better life—and they have no memory of Iran's 1979 revolution. This is the group we must seek to influence—before they come under the influence of Iran's conservative clerics. Israel's purposes are not served by policies that alienate this group. Israel is served by far sighted and wise policies that help open the eyes of the next generation of Iranians to the real possibilities for improving their lives—hope, peace, prosperity and stability.

ILSA sends Iran's youth the very message that Iran's mullahs want them to hear—the United States is our implacable enemy. Isolation and hostility is a two-way street. The isolation we generate with ILSA breeds hostility and instability in the region. This will not help those seeking peace in the Middle East. The long-term security of Israel depends on stability. Because of its destabilizing impact, I believe ILSA threatens Israel's long-term security.

I fully agree with the objectives of ILSA. Combating proliferation and terrorism must remain at the forefront of our foreign policy. I do, however, disagree with a policy that seeks to combat these unilaterally, and without focus. It cannot work. It has not worked. A multilateral approach, not the unilateral sanctions embedded in ILSA, resulted in the successful conviction of a Libyan intelligence agent for the bombing of Pan Am 103.

Although United Nations sanctions have been suspended, the pressure of world opinion remains. An end game is now in sight. The United States and the world will continue to call on Libya to take responsibility for its actions and compensate the victims' families.

We must learn from this success and design far-sighted multilateral policies to combat terrorism and proliferation. These policies must truly serve our national interests, and not simply short-term political interests. The United States does not further its own interests by enacting policies that alienate us from our friends and allies. A new relationship will require a change in attitude by both the United States and Iran. Official relations between the United States and Iran can only move forward when both are ready to move forward. Any opening of the door by the United States must be met by reciprocal action from Iran. But it still serves our interests to have private channels of exchange and communication as broad and as deep as possible. This is a beginning.

The United States will not win this war against terrorism and proliferation until we take a clear headed look at the situation on the ground and design policies that seek long-term stability in the region. Changes in Iran's domestic politics demand changes in United States policy. We should start with ILSA. ILSA should not be renewed. The United States is surely capable of developing a more imaginative and relevant policy toward Iran. We are a great Nation. We should act like a great Nation.

PREPARED STATEMENT OF SENATOR MICHAEL B. ENZI

Thank you, Mr. Chairman for holding this hearing on the reauthorization of the Iran and Libya Sanctions Act (ILSA).
I support the goals of ILSA. We want to prevent terrorist organizations from carrying out their activities and we want to stop the proliferation of weapons of mass destruction (WMD) technology. The United States carries out these goals in various ways through the multilateral regimes, organizations, and dialogue.

However, some of our laws, such as ILSA, take a unilateral approach to dealing with these threats to our national security. This unilateral approach has at times undermined cooperation with our allies relating to the problems we are attempting to solve.

We must do more than just feel-good exercises. So far, no ILSA sanctions have ever been levied against an entity and only one waiver has ever been granted. We have a patchwork of laws that are dealing with proliferation—ILSA, the Iran and Iraq Arms Nonproliferation Act of 1992, and other laws such as the Nuclear Nonproliferation Act of 1978, the Nuclear Proliferation Prevention Act, and provisions in the Export Administration Act, the Arms Export Control Act, and the Foreign Assistance Act.

The Administration is requesting a 2 year, instead of a 5 year, reauthorization. This allows a more frequent review of our sanctions laws and takes into account the evolving circumstances and developments with our allies and the countries with which we want to improve behavior. Review is necessary because the threats are changing in this complex and more globalized world. It is vital to examine these policies to ensure that we properly target the undesirable behavior or end-users instead of creating adverse consequences for the good actors in the international business community. I encourage a review of all of our sanctions statutes specifically relating to Iran to ensure a simplified, effective, and common-sense approach to United States sanctions policy.

I look forward to hearing the responses and testimony of the witnesses. Thank you, Mr. Chairman.

PREPARED STATEMENT OF SENATOR JIM BUNNING

Mr. Chairman, I would like to thank you for holding this hearing on S. 994, the Iran and Libya Sanctions Act reauthorization.

I would also like to thank all of our witnesses for coming before the Committee to testify.

I am proud to be a cosponsor of this legislation. It is important that we enact this legislation and not let it expire.

I believe that we must show leadership to the rest of the world in how we treat rogue states who do not behave like they want to be a part of the community of nations. I realize that not every nation believes in sanctions like we do.

And, I also realize other nations’ businesses gain an advantage over our businesses because of sanctions. However, I do not believe the answer is to throw up our hands and do business as usual with any nation, regardless of their human rights record, promotion of terrorism or record of proliferation of weapons of mass destruction.

The answer is to encourage our friends and allies not to do business with these nations, even if it means setting a lonely example.

The argument that "other countries sell to them, why don't we" does not hold a lot of water with me. Sometimes, it is more important to stand on principle than to show a higher profit margin. America must remain the shining city on a hill, whether the rest of the world likes it or not.

I understand the Administration would rather have a 2 year reauthorization. I will listen to their reasoning intently, but I do believe the burden of proof is on the Administration to prove, to me at least, why I should not support a 5 year extension. I would like to commend my colleagues for their hard work on this bill. I look forward to hearing the testimony of all of our witnesses.

Thank you Mr. Chairman.

PREPARED STATEMENT OF GORDON SMITH

A U.S. SENATOR FROM THE STATE OF OREGON

Iran continues to support international terrorism and is developing weapons of mass destruction at an alarming rate and Libya still refuses to abide by U.N. Security Council Resolutions regarding the bombing of Pan Am 103, said Smith. “We can
and must continue to send the signal to those governments that sponsor terrorism that the U.S. Government will do all it can to work against their goals.”

First enacted in 1995, ILSA imposes an array of economic sanctions against foreign entities that invest in Iran and Libya’s energy sectors. The law, which will expire in August unless Congress reauthorizes it, has proven very effective in preventing foreign investment in Iran and Libya’s oil production industry, thereby making it more difficult for them to fund terrorism. Of the 55 major petroleum development projects for which Iran has sought foreign investment in the last 5 years, only a half dozen or so have received any foreign investment, and none have been completed.

PREPARED STATEMENT OF SENATOR EDWARD M. KENNEDY
A U.S. SENATOR FROM THE STATE OF MASSACHUSETTS

I strongly support S. 994, to extend the Iran and Libya Sanctions Act for 5 years. Current United States law imposes economic sanctions on foreign companies that invest in Libyan and Iranian oil, but those sanctions expire on August 5. The need for the sanctions is as strong today as when they were enacted in 1996, and they deserve to be extended.

According to the State Department, Iran continues to be “the most active state sponsor of terrorism.” Sanctions should continue on that nation.

There is also a compelling foreign policy rationale for extending sanctions on Libya. As a primary sponsor of this provision in current law, I will focus my comments on Libya.

Easing sanctions on Libya by allowing the law to expire would have a far-reaching negative effect on the battle against international terrorism and the 12 year pursuit of justice for the 270 victims of the bombing of Pan Am Flight 103.

Current law requires the President to impose at least two out of six sanctions on foreign companies that invest more than $40 million in 1 year in Libya’s energy sector. The President may waive the sanctions on the ground that doing so is important to the U.S. national interest. For Libya, the law terminates if the President determines that Libya has fulfilled the requirements of all U.N. Resolutions relating to the 1988 bombing of Pan Am Flight 103. Those conditions, which were imposed by the international community, require the Government of Libya to accept responsibility for the actions of its intelligence officer, disclose information about its involvement in the bombing, provide appropriate compensation for the families of the victims of Pan Am Flight 103, and fully renounce international terrorism.

President Bush has emphasized his support for these conditions. As he stated on April 19, “We have made it clear to the Libyans that sanctions will remain until such time as they not only compensate for the bombing of the aircraft, but also admit their guilt and express remorse.” Yet the government of Libya continues to refuse to meet the conditions of the international community. Until it does, both the United States and the international community should continue to impose sanctions on the regime.

Despite the conventional wisdom that economic sanctions do not work, they have been effective in the case of Libya. As a result of the United Nations sanctions, the United States sanctions, and diplomatic pressure, the Libyan government finally agreed in 1999 to a trial by a Scottish court sitting in the Netherlands of two Libyans indicted for the bombing. Last January 31, one of the defendants, a Libyan intelligence agent, was convicted of murder for that atrocity.

The court’s decision clearly implicated the Libyan government. The conviction was a significant diplomatic and legal victory for the world community, for our Nation, which was the real target of the terrorist attack, and for the families of the victims of Pan Am Flight 103.

The Iran and Libya Sanctions Act is also intended to help level the playing field for American companies, which have been prohibited from investing in Libya by a Presidential Order issued by President Reagan in 1986. The statute enacted in 1996 imposed sanctions on foreign companies that invest more than $40 million in any year in the Libyan energy sector. The objective of the 1996 law is to create a disincentive for foreign companies to invest in Libya and help ensure that American firms are not disadvantaged by the United States sanctions. Since the sanctions on U.S. firms will continue, it is essential to extend the sanctions on foreign firms as well.

The Administration has indicated that it has no evidence of violations of the law by foreign companies. But some foreign companies are clearly poised to invest substantially in the Libyan petroleum sector, in violation of the law. A German com-
pany, Wintershall, is reportedly considering investing hundreds of millions of dollars in the Libyan oil industry in violation of the law.

Allowing current law to lapse before the conditions specified by the international community are met would give a green light to foreign companies to invest in Libya, putting American companies at a clear disadvantage. It would reward the leader of Libya, Colonel Qadhafi, for his continuing refusal to comply with the U.N. Resolutions. It would set an unwise precedent of disregard for U.N. Security Council Resolutions. It would undermine our ongoing diplomatic efforts in the Security Council to prevent the international sanctions from being permanently lifted until Libya complies with the U.N. conditions. And it would prematurely signal a warming in United States-Libyan relations.

Our European allies would undoubtedly welcome the expiration of the U.S. sanctions. European companies are eager to increase their investments in Libya, but they do not want to be sanctioned by the United States. They are ready to close the book on the bombing of Pan Am Flight 103, and open a new chapter in relations with Libya.

But the pursuit of justice is not only for American citizens. Citizens of 22 countries were murdered on Pan Am Flight 103, including citizens of many of our allies. The current sanctions were enacted on behalf of these citizens as well. Our Government should be actively working to persuade European countries that it is premature to rehabilitate Libya.

Some have proposed extending the law for 2 years, rather than 5 years as our bill proposes. I strongly support a 5 year extension. If we reduce the time period, it only gives Colonel Qadhafi a strong incentive to continue stonewalling—as he has done since the verdict was announced last January—and wait until the law expires.

When the Banking Committee marks up the Senate version of the bill, I hope two modifications to the Libya section made by the House International Relations Committee will be included. The first would reduce the threshold for a violation in Libya from $40 million to $20 million. Under current law, a foreign company can invest $40 million in Libya before sanctions kick in, but it can only invest $20 million in Iran. When the law was originally drafted, the threshold for both Iran and Libya was $40 million. When it was reduced for Iran, it was not reduced for Libya. It should have been. The threshold for a violation should be $20 million for both Iran and Libya.

The other modification included in the House version of the bill would close a loophole in the law that allows oil companies to expand upon contracts that were signed before the current law was enacted. A number of companies which signed contracts before ILSA became law are expanding their operations, such as by developing fields adjacent to those in which they made their original investment, and calling this expansion a part of the original contract. The law should cover modifications to existing contracts and agreements. Even if the original contract predates ILSA, subsequent investments that expand operations should be treated as a new contract. This point should be clarified in the law, and the Administration should aggressively seek the information necessary to enforce it.

Bob Monetti, the President of the largest organization representing the families—the Victims of Pan Am Flight 103—has written letters asking the Congress to make these modifications to existing law and to oppose efforts to shorten the duration of the law from 5 years to 2 years. I am submitting copies of his letters for the record along with my testimony.

Extending the law that requires sanctions on foreign companies that invest in Libya for another 5 years is in both the security interest of the United States and the security interest of the international community. Profits in Libya should not come at the expense of progress against international terrorism and justice for the families of the victims of Pan Am Flight 103.

I commend the Banking Committee for reviewing this law, which I hope will be extended swiftly.
The Honorable Senator Edward M. Kennedy
315 Russell Senate Office Building
Washington, DC 20510

23 May, 2001

Subject: Iran-Libya Sanctions Act

Dear Senator Kennedy,

The members of our organization, the Victims of Pan Am Flight 103, Inc. urge you to vote to extend the Iran-Libya Sanctions Act.

The Scottish court in the Netherlands convicted a Libyan intelligence agent, Abdel Basset al-Megrahi, of the murder of 270 innocents on Pan Am flight 103. The judges also found that Megrahi was acting "in furtherance of the purposes of Libyan Intelligence". Within a few hours, President Bush declared on CNN, to the world, that the Scottish Court's decision proved the Libyan government was responsible for the murders of our loved ones.

UN Security Council resolutions 731 & 748 require that Libya turn over the suspects for trial, cooperate in the international investigation, pay appropriate compensation to the families and end support of international terrorism. The Libyan Regime must be made to comply fully with the UN Resolutions.

Allowing ILSA to lapse would undermine President Bush's statements the day of the verdict, the intent of the UN, Security Council's resolutions and give tacit approval to Qadhafi's flagrant disregard for international law & human life. It would, in effect, reward Libya's murderous actions & stonewalling. It would declare open season on Americans.
VICTIMS OF PAN AM FLIGHT 103, Inc.

We ask that you support two changes to the law. The first would reduce the threshold for a violation from $40 million to $20 million. The threshold for a violation for investment in Iran is $20 million. There is no compelling reason why the threshold for investment in Libya should not be the same.

The second change would close a loophole in the law that enables oil companies to expand existing contracts and avoid being examined for violations. We understand that a number of European companies which signed pre-ILSA contracts are expanding operations by, for example, developing fields adjacent to the fields in which they had their original investment and portraying this expansion as part of the original contract. Our organization believes such investment should always be investigated for ILSA violations. Even if the original contract pre-dates ILSA, any post-ILSA investment, no matter how large or remote form the original contract, should be treated as the entry of a new contract and investigated for an ILSA violation.

We respectfully suggest that if ILSA is not renewed, the United States will have failed in one of the most important challenges it faced in the 2nd half of the twentieth century.

Our organization strongly supports an extension of ILSA, which has worked well to deter significant new investment in the Libyan oil sector and look forward to working with you toward that extension.

Sincerely,

Robert G Monett
President, VPAF103, Inc.
Victims of Pan Am Flight 103, Inc.
P.O. Box 903, Cherry Hill, NJ 08003-0903
www.vpaf103.org

The Honorable Tom Lantos
Ranking Member
House International Relations Committee
2170 Rayburn House Office Building
Washington, DC 20510

16 June, 2001

Subject: Iran-Libya Sanctions Act

Dear Congressman Lantos,

The members of our organization, the Victims of Pan Am Flight 103, Inc. strongly urge you to vote against Representative Paul’s amendment to shorten the duration of the Iran-Libya Sanctions Act extension from five years to two years.

The Scottish court in the Netherlands convicted a Libyan intelligence agent, Abdel Basset al-Megrahi, of the murder of 270 innocents on Pan Am flight 103. The judges also found that Megrahi was acting "in furtherance of the purposes of Libyan Intelligence." Within a few hours, President Bush declared on CNN, to the world, that the Scottish Court’s decision proved the Libyan government was responsible for the murders of our loved ones.

We are deeply disappointed that less than five months after declaring Libya guilty of murdering our loved ones, the Bush Administration has proposed slashing the extension from five years down to just two years. We strongly oppose any change which Colonel Qadahfi will read as a sign of weakening US resolve.

Under ILSA, the sanctions against Libya expire when the President determines that Libya has met the conditions specified by the international community in the UN resolutions. These conditions require the
VICTIMS OF PAN AM FLIGHT 103, Inc.

Government of Libya to accept responsibility for the actions of its intelligence officer, disclose information about its involvement in the bombing, provide adequate compensation to the families of the victims of Pan am Flight 103 and fully renounce international terrorism. Despite the verdict, Colonel Qadhafi refuses to satisfy these conditions.

Reducing the time period to two years will give Colonel Qadhafi a strong incentive to continue stonewalling, as he has done since the verdict was announced in January, and wait until the sanctions expire.

Sanctions against Libya have been effective in achieving results. Our organization strongly supports a five year extension of ILSA. This is critical to ensure that justice will be done on behalf of the victims of Pan Am Flight 103, murdered by the government of Libya.

Sincerely,

Robert G Monetti
President, VPAF103, Inc.
Mr. Chairman, we are very pleased to have the opportunity to appear before this Committee today, and to testify on S. 994 regarding renewal of the Iran and Libya Sanctions Act (ILSA).

I am Tony Wayne, Assistant Secretary of State for Economic and Business Affairs. I am happy to be accompanied by Jim Larocco who has just returned from a tour as Ambassador to Kuwait to become the Principal Deputy Assistant Secretary in the Near East Bureau. Jim is Acting Assistant Secretary at the moment, while Assistant Secretary Bill Burns is traveling with Secretary Powell.

Let me say a word about my background. Much of it, I think, has some relevance for ILSA. Before becoming Assistant Secretary for Economic and Business Affairs about a year ago, I was Principal Deputy Assistant Secretary in the European bureau—and ILSA certainly involves and affects our European allies. In this capacity, I was closely engaged in the discussions we had with the Europeans about cooperation on nonproliferation and counterterrorism in 1997 and 1998, as our decision process on the South Pars case moved forward. I also served in our Counterterrorism office from 1989 to 1991 where I helped to build our cooperation with others against terrorism, including activities supported by the governments of Iran and Libya. I thus have some perspective on that vitally important issue and its connection with ILSA.

As you know, the Administration supports renewal of ILSA, in its original form, but for 2 years, rather than the 5 proposed in S. 994. We entirely share the concerns of Congress about the objectionable policies and behavior of Iran and Libya. Opposing that behavior is a top Administration priority. We have repeatedly condemned Iran’s pursuit of weapons of mass destruction (WMD) and missile delivery systems and its support for terrorism, including support for groups using violence to oppose Middle East peace. Although no Iranian individual was charged in the recent indictments over the Khobar bombing, the investigation confirmed that our concerns about Iranian support for terrorism are well-founded. Libya has not yet complied with the relevant U.N. Security Council Resolutions. We are focused on securing Libya’s compliance with its UNSC obligations, including payment of appropriate compensation and acceptance of responsibility for the actions of Libyan officials in connection with the bombing of Pan Am 103.

The Administration’s decision to support a 2 year renewal reflects no diminution in our concern for the objectionable behavior of Iran and Libya in the areas of terrorism and proliferation. Our concerns in these areas continue to be reflected in a wide variety of policies and actions we have adopted toward these countries, including their designation as state-sponsors of terrorism, and in enforcement of the sanctions and restrictions derived from that designation. Similar concerns are reflected in other legislation passed by Congress, such as last year’s Iran Nonproliferation Act, the 1992 Iran and Iraq Nonproliferation Act, and a number of other statutes. We have played, and will continue to play, a leadership role in multilateral nonproliferation regimes, such as the Missile Technology Control Regime (MTCR), the Nuclear Suppliers Group, the Australia Group, and the Wassenaar Arrangement, where we work in close partnership with our European allies and other member governments, to restrict the access of countries such as Iran and Libya to equipment, technology, and materials necessary to develop WMD and long-range missiles.

Support for a 2 year term reflects this Administration’s view that sanctions should be reviewed, thought about, and debated at frequent intervals. Sanctions are one set of tools among the many we deploy for supporting important national objectives such as combating proliferation and terrorism. We are working to counter these abhorrent practices and to build a cohesive and effective international effort against them. Given the enormous importance of these objectives, we should regularly reevaluate our sanctions tools, assessing how well they are working; whether they should be altered or amended; whether they can be fine-tuned; whether there are other instruments or approaches that should be applied; whether there are ancillary effects, and how to take them into account. This process provides a further occasion for all points of view to be heard. In sum, regular reevaluation is essential to ensure that we are attacking critical problems in the most effective way. Questions about the effectiveness, impact, cost, and relevance inevitably arise in connection with any sanctions regime. ILSA is no exception, particularly since its
approach is indirect: it focuses on investment, in order to limit revenue, rather than focusing directly on actions by Iran and Libya to procure weapons of mass destruction and support terrorism; and it targets petroleum-sector investors—some of them from friendly countries whose cooperation we need in working toward our non-proliferation and counterterrorism goals—rather than targeting parties who engage in inherently objectionable activity. We are working to maintain and strengthen cooperation with friends and allies to try to change objectionable aspects of Iranian and Libyan behavior.

The Administration is embarking on an overall review of sanctions policy that will include examining the cost and effectiveness of our sanctions efforts—in general, and with respect to specific sanctions laws, such as ILSA. The review will also examine ways to make the administration of sanctions that affect U.S. business more efficient. At the Secretary's direction, the Department is working with other agencies to determine the extent to which economic sanctions laws achieve their objectives, have appropriate reporting requirements, or impede the President’s ability to react to changing international developments.

At his confirmation hearing, Secretary Powell expressed concern about the number of existing sanctions laws and regulations; there is potential for overlap, inconsistency, and inappropriateness. He also noted that there have been instances in which sanctions have been useful. Carefully designed and prudently used, economic sanctions can be a valuable foreign policy and national security tool.

For its part, the State Department believes that economic sanctions laws should reflect common-sense principles. They should allow the President sufficient flexibility to modify or to terminate sanctions as conditions change or to terminate sanctions that are not working. They should be part of an integrated policy, that considers other options and weighs the costs and benefits of economic sanctions for the range of U.S. interests. In general, sanctions should directly target the objectionable behavior by foreign governments or entities that threatens our values or interests and should minimize unintended harmful consequences. Sanctions that are indirectly targeted are likely to be less effective and need to be weighed with particular care for unintended effects. When sanctions are appropriate, it is far preferable that they be employed through a multilateral approach. Experience has shown that concerted multilateral efforts are almost always more effective than unilateral ones, although we may occasionally need to be prepared to act unilaterally when necessary to defend important U.S. values and interests. As we have said, sanctions should be reviewed periodically, and relatively frequently, to assess their continued effectiveness and relevance, and make appropriate adjustments.

Finally, I want to stress that whenever possible, the decision to impose sanctions should be the product of collaboration and consultation between the Administration and Congress. We look forward to working with you and your colleagues on this important set of issues. Through a close dialogue, we can make sanctions more rational, coherent and effective in support of U.S. foreign policy and national security interests.

We are grateful to the Committee for the opportunity to appear, and to make this statement. We would be happy to respond to any questions you might have.

PREPARED STATEMENT OF STEPHANIE L. BERNSTEIN
JUSTICE FOR PAN AM 103
JUNE 28, 2001

I would like to thank you, Senator Sarbanes, for the opportunity to testify before the Banking Committee today on this most important issue.

I am here today to support extension of the Iran and Libya Sanctions Act because my husband, Michael S. Bernstein, was one of 270 people, including 189 U.S. citizens, murdered in the Lockerbie bombing on December 21, 1988. This savage crime was placed squarely at the feet of the Libyan government on January 31 of this year, when a high level Libyan intelligence operative was convicted of 270 counts of murder.

My husband was a Federal employee: he was the Assistant Deputy Director of the Office of Special Investigations at the Department of Justice. This office finds, denaturalizes, and depots those who participated in Nazi atrocities during World War II. Mike graduated with distinction and high honors from the University of Michigan, and received his law degree from the University of Chicago, where he was an Associate Editor of the Law Review. He was 36 years old.
Mike was a valued member of the Criminal Division at the Department of Justice, where he was given the Department’s Special Achievement Award in 1986. In a memo to Criminal Division employees after Mike’s death, Assistant Attorney General Edward S.G. Dennis wrote that after joining the Department from the Washington firm of Covington and Burling, Mike “quickly established himself as an outstanding trial lawyer whose persistent but low-key approach to his work won him the respect and highest praise from both his colleagues and his adversaries.” Colleagues at the Justice Department wrote in a memorial notice placed in The New York Times that Mike was a “lawyer’s lawyer, whose clarity of purpose, intellectual gifts, sound and ethical judgment, exceptional wit, and boundless compassion and good will earned him a place of deep affection and respect in the hearts of all who were privileged to know him.”

Mike chose to use his gifts in the service of his country as an example for our children, who were ages 7 and 4 at the time he was murdered. In a letter to my daughter, Sara, Assistant Attorney General Edward Dennis wrote that her Dad “expressed his love for you, in part, through his work and his efforts to build a better world through service to the public good.”

I have told you a little about Mike because I think it is important to convey the scale of the mayhem committed by the government of Libya on December 21, 1988. As The Lord Advocate of Scotland stated on January 31 during his remarks to the Scottish Court prior to the sentencing of the defendant, Abdel Basso al-Megrahi:

More than 400 parents lost a son or daughter; 45 parents lost their only child; 65 women were widowed; 11 men lost their wives. More than 140 children lost a parent and 7 children lost both parents.

The Scottish Court wrote in its opinion that Megrahi was acting under orders from the Libyan government.

The clear inference which we draw from this evidence is that the conception, planning and execution of the plot which lead to the planting of the explosive device was of Libyan origin. (p. 75)

Since the verdict, the Bush Administration has been firm in its public insistence that Libya abide by the terms of the United Nations Security Council Resolutions. These require that Libya accept responsibility for the bombing, disclose all it knows about the bombing, fully renounce international terrorism, and pay appropriate compensation to the families.

In addition, the Administration has indicated that the investigation into the Lockerbie bombing is still open. This was conveyed to me and other family members in meetings held over the last several months with Secretary of State Powell and Attorney General Ashcroft. Indeed, Secretary Powell stated that:

However we resolve this and however we move forward from this point on, we reserve the right to continue to gather more evidence and to bring more charges and new indictments. So accepting responsibility as a leader of a Nation, and as a Nation, doesn’t excuse other criminals who might come to the fore and be Subject to indictment. (February 8, 2001)

Unfortunately, pressures on the Administration from the oil industry have revealed cracks in this resolve. Shortly after the verdict, a draft report of Vice President Cheney’s Energy Task Force was leaked, and we learned that one of the options under consideration was dropping the unilateral United States sanctions against Libya. Although these sanctions predate the Lockerbie bombing, the families felt that such a move would send the wrong message to the Libyans. After protests from the families and from our allies in the Congress, this was dropped from the final report.

More recently, in arguing for a 2 year rather than a 5 year extension of ILSA, a senior State Department official was quoted in a Reuters article as saying that our Government has begun to “reassess” Gaddafi:

He’s older and wiser and more mellow in his old age. We have been fairly clear in documenting the change. (Reuters, 6/8/01)

This new and mellow Gaddafi is news to me. I wish that the unnamed senior official could have been present on March 16 of this year at a conference on United States-Libya relations after the Lockerbie trial sponsored by the Atlantic Council, the Middle East Institute, and the Woodrow Wilson Center. I was a speaker at the conference, along with Ambassador Dorda, the Libyan Ambassador to the United Nations, who was allowed by the State Department to travel to Washington for the day to participate.
With the exception of myself and a Libyan expatriate, the remarks of the other presenters were measured and extended a hand to the government of Libya to rejoin the family of civilized nations once the conditions stated in the U.N. sanctions were met. Ambassador Dorda responded with a lengthy tirade stating that the United States was responsible for many of the bad things which have happened to Libya over the last 200 years, beginning with United States forces fighting the Barbary pirates. He said that there was no evidence that Libya was involved in the “so-called” Lockerbie bombing. In commenting on the United States bombing of Libya in 1986 after the La Belle Disco bombing by Libya, Dorda, who was slightly wounded in the United States retaliation along with his son asked—“Who is the terrorist and who is the victim?”

Dorda said that the indictment of the two Libyans for the Lockerbie bombing in 1992 was “only political,” and designed to pressure the Security Council. He went on to say, however: “let’s forget about the past.” Dorda described the unilateral United States sanctions as “useless,” stating that Libya can get anything it wants from anywhere. He referred to allegations that the Libyan government has been involved in terrorist activity as “so-called terrorism.” He denied that his government has ever trained, financed, or supported terrorists. “We never supported terrorism.”

This tirade by Ambassador Dorda was no doubt fueled by Libyan allies in the international community such as Nelson Mandela, who helped arrange the agreement which persuaded Gaddafi to turn the suspects over for trial. After the verdict, Mandela accused the United States and Great Britain of having “moved the goalposts” on the issue of lifting the U.N. sanctions.

The condition that Gaddafi must accept responsibility for Lockerbie is totally unacceptable. As President for 5 years I know that my intelligence services many times did not inform me before they took action. Sometimes I approved, sometimes I reprimanded them. Unless it is clear that Gaddafi was involved in giving orders it is unfair to act on that basis. (The Independent, 2/09/01)

Unfortunately, the Libyans have been given succor by the United States. oil industry as well. In February of this year, Archie Dunham, the Chairman and CEO of Conoco, said that he was “very optimistic” that the Bush Administration would lift the unilateral sanctions against Libya, in part because of the President and Vice President’s ties to the industry.

International pressure, influence from the oil industry, and the intransigence of the Libyan government all argue for a 5 year extension of ILSA. I am concerned that a 2 year extension will send a message to the Libyans that we are not serious about seeing that they live up to their obligations, allowing them to run out the clock. It is important to add that the impact of ILSA on Libya will end immediately if the President determines that Libya has met the requirements of the United Nations Security Council Resolutions dealing with the Lockerbie bombing. It is up to the Libyans.

In addition, I urge this Committee to support two changes in the existing law. First, I believe that we must close the loophole which has permitted oil companies to add on to contracts signed prior to enactment of ILSA. Second, we must reduce the threshold for violation of the law from $40 million of investment to $20 million, as is the case with Iran. These changes in ILSA are supported by my group, Justice for Pan Am 103, as well as by Victims of Pan Am Flight 103, the largest group of family members.

For 12½ years the Lockerbie families and our allies in Congress have kept pressure on three administrations to find and hold accountable those who carried out the bombing of Pan Am 103. Our support in Congress has been bipartisan. Our supporters understand that the bombing of Pan Am 103 was an attack on the United States, and that we must show countries like Libya that when they attack our civilians they will not enjoy the benefits of participating in the community of nations which abide by the rule of law. Our supporters understand that doing business with terrorists is not good business. Those who have stood by us know that “constructive engagement,” or whatever diplomatic terms are used to pretty up, our dealings with regimes which murder innocents around the world, will not prevent future terrorist attacks, and will only expose our naive and worse, our citizens, to further attacks. The next several months will be critical. Megrahi’s attorneys have filed an appeal. There will be attempts by the Libyans and their supporters to get the families to back off on February 13 of this year. A London-based attorney who has advised the Libyans was quoted as follows:

The more the United States sticks to the original agreement that the aim of the process was the surrender and trial of the two accused, the more the Libyans will cooperate and compensate the families. (Reuters article, 2/13/01)
The Lockerbie families do not see justice as something for which we bargain in the bazaar. The suggestion that the families would trade the pursuit of justice for money is cynical and dishonors the memories of our loved ones.

A British expert on Libya was quoted in the same article as follows:

Gaddafi knows he is going to have to pay compensation. The question is whether he can control the domestic agenda and curb his own tongue over the next few months, and whether extremists on the other side of the Atlantic among the families and their supporters in Congress can be kept under control.

I hope that you will join me and other Lockerbie family members in showing the Libyans and their apologists that, when it comes to pursuing justice, we will not be "kept under control."

PREPARED STATEMENT OF PATRICK CLAWSON
DIRECTOR FOR RESEARCH
WASHINGTON INSTITUTE FOR NEAR EAST POLICY
JUNE 28, 2001

Renewing the Iran and Libya Sanctions Act (ILSA) is a good way to keep up the pressure on Iran about its hardline actions. Renewal should be accompanied by a hand of friendship extended to the Iranian people in support of their campaign for reform.

The Political Context in Iran

Iran is one of the great political enigmas facing United States policy. Tehran sponsors international terrorist groups, lends support to the violent opposition to the Middle East peace process, and spends scarce capital on developing long-range missiles and a nuclear weapons program. At the same time, Iran has a political system that, outside Israel and Turkey, may be the most animated, vigorous, and dynamic in the region. After the election of President Mohammed Khatami in 1997, there was an expectation that the reformist tide will win out over the hardliners. So far, that has not been the case. Despite whatever progress the reformists have made on the domestic scene, little has changed in terms of those Iranian policies that pose the greatest threat to U.S. interests and allies.

The prospects are poor that Khatami will do much to change Iranian policy during his second term. Indeed, what is striking about Khatami's situation is how little he offers to address Iran's most pressing problems, namely, the stagnant economy, political repression, and security threats.

Consider Iran's security situation. To the east is Taliban-dominated Afghanistan, which is openly hostile to Iran and from which emanates the opium and heroin to which two million Iranians are addicted. To the west is Iraq, which sponsors the People's Mojahedeen cult whose members carried out more than 20 armed attacks inside Iran in the last year, including some deadly mortar attacks in Tehran. The United States shares Iranian concerns about both Afghanistan and Iraq, as well as the Armenian-Azerbaijani conflict that is right on Iran's borders. But the Khatami government is locked in a needless confrontational posture against America. Evidently, Khatami puts ideological disdain for America and venom against Israel ahead of Iran's state interests.

Overall, Khatami offers Iran little except an alternative to something worse. Khatami is popular both with the Iranian people and with the outside world because hardline opponents are truly dreadful. The search for "Iranian moderates" has a long history, and there is little reason to believe that Khatami will be any less hostile to the United States than were the "Iranian moderates" of Iran-Contra days.

The Framework for U.S. Policy

So long as Iran continues to threaten regional stability by pursuing weapons of mass destruction and the means to deliver them, undermining the peace process—that is, arming Hizballah—and providing support for international terrorists, the United States-Iranian relations will be unfriendly or worse.

America's allies generally cooperate well on the most critical issue here, namely, limiting supplies to Iran of major new arms and dual-use technology. At the same time, the United States and its allies differ on how best to press Iran to change its activities of concern. The United States prefers an approach of containment; its allies, one of engagement. The two approaches need not be opposites. Indeed, the history of Western policy toward the Soviet Union shows how they can be used together to good effect. The "ostpolitik" policy of engaging the Soviets begun by Ger-
man chancellor Willy Brandt in the 1970's did much to undermine the legitimacy of the Soviet system in the eyes of its people, while the military buildup under President Ronald Reagan—combined with the aid to the Afghan resistance—put the Soviet Union under so much pressure that it cracked. That said, during the cold war, the United States usually took the lead on the containment policies and U.S. allies usually took the lead on promoting engagement. That difference is likely to persist in dealing with the difficult states of the Middle East, including Iran.

Washington has offered to reduce restrictions on Iran and resolve differences in a step-by-step process, so long as the process is reciprocal rather than one-sided. To demonstrate its continuing interest in such a process and to show its support for the Iranian reform program, the United States should take further steps to relax those sanctions which hit the Iranian people as distinct from the Iranian government. As with the effort to make the sanctions on Iraq smarter by concentrating more on the regime and less on the people, so too the sanctions on Iran could be changed to facilitate people-to-people exchanges. In particular, the current rules forbid transactions incidental to education and to nongovernmental organization (NGO) activities, with the practical effect of making education and NGO activities very difficult. For example, the rules allow Iranians to study at American universities, but they must use subterfuges to pay the American company that administers the English language test required by American universities because direct payment is deemed an impermissible transaction with Iran. Similarly, Iranians can come to the United States for conferences, but NGO's cannot easily pay the travel expenses of these Iranian visitors nor for the costs of Americans going to Iran for conferences. I strongly urge that Congress express to the Administration its desire to promote a dialogue of civilizations with Iran by lifting the restrictions on activities incidental to education and on people-to-people exchanges conducted by American nonprofit organizations—that is, those with 501.c.3 status under the tax code.

The United States should also continue with its efforts to encourage government-to-government dialogue with Iran. Iran has refused to talk with the United States, not vice versa. Iran has the only government in the world which refuses to talk to the United States. It is difficult to engage with Iran when Iran refuses to talk to Washington. We can proclaim until we are blue in the face that Iran would benefit from talking to Washington about issues of common concern to the two countries, such as the Taliban or counternarcotics. But the fact remains that Iran steadfastly refuses contact. At the same time as it pushes for diplomatic dialogue and extends a hand of friendship to the Iranian people, the United States will continue to press the Iranian government. In particular, will want to reduce the Iranian government’s income, so long as Tehran uses extra money to finance terrorism and purchase destabilizing weapons.

ILSA

ILSA reduces Iran's ability to attract investment in its oil and gas industry—income which accrues directly to the Iranian government. To be sure, ILSA’s impact is limited; Iran’s oil income depends much more on the price of oil than on ILSA. We can all speculate about where the price of oil will go; no one has a good record at making predictions, because none of us can tell how OPEC politics will play out. Economic models have a singularly bad record at forecasting oil prices, precisely because oil prices are as much a matter of geo-politics as of markets. One thing we know for sure is that Iran has always been the most hawkish member of OPEC, that is, arguing for the highest possible price. The more powerful Iran is, the more likely it will campaign for tight OPEC quotas that drive the price up.

ILSA has reduced Iran’s ability to export oil to finance its arms programs, but it has exacerbated trade tensions with America’s most important allies including the European Union (EU) states. Most in Europe regard ILSA as too intrusive on Europe’s turf. I have never understood how the United States and the EU decide which issues are sufficiently important that the two sides will risk a trade war. Offhand, I would have said that bananas are less of a threat to U.S. security and prosperity than are prospective Iranian nuclear missiles. But the United States and Europe have repeatedly gone toe to toe over bananas. With strong support from the American business community, the U.S. Government has imposed far-reaching sanctions against banana offenders, while Iranian proliferation and terrorism has not been seen as rising to that level of importance. I beg to differ; indeed, I would be prepared to accept Europe’s silly banana trade rules if Europe agreed to stop investing in Iranian oil and gas.

However, there is a real issue of how to use ILSA to press Europe to be more helpful in containing Iran’s destabilizing behavior. My preferred approach would be for the Administration to make more creative use of the provisions in ILSA for a country waiver—that is, a waiver on all investment from a country, as distinct from
a waiver applying to only one project. The Administration should interpret those provisions broadly to allow consultations with the EU on measures the EU may take to reach our common objective of countering proliferation and terrorism. For instance, it would be very useful if the EU countries joined with the United States in applying pressure on Russia, China, and North Korea to stop the proliferation of dangerous nuclear and missile technologies to Iran. So long as only the United States is raising this matter, the Russians can dismiss the concerns as American exaggerations. The Russian reaction might be quite different if it were faced with concern from all the G–7 countries. And G–7 cooperation might make a difference not only to governments but also to businesses. If the EU, Japan, and Canada were to join with the United States in ferreting out and sanctioning Russian, Chinese, and North Korean firms that supply nuclear and missile technology to Iran, exporting such dangerous technology to Iran might look more risky and less attractive. It is worth considering making cooperation on these matters the basis for exempting a country from ILSA restrictions.

In short, ILSA is a good law, and it provides the flexibility to allow the Administration to conduct vigorous diplomacy. ILSA will not stop Iranian or Libyan terrorism or proliferation; it will not even stop all foreign investment in their oil industries. But ILSA will reduce the income available to these governments and therefore put a crimp in some of their most dangerous activities.

———

PREPARED STATEMENT OF BRADLEY GORDON
LEGISLATIVE DIRECTOR
AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE
JUNE 28, 2001

Thank you, Mr. Chairman. I want to thank the Subcommittee for holding this hearing on the renewal of the Iran and Libya Sanctions Act (ILSA) and for inviting me to testify before you this afternoon. The American Israel Public Affairs Committee strongly supports the efforts led by Senators Gordon Smith and Chuck Schumer to extend ILSA for another 5 year period.

Five years ago, when Congress unanimously enacted ILSA, it did so because Iran was the leading state sponsor of international terrorism, because it opposed the Arab-Israeli peace process, and, indeed, Israel’s very right to exist, and because it was pursuing the acquisition of weapons of mass destruction and the missiles to deliver them. Libya, for its part, was under U.N. Security Council mandated sanctions for its suspected role in the downing of Pan Am 103. Today, a Libyan intelligence officer has been found guilty of murder for his involvement in Pan Am 103 in the words of the court “in furtherance of the purposes of . . . Libyan Intelligence Services,” yet Libya continues to refuse to acknowledge its role and to pay compensation to the families of the victims. Last week, 13 members of the Iranian backed group Hizballah were indicted for the 1996 bombing of the Khobar Towers. The indictment mentions Iran 35 times, yet Iran denies any connection to the attack. And Iran’s objectionable policies and behavior have, if anything, gotten worse. In short, all of the factors which led Congress to act initially remain true today, and both Iran and Libya deserve to remain subject to the sanctions outlined in ILSA.

I want to divide my testimony today into three parts: outline what Iran is doing today, to discuss the effectiveness of ILSA, and to look at the consequences of allowing ILSA to expire.

Iran’s Threatening Policies
Support for International Terrorism and Rejection of Israel’s Right to Exist

Let me start with Iran’s state support for international terrorism. The latest State Department Report on Patterns of Global Terrorism, issued in April, again affirmed that, “Iran remained the most active state sponsor of terrorism in 2000.” The Report goes on to say that, “Iran provided increasing support [emphasis added] to numerous terrorist groups, including the Lebanese Hizballah, HAMAS, and the Palestine Islamic Jihad,” the very groups responsible for the countless terrorist attacks against innocent Israelis. The Report notes that official Iranian agencies “continue to be involved in the planning and the execution of terrorist acts,” that Iran’s support for Hizballah, HAMAS, and Islamic Jihad include “funding, safehaven, training, and weapons,” and that this support “continued at its already high levels following the Israeli withdrawal from Lebanon in May and during the intifadah in the fall.” Moreover, in the words of the Report, “Iran continued to encourage
Hizballah and the Palestinian groups to coordinate their planning and to escalate [emphasis added] their activities against Israel.”

Iran is now reportedly spending $100 million annually on these groups. Iranian jetliners loaded with weaponry continue to land weekly in Damascus, where their cargoes are unloaded and trucked to Hizballah forces in southern Lebanon. Iran has recently begun supplying Hizballah with long-range 240mm mortars capable of reaching Haifa and beyond.

Late last year, Iran announced the formation of the International Anti-Zionist Movement, an eight-member alliance designed to undermine the peace process. The head of the organization is Mohsen Rezaie, the former head of the Iranian Revolutionary Guard and a close associate of Iran’s Supreme Leader, Ayatollah Khamene’i.

A statement sent by the new organization to the heads of all Islamic states said, in part, “We ask you, before the vast storm of Islamic countries, to mobilize to destroy Israel and create problems for those governments who defend it . . . .” Rezai said that, “Iran will continue its campaign against Zionism until Israel is completely eradicated.”

In January, Iranian officials met in Beirut with representatives of Hizballah, HAMAS, Islamic Jihad, and the Popular Front for the Liberation of Palestine—General Command to discuss ways to cooperate in attacks aimed at Israel and United States targets. In April, Iran hosted a follow-up session in Tehran with the leaders of these groups.

There are those who note a power struggle going on inside Iran between hard-line clerics, led by Iran’s Supreme Leader, Ayatollah Khamene’i, and supposedly moderate-clerics, led by President Khatami. Whatever the reality of that struggle, it is clear that their differences do not extend to Iran’s support of international terrorism nor to their opposition to Israel’s very existence. Last December, Ayatollah Khamene’i said that, “Iran’s stance has always been clear on this ugly phenomenon (Israel). We have repeatedly said that this cancerous tumor of a state should be removed from the region.” In February of this year, Khamene’i stated that, “It is the mission of the Islamic Republic of Iran to erase Israel from the map of the region.”

And Iran’s so-called “moderate” President Khatami last year called Israel an “illegal state.” Last August he told a visiting Yasir Arafat that the peace process was doomed to fail and that, “All of Palestine [emphasis added] must be liberated.” On April 25, Khatami said Israel “is a parasite in the heart of the Muslim world.”

Iran’s support for international terrorists goes beyond Israel, however. The State Department Report noted that Iran continued funding, training, and logistical assistance to a variety of radical groups in the Persian Gulf, Africa, Turkey, and Central Asia.

A stark example of Iran’s support for terrorism is its role in the Khobar Towers bombing in 1996 that killed 19 Americans and wounded 372. Attorney General John Ashcroft and FBI Director Louis Freeh announced on June 21 the indictment of 13 members of the pro-Iranian group Hizballah for the bombing. This indictment, which mentions Iran 35 times, describes the involvement of high Iranian government officials in the terrorist attack. The indictment reports that an Iranian military officer directed and paid the defendants to locate American sites for a terrorist attack. The indictment states “that the attack was to serve Iran by driving the Americans out of the Gulf region.”

Iran’s Pursuit of Weapons of Mass Destruction

The U.S. Government has repeatedly reported on Iran’s efforts to acquire weapons of mass destruction and the missiles to deliver them. The CIA’s annual proliferation report to Congress has noted Iran’s clandestine nuclear weapons program for a number of years. Russia is rebuilding Iran’s nuclear power reactor at Bushehr that was damaged during the Iran-Iraq war. Iran, one of the world’s richest countries in both petroleum and natural gas, has, of course, absolutely no need to develop “peaceful” nuclear power; and yet it has agreed to pay the Russians billions of dollars for just such a capability.

The Clinton Administration sanctioned a number of Russian entities for their clandestine nuclear weapons cooperation with Iran, yet the assistance continues. Just this past winter, the Clinton Administration vigorously sought to dissuade Russia from providing Iran isotope separation technology with which it could ultimately produce its own weapons-grade nuclear material. It is as yet unclear whether that transaction has been permanently shut down. China has also assisted Iran’s nuclear weapons program, and both these countries, in addition to North Korea, have aided Iran’s missile program.

A Defense Department study entitled, “Proliferation: Threat and Response,” issued this past January stated that Iran is seeking the full range of weapons of
mass destruction: nuclear, chemical, and biological weapons, and is expanding its missile program. Iran has already flight tested the Shahab-3, a medium range ballistic missile with a range of 900 miles—that is, a missile that can reach any point in Israel, as well as hitting American forces in the region.

The study reported that Iran is eventually planning to develop intercontinental ballistic missiles that could threaten Europe and the United States directly. It added that "Iran is striving to indigenously produce ballistic missiles and become a supplier state."

The report came to the not startling conclusion that were Iran to possess nuclear and missile capabilities, it would likely lead to increased intimidation of its Gulf neighbors and an increased willingness to confront the United States. Both American and Israeli intelligence are reported to believe that Iran could have such a capability within the next decade. The timing could be considerably shortened if Iran were to obtain the necessary fissile material from abroad.

One can only imagine what the United States and our friends in the region would confront were the clerical regime in Iran to obtain such capabilities. Imagine a nuclear-armed Iran sitting astride the Persian Gulf shipping lanes through which so much of the world's petroleum resources flow. Imagine what Israel would confront. Imagine how much more severe would be the dangers of Iranian-supported terrorist groups emboldened by the Islamic Republics new weapons capabilities and the likelihood of Iran sharing these weapons with these very same groups. Clearly, Mr. Chairman, we believe the United States must do all it can—for our own sake and for that of our allies—to prevent such nightmare scenarios from becoming realities.

**The Role of ILSA**

Over the course of the last 5 years, both the executive branch and the legislative branch of the U.S. Government have made concerted efforts to do precisely that—prevent Iran from gaining such dangerous capabilities. To demonstrate that direct American action was required to stop weapons proliferation, Congress in 1996 overwhelmingly passed the Iran and Libya Sanctions Act (ILSA), and last year enacted the Iran Nonproliferation Act, again overwhelmingly. The Clinton Administration made Russian transfers of dangerous technologies to Iran a very important item on the agenda of our bilateral relations with Moscow and engaged our allies to tighten their own nonproliferation controls. We are pleased that the Bush Administration has pledged to maintain this priority and take the necessary measures to address this serious national security problem.

ILSA was designed to deter foreign investment in Iran's energy sector. It was based on a few simple facts: (1) Virtually all Iran's hard currency earnings are derived from its energy exports. It is this revenue that provides Iran the wherewithal to pay for its programs to acquire weapons of mass destruction and its support of terrorism. (2) Since the fall of the Shah through 1995, the clerical regime of Iran made no investments in its own petroleum and natural gas infrastructure; as a result, its production capabilities have declined by more than a third since 1979. At the same time, its population has doubled, meaning that Iran's export earnings per capita have dropped to about only one quarter of their level under the Shah.

Iran's oil fields are aging. Ninety percent of its oil comes from its oldest onshore fields and their output is declining because they have not been rehabilitated by expensive water separation and gas reinjection. Senior Iranian officials have been warning since the mid-nineties that output at some reservoirs is in sharp decline after years of being pushed too hard.

If foreign investment could be prevented from reinvigorating this crucial sector to Iran, then its production capabilities would continue to decline, and with it, Iran's ability to continue its weapons programs and its support for terrorism. Indeed, the CIA estimated in 1996 that "unless Iran starts making massive investments in oil field maintenance, it will become a net importer of oil by the year 2005." [Emphasis added.]

Not surprisingly, Iran has, since 1995, sought a great deal of foreign investment. It has promoted over 50 foreign energy investment opportunities. As of the end of the year 2000, only seven substantial contracts had been secured, a success rate of 14 percent. These seven projects have netted Iran less than $10 billion, less than $2 billion a year and well below what Iran's own planners expected. Compare that to tiny Qatar, with much fewer petroleum resources. During the same time frame, Qatar received twice as much foreign investment—$18 billion—in its energy sector.

Iran's own government has admitted that ILSA has been effective in deterring investment. In an August 1998 report to the U.N., Iran stated that ILSA had "led to the disruption of the country's economic system, . . . weakened the country's ability to deal with its international lenders, . . . which impeded credit transactions." Iran went on to report
that ILSA created difficulties in the petroleum and oil sector, such as “reduction in international investment, delays in... oil projects, cancellation of some tender contracts, technological shortcomings, and increased negotiating expenses.” President Khatami acknowledged in 1998 that U.S. sanctions had “inflicted damage upon us.”

In short, Mr. Chairman, ILSA is an example of sanctions legislation that has worked. There are those who will assert that foreign investment in Iran is just about to really take off. Over the past 5 years, I have read about any number of imminent contracts about to be signed. Most, however, never came to fruition. That is, no doubt, in part true because of Iran’s own problems in attracting foreign investment. But it is also undoubtedly true because ILSA acts as a further complication for foreign corporations trying to decide where to invest in energy development.

Indeed, ILSA is a carefully balanced piece of legislation that is narrowly and effectively targeted only at foreign energy investments in Iran. The legislation provides our Government with the necessary tools to stop or at least deter this investment. The menu of sanctions from which the President must choose ranges from the minor—such as prohibiting the Export-Import Bank from extending credit to sanctioned entities—to the major—such as invoking an import ban on these foreign entities. When Royal Dutch Shell, for example, with its hundreds of gasoline service stations in the United States, has to decide whether or not to invest in Iran, certainly ILSA requires consideration.

ILSA is a good example of how sanctions legislation should be done. While addressing an issue of vital national security interest to the United States, it does not tie the President’s hands but indeed provides great flexibility. If the President has determined that a sanctionable action has occurred, he may, if he determines that it is in the U.S. national interest, waive the application of sanctions. ILSA also is narrowly targeted at foreign companies and does not in any way restrict agricultural or medicinal trade between American companies and Iran.

The point of ILSA is twofold: to raise the cost of Iran’s dangerous policies and to delay the time for it to acquire weapons of mass destruction. And on that score I would argue ILSA has been very successful. Unless Iran is able to somehow obtain fissile material, it will have to master the entire nuclear fuel cycle in order to indigenously produce weapons-grade material. That is a long and costly endeavor. Raising the cost and delaying the timeline may allow for real political change in Iran. As we have seen from Iran’s continuing efforts to seek weapons of mass destruction and support terrorism, ILSA alone is not enough but it is a necessary policy tool of our Government to delay Iranian success in these efforts as long as possible.

I have no doubt that the vast majority of Iranians would end clerical rule if they had the opportunity to do so. One reason so-called clerical “moderates” do so well in Iranian elections is that they are the most moderate allowed to run. They are, nevertheless, part of the clerical regime, and Iran has been experiencing considerable civil unrest over the past year in opposition to the regime. Unfortunately, we have seen no evidence whatsoever of any “moderation” in Iranian foreign or national security policy and the changes at home have been minor and are reversible. Witness the nine Iranian Jews that have been falsely charged and imprisoned; the closing of Iranian dissident newspapers; and the arrest of dissident leaders.

In short, our hope must be that we are able to delay Iran’s acquisition of weapons of mass destruction long enough so that political change may occur. That is one of the underlying objectives of ILSA and it is based on historic experience elsewhere. In the early 1980’s, Argentina, Brazil, and Chile all had nuclear weapons programs. All were ruled by the military. The United States imposed restrictions in nuclear commerce with the three. Today, all three are democracies, and none of them have nuclear weapons programs. Delay allowed eventually for political change and an end to a nuclear proliferation threat.

Put simply, were ILSA allowed to lapse, it would be broadly interpreted by the Iranian regime, and others, as a weakening of America’s opposition to Iran’s policies and programs that threaten our vital interests. Iran has done nothing to warrant such a reward. Indeed, even those who have argued these past years that Iranian moderation was forthcoming have to admit that the Islamic Republic’s international behavior has deteriorated not improved. Its weapons development program has accelerated; its financial and arms support for terrorists has increased both quantitatively and qualitatively; and its objections to an Israel-Arab peace process are as vociferous as ever.

If ILSA Is Not Renewed

If Congress does not renew ILSA for another 5 years, as I hope it will, it will send a new message to those now eagerly anticipating its demise. It will reinvigorate the deterrent effect of ILSA, and do so just at the start of a new Administration.
Based on this record, we would not only fail to derive any benefit from allowing ILSA to lapse, but also we would put our country and our allies at even greater risk. Over the past 3 years, the United States has made it clear to Iran that we wished to improve relations. We took several unilateral steps that were all rebuffed. We eased import restrictions on some Iranian products; we provided greater ease of travel between Iran and the United States and even encouraged Americans to visit; we sought to open a dialogue with the Iranian regime—all to no avail. Hard-line clerics shut down every initiative while continuing to pursue policies and programs iminal to our interests.

But couldn’t the lapsing of ILSA be seen as a gesture of support to Iranian moderates? Quite the contrary. The expiration of ILSA would provide Iran a potential windfall by allowing unfettered foreign investment in its petroleum industry, thereby securing its petroleum capabilities—and its ability to fund its weapons programs and support of terrorism—indeﬁnitely. It would secure the hard-liners in power. And it would be seen by moderates hoping for political change in Iran as a weakening of America’s posture against the very regime they seek to change.

Thus, Mr. Chairman, I strongly urge the Congress to renew the Iran and Libya Sanctions Act. Iranian behavior demands it; ILSA has met the test and proven its effectiveness over time; and its expiration now would be a major, and totally undeserved, victory for the Islamic Republic, leading to potentially disastrous consequences to vital American national interests. We must, in short, remain vigilant and steadfast.

PREPARED STATEMENT OF WILLIAM A. REINSCH
PRESIDENT, NATIONAL FOREIGN TRADE COUNCIL, INC.
VICE CHAIRMAN OF USA*ENGAGE
JUNE 28, 2001

Mr. Chairman and Members of the Committee, I am William Reinsch, President of the National Foreign Trade Council, an association of more than 500 U.S. companies engaged in international trade and investment. I am also appearing today as Vice Chairman of USA*Engage, a broad-based coalition of over 670 American companies and trade and agricultural organizations that support sanctions reform. My comments today will focus primarily on the Iran and Libya Sanctions Act (ILSA), but will also address the U.S. Executive Orders that impose unilateral sanctions against Iran and Libya.

We support ILSA’s goals—preventing proliferation of weapons of mass destruction and the means to deliver them and acts of international terrorism—and we support full compliance by Libya with U.N. Security Council Resolutions regarding the destruction of Pan Am Flight 103; however, we believe ILSA has not been effective in achieving those goals but has, in fact, been counterproductive. Simply maintaining it in place will not increase its prospects of success. Instead, we urge Congress to work with the Administration as it develops its policy toward Iran and Libya. We also urge Congress to continue its review of the utility of using unilateral sanctions as an instrument of foreign policy.

The bill that you have before you today, S. 994, would extend ILSA for 5 more years. We are opposed to renewing these sanctions because they have been ineffective, costly to American economic interests, and posed significant diplomatic complications for the United States. The Bush Administration has asked for a 2 year extension of ILSA to provide time for them to conduct a thorough review of sanctions policy broadly and speciﬁc sanctions laws, such as ILSA. Although we certainly prefer that ILSA not be renewed for any length of time, we believe that the Administration’s request is preferable to a 5 year extension.

The theory of ILSA in 1996 was that the United States, acting unilaterally, could deny Iran the capital it needed to develop its most lucrative exports, oil and gas. That, in turn, was expected to reduce resources available for development of weapons of mass destruction and support for terrorism. In the case of Libya, the objective was primarily to gain leverage for compliance with the U.N. resolutions on the terrorist attack on Pan Am Flight 103. Signiﬁcantly, ILSA was intended to block foreign companies from making investments that the Executive Orders of 1995 prevented U.S. companies from making—in other words to make sanctions against Iran and Libya equitable with respect to investment.

Now, 5 years later, advocates of renewal argue that ILSA should be extended because it has succeeded—that is, because it has successfully deterred new foreign investment in Iran’s energy sector. Any objective review of the record will conclude...
that ILSA has failed in its key objective of stopping major foreign investments in oil and gas development.

Ironically, advocates of renewal also argue that this secondary boycott must be renewed because, in effect, ILSA has failed—Iran is still able to finance development of weapons of mass destruction and terrorism. Either way, ILSA has been entirely ineffective and counterproductive for U.S. interests.

That latter point is crucial, because we would hope the Committee would view ILSA in light of our national interests. If it were achieving our policy goals, we would be here testifying in support of it. However, it is not advancing its stated purposes; it is creating collateral diplomatic damage to U.S. interests for essentially symbolic purposes. It has created precisely the situation it sought to avoid—Iran and Libya are increasingly able to develop their oil and gas reserves through foreign investments from which American firms are excluded. In short, it does not meet a national interest test.

Having ILSA on the books strains U.S. diplomatic relations with its allies because of their resentment of its secondary boycott. Further, if ILSA waivers were not granted, the economic costs for U.S. firms would increase because of retaliation by other countries. Finally, ILSA’s attempt to target the oil and gas production of two key energy-producing countries runs counter to U.S. long-term energy security requirements. United States and worldwide demand for oil and gas is rising rapidly. The world has entered a dangerous period of energy scarcity.

Under these circumstances, it is shortsighted to try to diminish Iranian and Libyan energy production capabilities. In fact, a recent study shows that if we were actually successful in reducing Iran and Libya’s oil production, it would have the perverse consequence of raising world oil prices, increasing revenues to the sanctioned countries and costing U.S. consumers over $150 billion.

Of course, it is the world price of oil and these countries’ ability to produce it that determines Iran and Libya’s income from oil and gas production, not United States sanctions. It is that rising price level that is encouraging exactly the investment ILSA sought to block. There is no evidence that ILSA can deter foreign investment in Iran or Libya’s energy sector. On the contrary, both Iran and Libya are receiving significant capital investment in their oil and gas sectors.

Stark evidence of this is now coming to light. Last March, the Congressional Research Service reported that $10.5 billion of foreign investment has taken place in Iran’s oil and gas sector since 1997. Iran expects $1.5 billion to be invested in its petrochemical sector this year. These investors are from France, Canada, Italy, the Netherlands, the UK, Japan, and Norway—companies from our closest allies and most important trading partners, which have not joined our sanctions nor been deterred by the threat of ILSA.

On June 21 the Financial Times reported that the chairman of British Petroleum announced plans to start “some sizable” business in Iran, after delays in the past in order not to “unnecessarily upset our U.S. interests.” That same day, The Wall Street Journal reported that four more large European oil companies were planning major investments in Iran: a $1 billion deal by Italy’s EniSpa, and $3 billion from various projects by Royal Dutch/Shell, France’s TotalFinaElf SA and Spain’s Cepsa. Exclusion of United States firms from Iran and ineffective sanctions against foreign firms will not determine how Iran uses its oil revenues. The desire of either Iran or Libya to support terrorism or pursue development of weapons of mass destruction is a national interest calculation, not a function of their oil and gas revenues. These issues are important, but they require a more sophisticated and targeted approach than ILSA, which is a very blunt instrument.

Mr. Chairman, unilateral sanctions have not only failed to achieve their stated purposes, but also we believe they cannot achieve them. To prolong their life may provide the illusion of taking action, but nothing more. Equally important, if the benefits are ephemeral, the costs are real. Unilateral sanctions are doing significant damage to U.S. commercial prospects at a time of economic downturn and energy shortage. If ILSA were to make Iranian and Libyan oil production less efficient and thereby reduce their contribution to world oil supplies, oil prices would increase. To the extent that U.S. exports to these countries are prohibited, the American workers and farmers are damaged, and U.S. consumer product manufacturers are seriously compromised in their future competitiveness in those markets. Foreign affiliates of U.S. companies, where they need parent company approval, are also excluded from these countries; yet U.S. foreign affiliate sales are three times as large as total U.S. exports ($2.4 trillion in 1998).

ILSA has not only failed to stop foreign investment in Iran’s energy development. It has also been a major irritant in our relations with countries whose cooperation we need to conduct an effective policy toward Iran and Libya. We know for a fact that foreign investment will continue to flow into Iran and Libya’s energy sectors,
especially under current world energy supply conditions. The question is whether we continue our futile effort to prevent them.

Some argue that ILSA has not worked because it has not been tried. In fact, ILSA could not have worked. ILSA forces the President either to implement sanctions that he knows will be ineffective and counterproductive or waive the law. That is what happened the one time the President was called upon to use ILSA. In 1998, after three non-U.S. oil companies had been awarded a multibillion dollar contract to develop Iran’s South Pars oil field, the Clinton Administration waived ILSA sanctions on Russian, French, and Malaysian companies. It took this action, among other reasons, to prevent retaliation against U.S. firms and to avoid provoking a trade war with the European Union, which regards secondary boycotts, such as ILSA, as illegal under the World Trade Organization. It is also ironic that U.S. law prohibits American companies from cooperating with secondary boycotts; yet in the case of ILSA we are imposing one and insisting that our allies comply with it, which can only undercut our efforts to weaken the Arab boycott of Israel.

Implementation of ILSA today, just as the United States is preparing for a new round of global trade talks in which EU cooperation is crucial, would involve this country in another bitter trade dispute with the EU. It is clear that implementation of ILSA, indeed the reauthorization of ILSA, puts us at serious odds with our major allies and threatens cooperative action on a range of issues, including policy toward Iran and Libya. Nor does the inclusion of Presidential waiver authority mitigate the negative impact of a reauthorized ILSA. If the Act is waived, it becomes meaningless. If it is not waived, the negative effects cited in this testimony will be exacerbated.

There is no evidence that ILSA can deter foreign investment in Iran or Libya’s energy sector. Furthermore the rising price of oil insures that Iran’s oil revenues will increase, U.S. sanctions notwithstanding. The only “success” of our sanctions policy toward Iran and Libya has been ceding those markets to our foreign competitors. Let me cite a few examples:

- World oil prices are a powerful incentive to foreign oil firms to invest in Libya and Iran, which are now ranked numbers one and two for new petroleum exploration projects by 85 international oil firms polled in March by a British research firm;
- United States efforts to isolate Iran are creating distortions in the development of the considerable petroleum resources of the Caspian region and putting United States firms at a disadvantage there;
- Iran Air and Libyan Arab Air have reportedly signed contracts worth several billion dollars with Airbus;
- In 1999 Caterpillar lost a major turbine contract in Turkey to its European competitors because of U.S. Government uncertainty over whether ILSA sanctions applied.
- As a result of the ILSA and the 1995 Executive Orders, Caterpillar has been forced to cede its Iran market to Europe. Hardest hit has been its subsidiary, Solar Turbines, Inc. in San Diego, which lost its market to Novo Pignone in Italy.
- Royal-Dutch Shell announced last month that it will begin pumping oil in November from its $800 million investment in two Iranian oil fields that will yield 190,000 barrels a day in 2 years;
- Iran is the largest automotive market in the Middle East with 172,000 new motor vehicles being sold in 1999 and with vehicle sales of 500,000 a year forecast by 2003. Iran’s huge growth potential as a market for vehicles will be met by European, Japanese and Korean automakers;
- Unilateral sanctions hurt American farmers, who are effectively excluded from Iran’s $2–3 billion agricultural market by strict U.S. licensing and the strong EU relationships built up before last year’s legislation exempting food and medicine from sanctions programs.

Mr. Chairman, the Bush Administration is currently conducting a review of all United States unilateral sanctions policies, including Iran and Libya. Iran has just reelected its reformist president by a landslide majority. Most of the population has been born since the 1979 revolution. The ultimate direction of the country’s policies is very much in doubt. It would be unwise in the extreme for Congress to continue sanctions or impose new ones on the heels of President Khatami’s victory and before the new U.S. Administration has developed its policy.

In the case of Libya, the end of the Lockerbie trial offers an opportunity to bring an end to a long period of confrontation in our relations. While Libya must still fully comply with U.N. resolutions requiring appropriate compensation to the victims’ families and acceptance of responsibility, the United States should encourage positive trends in Libyan behavior. Passing a new version of ILSA will have no impact
on European and Asian investment in Libya but would signal that the United States does not acknowledge the progress that has been made.

We conclude, therefore, that United States sanctions on Iran have not had their intended effect of changing Iranian behavior, that ILSA in particular has not been effective in isolating Iran or Libya, but that it has been very effective in isolating the United States from these two countries and imposing significant economic costs on us. This is the opposite of the “smart sanctions” policy that the Secretary of State is trying to develop. The consequences in the case of Iran are especially far reaching given the geographic and strategic importance of the country.

We are convinced that expanded private contact with Iran, including business contact, will reinforce positive trends in that country in the long term. But let me be very clear. A decision by the Congress not to renew ILSA is not a concession to Iran or to Libya. Renewing ILSA sends a decidedly negative message that ignores changes that have taken place since 1996 and sends a powerful message to our European allies that we are continuing a failed unilateral policy. Allowing ILSA to expire would clear the way for a new policy based on current realities and better designed to U.S. interests and carefully considered policy objectives. Acceding to the Administration’s request for a 2 year extension will at least permit a sober reconsideration of policies that will serve the U.S. national interest. We believe the choice is clear.

———

PREPARED STATEMENT OF WILLIAM F. MARTIN
CHAIRMAN, WASHINGTON POLICY & ANALYSIS
JUNE 28, 2001

Good morning. My name is William Martin. I am delighted to be here today to testify on the reauthorization of the Iran and Libya Sanctions Act of 1996. I am an energy economist by training. I am the Chairman of the Council on Foreign Relations Energy Security Group and the Chairman of Washington Policy & Analysis, Inc., an international energy consulting firm. I served as Deputy Secretary of Energy and Executive Secretary of the National Security Council under President Reagan.

The purpose of my testimony today is to share with you the results of a recent study conducted by my firm. It investigated the impact of sanctions on current and future energy markets and the ensuing effects on the American, and world economies. This study is consistent with the Administration’s National Energy Policy recommendation that President Bush “direct the Secretaries of State, Treasury, and Commerce to launch a comprehensive review of U.S. sanctions policy.”

While a comprehensive review requires inquiries into national security, economic, energy, and foreign policy issues, WPA focused on how sanctions affect energy supply, demand and pricing. Its inquiry addressed four key areas:

1. What is the state of the global oil market? How well can the world respond to rising demand or to supply disruptions?
2. What effects do maintaining sanctions against Iran, Iraq, and Libya have on energy prices? What effect do rising prices have on the world and on U.S. economies?
3. How do unilateral United States sanctions against Iran and Libya affect their energy sectors?
4. How would lifting unilateral sanctions against Iran and Libya and modifying multilateral sanctions against Iraq affect the global energy balance and prices? Do sanctions unintentionally provide Iran, Iraq, and Libya with higher revenues than what they would earn in the absence of sanctions?

Findings and Recommendations

In our study, WPA used its global energy model to develop a base case scenario for the future world oil market. It then created a second case to model how changes in sanctions policies toward Iran, Iraq, and Libya could affect the market. This comparative analysis led to the following findings.

What is the state of the global oil market? How well can the world respond to rising demand or to supply disruptions?

The global oil supply is a cause for concern. After decades of whittling away at surplus production capacity to the point where it has almost vanished, energy markets are so tightly balanced that they threaten global economic growth. If there were even a short-lived disruption of energy supplies, the oil market would have less flexibility to respond than in earlier decades for several reasons:
Oil demand continues to grow steadily globally. Overall, demand in developing, non-OECD countries is growing at a rate that is 75 percent faster than in OECD countries; in the world’s most populous nations—China and India—demand is growing at a rate that is 400 percent faster.

Many of the countries in which demand is growing the fastest neither participate in International Energy Agency (IEA) agreements nor hold strategic stocks.

Average commercial stock levels are low due to just-in-time inventory management practices.

OPEC surplus capacity has dwindled from 11 million barrels per day (mbd) in the mid-1980’s (equal to 18 percent of global demand) to about 3 mbd in 2001 (equal to 4 percent of global demand).

The world’s oil producers, including both private companies and state-controlled entities, are close to fully utilizing the production capability they have to meet current global oil demand; OPEC capacity utilization is now pushing toward the 95 percent level.

New production capacity is growing at slower than historical rates in Saudi Arabia and Kuwait, which control about 65 percent of the world’s spare capacity, due to more conservative policies and domestic issues.

Given these conditions, the world now faces the tightest balance between readily accessible supply and global oil demand that it has experienced in many decades. As seen below, WPA expects global demand to grow by 1–2 mbd per day over the next several years, despite assumptions of a near-term economic slowdown and modest 2.5 percent global average growth over the 2001–2008 study period. On the supply side, WPA assumes aggressive growth in OPEC and non-OPEC production growth when compared to growth rates over the last decade—a 20 percent increase in OPEC’s production growth rate and a 55 percent increase in non-OPEC supply growth by 2004. [Refer to Annex A.]

Nevertheless, WPA forecasts shortfalls, even with steady increases in global oil production under stable conditions and in the absence of any major disruptive events. WPA recognizes that no actual shortfall exists; in reality, the market always balances. The growing notional gap suggests a greater likelihood of price increases because oil prices are set at the margin of supply and demand; even a small surplus or deficit can cause wide price swings. Thus, the already fragile world and American economies remain vulnerable to oil prices rising from today’s high levels.

An environment in which sanctions are maintained could see steady upward pressure on oil prices because they would rise as the notional gap mentioned earlier expands, historical evidence shows that oil prices are set at the margin of supply and demand; even a small surplus or deficit can cause wide oil price swings. According to the WPA Global Energy Model, oil prices could rise to as much as $33 a barrel by 2005 and to nearly $40 per barrel by 2008 (prices in 2000 dollars). WPA also evaluated a variety of alternative energy scenarios involving conditions in the world oil market in 2003 and the effects of plausible potential oil shocks.
WPA concludes that supply shocks could drive per barrel prices from $33 to nearly $40, or even higher in the more severe scenarios. [Refer to Annex C.] These price spikes would occur even if present response mechanisms were fully utilized. In general, the more severe the shock scenario, the greater the degree of oil market instability and the larger the magnitude of the price spike.

The International Monetary Fund (IMF) quantified the link between oil price increases and economic growth in a December, 2000 research paper. It estimated that every $5 increase in the price of crude oil skims an average of 0.27 percent per year from the real global economic growth rate for 3 consecutive years after the initial price spike occurs. The effects are more pronounced for the United States, which would experience a 0.37 percent average annual GDP decline during the same period, according to the IMF. Therefore, WPA expects that U.S. GDP will be at least 1 percent, or roughly $100 billion, lower in 2004 than it would be without a notional supply gap. The economic effect would be even more pronounced if there were unanticipated disruptions in oil markets.

Sustained high petroleum prices take their toll on every sector of the U.S. economy. Any significant change in the crude oil price drives large retail price movements within the gasoline and home heating oil markets, although refining and distribution issues also affect product prices. If crude oil prices rise $10 a barrel to $35 in 2004, the typical American household will spend an extra $400 annually to fuel their cars; heating oil consumers will pay $50 a month more throughout the winter to keep their homes warm; distribution of goods and services will cost railroads and trucking companies an additional $10 billion each year; and collectively, American farmers will spend $1 billion more to fuel their tractors during the planting and harvesting seasons.

**How do unilateral United States sanctions against Iran and Libya affect their energy sectors?**

How effective United States sanctions against Iran and Libya have been in achieving their national security objectives is the subject of much debate. Some analysts argue that foreign oil firms are ready to disregard American sanctions and aggressively move forward with plans to exploit some of the largest fields in Iran and Libya. Many of these companies have the technological ability to quickly expand production capacity without United States participation. In fact, Iran has signed contracts worth more than $10 billion with foreign oil firms to pursue deals without United States participation. The SEC recently declared that it considers investments in sanctioned countries to represent significant material risk for investors. The SEC requires foreign businesses raising funds in U.S. capital markets to publicly disclose their dealings with the sanctioned countries and file the information electronically, making these companies more vulnerable to scrutiny.

However, for the purposes of this study, WPA does not purport to take a position on the merits or effectiveness of U.S. sanctions policy. The only intent is to evaluate how future enforcement of sanctions could impact the ability to bring adequate oil supplies to market and alleviate higher energy prices over the short to long term.

Based on these considerations, WPA assumes only modest increases in oil production from Iran and Iraq—400,000 barrels per day by 2004—aided by investment from international oil companies, even if sanctions are maintained. WPA expects Libyan production to remain at current levels. By factoring these expectations into the Global Energy model, WPA projects that much greater production levels are needed to relieve the tight oil market situation and thus lower prices.

Over the past 18 months, high oil prices have bolstered international oil firms’ balance sheets, enabling the expansion of exploration and production activities worldwide. Although capital investment is occurring, the most promising and the lowest-cost properties remain in countries under U.S. sanctions. Libya and Iran were the two nations considered most attractive for new venture activity in a survey of 85 international oil firms by UK-based Robertson Research; Iraq came in eighth. Not surprisingly, Iraq, Iran, and Libya have the second, third, and sixth largest remaining reserves, according to U.S. Geological Survey figures.

Yet rather than immediately reinvesting portions of their profits in exploration plays that carry more geologic risk, or in acreage that will result in high production costs, major U.S. oil firms are buying back their stock. They have announced some $10 billion in stock repurchases in the past year, clearly signaling that share buybacks are currently one of the best uses for available cash. If sanctions are lifted, however, Iran and Libya could offer American petroleum companies the opportunity to invest in some of the world’s most prolific, and easily accessible, reserves. Such
investment opportunities would perhaps present lucrative alternatives to stock buybacks and bring more supply to the market.

How would lifting unilateral sanctions against Iran and Libya and modifying multilateral sanctions against Iraq affect the global energy balance and prices? Do sanctions unintentionally provide Iran, Iraq, and Libya with higher revenues than what they would earn in the absence of sanctions?

United States sanctions were imposed against Iran and Libya in 1996 when oil markets were in surplus and featured relatively low oil prices. In addition, preparations were being made to reintroduce significant volumes of Iraqi oil into an amply supplied market under the United Nations’ Oil-for-Aid Program. Iraq’s production quickly ramped up by more than 2 mbd from late 1996 to mid-1998. The oil market has tightened substantially since then as global demand growth has outpaced new supplies and driven oil prices higher.

If United States unilateral sanctions are removed and U.N. multilateral sanctions are modified, WPA projects that oil output from Iran, Iraq, and Libya combined could increase 3 mbd by 2004; as much as 5 mbd of new supply could be forthcoming from these three countries by 2008. Over the longer term, such supply expansions are large enough to potentially reduce oil prices by some $12 a barrel in 2004 and by roughly $16 a barrel in 2008, as illustrated below.

Furthermore, the supply expansion that is likely to result from both lifting sanctions against Iran and Libya and modifying sanctions against Iraq goes a long way toward closing the notional gap between supply and demand. The additional supply would also provide a cushion to help ease the effects of potential future oil shocks later in this decade, as shown in the table below. [Refer to Annex B.]

Ironically, WPA’s analysis reveals that U.S. sanctions may unintentionally provide the targeted nations with greater oil revenues than what they would earn in the absence of sanctions. In fact, lifting sanctions could reduce the collective revenues accrued by Iran, Iraq, and Libya—even as their production rises—because prices will drop precipitously in a well-supplied market. The subsequent price declines would actually cut their oil revenues by billions of dollars annually.

For example, in the table on the next page, WPA predicts a $35 a barrel oil price in 2004 if sanctions are maintained and a $23 a barrel oil price if sanctions are removed. With sanctions, WPA estimates Iran would produce 3.8 mbd of oil and generate $133 million a day in revenues (3.8 mbd × $35 = $133 million). Without sanctions, WPA projects that Iranian production could reach 5.0 mbd by 2004 and revenues would fall to $115 million a day due to the lower oil price (5 mbd × $23 = $115 million).
The figures work similarly for Iraq; WPA predicts slightly higher revenues for Libya due to the increased production. Yet collective daily revenues in 2004 would decline slightly over $27 million from $287 million with sanctions to about $260 million without sanctions; annual 2004 revenues would be nearly $10 billion lower. If sanctions were lifted, Iran, Iraq, and Libya’s collective oil revenues for the 2002–2008 period would be almost $63 billion lower.

Lifting sanctions would have both short- and long-term effects. The announcement of sanctions removal could lead to a small, near-term reduction in oil prices. It would positively signal the oil futures market to erase any premium it holds due to concerns over a lack of future oil supplies, which WPA believes could be approximately $0.50–$1 a barrel.

If sanctions are lifted, it is reasonable to expect changes in the dynamics of OPEC production restraint and quota allocations within a year or two. As more oil firms ink deals with the formerly sanctioned countries, Saudi Arabia and Kuwait may seek production quota increases to preemptively position themselves to boost their market shares before more Iranian, Iraqi, and Libyan oil comes on stream. Such intra-OPEC competition would likely push crude oil prices down by several dollars per barrel. Most energy economists agree that a competitive environment among OPEC members strongly diminishes the cartel’s ability to exercise supply restraint and therefore dilutes their influence on oil prices.

Over the medium- to long-term, crude prices will gradually trend downward as global oil supplies expand with the lifting of sanctions. As lower crude costs for refiners move through the distribution system to retail outlets, prices for consumer products, including gasoline and home heating oil, will experience comparable declines. Lower oil prices should translate into average retail prices at the gasoline pump in the area of $1.00–$1.50 a gallon compared to a $2.00–$2.50 a gallon range that could occur if sanctions are maintained.

In conclusion, the National Energy Policy recommendation that President Bush have the Secretaries of State, Treasury, and Commerce initiate a comprehensive review of U.S. sanctions policy is extremely timely and well advised. The tightness and inflexibility of the world oil market make it both unprepared for the looming supply shortfalls that WPA forecasts and especially vulnerable to major supply shocks.

To combat these distressing conditions, WPA suggests that the unilateral sanctions on Iran and Libya, which were imposed when the world oil market was in surplus, be reviewed with greater sensitivity to global energy needs. Replacing the uni-

---

### Table: Revenues Accrued by Iran, Iraq and Libya in the Presence and Absence of Sanctions

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Iran</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>With Sanctions</td>
<td>3.63</td>
<td>3.50</td>
<td>3.69</td>
<td>3.70</td>
<td>3.70</td>
<td>3.80</td>
<td>3.80</td>
<td>3.90</td>
<td>4.00</td>
<td>4.00</td>
<td>4.00</td>
</tr>
<tr>
<td>Production (mbd)</td>
<td>2.67</td>
<td>2.67</td>
<td>2.67</td>
<td>2.67</td>
<td>2.67</td>
<td>2.67</td>
<td>2.67</td>
<td>2.67</td>
<td>2.67</td>
<td>2.67</td>
<td>2.67</td>
</tr>
<tr>
<td>Without Sanctions</td>
<td>3.63</td>
<td>3.50</td>
<td>3.69</td>
<td>3.70</td>
<td>3.70</td>
<td>3.80</td>
<td>3.80</td>
<td>3.90</td>
<td>4.00</td>
<td>4.00</td>
<td>4.00</td>
</tr>
<tr>
<td>Production (mbd)</td>
<td>2.67</td>
<td>2.67</td>
<td>2.67</td>
<td>2.67</td>
<td>2.67</td>
<td>2.67</td>
<td>2.67</td>
<td>2.67</td>
<td>2.67</td>
<td>2.67</td>
<td>2.67</td>
</tr>
<tr>
<td><strong>Iraq</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>With Sanctions</td>
<td>2.11</td>
<td>2.52</td>
<td>2.57</td>
<td>2.70</td>
<td>2.70</td>
<td>2.90</td>
<td>3.00</td>
<td>3.10</td>
<td>3.20</td>
<td>3.30</td>
<td>3.30</td>
</tr>
<tr>
<td>Production (mbd)</td>
<td>2.11</td>
<td>2.52</td>
<td>2.57</td>
<td>2.70</td>
<td>2.70</td>
<td>2.90</td>
<td>3.00</td>
<td>3.10</td>
<td>3.20</td>
<td>3.30</td>
<td>3.30</td>
</tr>
<tr>
<td>Without Sanctions</td>
<td>2.11</td>
<td>2.52</td>
<td>2.57</td>
<td>2.70</td>
<td>2.70</td>
<td>2.90</td>
<td>3.00</td>
<td>3.10</td>
<td>3.20</td>
<td>3.30</td>
<td>3.30</td>
</tr>
<tr>
<td>Production (mbd)</td>
<td>2.11</td>
<td>2.52</td>
<td>2.57</td>
<td>2.70</td>
<td>2.70</td>
<td>2.90</td>
<td>3.00</td>
<td>3.10</td>
<td>3.20</td>
<td>3.30</td>
<td>3.30</td>
</tr>
<tr>
<td><strong>Libya</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>With Sanctions</td>
<td>1.47</td>
<td>1.38</td>
<td>1.41</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
</tr>
<tr>
<td>Production (mbd)</td>
<td>1.47</td>
<td>1.38</td>
<td>1.41</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
</tr>
<tr>
<td>Without Sanctions</td>
<td>1.47</td>
<td>1.38</td>
<td>1.41</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
</tr>
<tr>
<td>Production (mbd)</td>
<td>1.47</td>
<td>1.38</td>
<td>1.41</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
</tr>
</tbody>
</table>

*Millions of U.S. dollars per day.
**Prices per barrel.
Source: WPA estimates.
lateral sanctions and modifying the United Nations sanctions on Iraq would provide 3 mbd of additional supply by 2004 and as much as 5 mbd of additional supply by 2008. These amounts would relieve increasing upward pressure on oil prices and create a modest supply cushion to help alleviate price spikes during any unforeseen oil supply disruptions.

It is also likely that Iran, Iraq, and Libya would earn less from oil sales in the absence of sanctions than what they would receive in the presence of ongoing sanctions. For example, WPA’s analysis indicates that their collective revenues would be almost $10 billion lower in 2004 without sanctions than what they would realize with sanctions. This surprising, counterintuitive finding, combined with the upward pressure on oil prices to which sanctions contribute, argues strongly for a reappraisal of sanctions and the consideration of alternative approaches to achieve the Nation’s energy and national security goals.

Thank you for inviting me to speak here today. I look forward to answering any questions that you may have.
### ANNEX A

#### WORLD OIL BALANCE THROUGH 2008 – BASE CASE

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>OPEC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>8.09</td>
<td>7.52</td>
<td>8.00</td>
<td>8.00</td>
<td>8.00</td>
<td>8.50</td>
<td>8.50</td>
<td>9.00</td>
<td>9.00</td>
<td>10.00</td>
<td>10.00</td>
</tr>
<tr>
<td>Iran</td>
<td>3.63</td>
<td>3.50</td>
<td>3.69</td>
<td>3.70</td>
<td>3.70</td>
<td>3.60</td>
<td>3.60</td>
<td>3.50</td>
<td>3.50</td>
<td>4.00</td>
<td>4.00</td>
</tr>
<tr>
<td>Iraq</td>
<td>2.11</td>
<td>2.52</td>
<td>2.57</td>
<td>2.70</td>
<td>2.70</td>
<td>2.90</td>
<td>3.00</td>
<td>3.10</td>
<td>3.20</td>
<td>3.20</td>
<td>3.20</td>
</tr>
<tr>
<td>UAE</td>
<td>2.30</td>
<td>2.07</td>
<td>2.24</td>
<td>2.50</td>
<td>2.50</td>
<td>2.50</td>
<td>2.50</td>
<td>3.00</td>
<td>3.00</td>
<td>3.00</td>
<td>3.00</td>
</tr>
<tr>
<td>Kuwait</td>
<td>1.81</td>
<td>1.65</td>
<td>1.77</td>
<td>1.70</td>
<td>2.00</td>
<td>2.20</td>
<td>2.50</td>
<td>2.50</td>
<td>3.00</td>
<td>3.00</td>
<td>3.00</td>
</tr>
<tr>
<td>Neutral Zone</td>
<td>0.56</td>
<td>0.39</td>
<td>0.63</td>
<td>0.60</td>
<td>0.60</td>
<td>0.60</td>
<td>0.60</td>
<td>0.60</td>
<td>0.60</td>
<td>0.60</td>
<td>0.60</td>
</tr>
<tr>
<td>Qatar</td>
<td>0.66</td>
<td>0.83</td>
<td>0.89</td>
<td>0.73</td>
<td>0.80</td>
<td>0.80</td>
<td>0.80</td>
<td>0.95</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Nigeria</td>
<td>2.12</td>
<td>1.95</td>
<td>2.04</td>
<td>2.20</td>
<td>2.20</td>
<td>2.40</td>
<td>2.50</td>
<td>2.60</td>
<td>2.60</td>
<td>2.60</td>
<td>2.60</td>
</tr>
<tr>
<td>Libya</td>
<td>1.47</td>
<td>2.38</td>
<td>1.41</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
<td>1.40</td>
</tr>
<tr>
<td>Algeria</td>
<td>0.82</td>
<td>0.76</td>
<td>0.83</td>
<td>0.80</td>
<td>0.90</td>
<td>0.90</td>
<td>0.90</td>
<td>0.90</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Venezuela</td>
<td>3.12</td>
<td>2.79</td>
<td>2.89</td>
<td>2.89</td>
<td>3.00</td>
<td>3.10</td>
<td>3.20</td>
<td>3.20</td>
<td>3.40</td>
<td>3.40</td>
<td>3.40</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1.33</td>
<td>1.27</td>
<td>1.20</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
</tr>
<tr>
<td><strong>Total OIL</strong></td>
<td>20.02</td>
<td>19.63</td>
<td>19.94</td>
<td>20.15</td>
<td>20.90</td>
<td>20.60</td>
<td>20.70</td>
<td>21.60</td>
<td>22.40</td>
<td>24.00</td>
<td>24.00</td>
</tr>
<tr>
<td>OPEC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>6.57</td>
<td>6.10</td>
<td>6.13</td>
<td>6.10</td>
<td>6.10</td>
<td>6.05</td>
<td>6.05</td>
<td>7.95</td>
<td>7.95</td>
<td>7.95</td>
<td>7.95</td>
</tr>
<tr>
<td>Mexico</td>
<td>3.50</td>
<td>3.51</td>
<td>3.45</td>
<td>3.55</td>
<td>3.55</td>
<td>3.60</td>
<td>3.70</td>
<td>3.80</td>
<td>3.80</td>
<td>3.80</td>
<td>3.80</td>
</tr>
<tr>
<td>Canada</td>
<td>2.67</td>
<td>2.56</td>
<td>2.74</td>
<td>2.90</td>
<td>3.05</td>
<td>3.20</td>
<td>3.20</td>
<td>3.20</td>
<td>3.20</td>
<td>3.20</td>
<td>3.20</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.84</td>
<td>2.93</td>
<td>2.70</td>
<td>2.80</td>
<td>2.75</td>
<td>2.75</td>
<td>2.75</td>
<td>2.75</td>
<td>2.75</td>
<td>2.75</td>
<td>2.75</td>
</tr>
<tr>
<td>Norway</td>
<td>3.14</td>
<td>3.14</td>
<td>3.32</td>
<td>3.45</td>
<td>3.50</td>
<td>3.60</td>
<td>3.60</td>
<td>3.60</td>
<td>3.60</td>
<td>3.60</td>
<td>3.60</td>
</tr>
<tr>
<td>Pacific</td>
<td>0.69</td>
<td>0.67</td>
<td>0.85</td>
<td>0.80</td>
<td>0.70</td>
<td>0.70</td>
<td>0.70</td>
<td>0.70</td>
<td>0.70</td>
<td>0.70</td>
<td>0.70</td>
</tr>
<tr>
<td>Other OPEC Europe</td>
<td>0.77</td>
<td>0.69</td>
<td>0.75</td>
<td>0.70</td>
<td>0.70</td>
<td>0.70</td>
<td>0.70</td>
<td>0.70</td>
<td>0.70</td>
<td>0.70</td>
<td>0.70</td>
</tr>
<tr>
<td><strong>Total Non-OPEC</strong></td>
<td>21.88</td>
<td>21.46</td>
<td>21.94</td>
<td>22.30</td>
<td>22.35</td>
<td>22.55</td>
<td>22.60</td>
<td>22.45</td>
<td>22.40</td>
<td>22.10</td>
<td>22.45</td>
</tr>
<tr>
<td>Russia</td>
<td>6.12</td>
<td>6.16</td>
<td>6.00</td>
<td>6.00</td>
<td>6.00</td>
<td>6.00</td>
<td>6.00</td>
<td>7.00</td>
<td>7.00</td>
<td>7.00</td>
<td>7.00</td>
</tr>
<tr>
<td>Other FSU (Caspian)</td>
<td>1.17</td>
<td>1.34</td>
<td>1.44</td>
<td>1.50</td>
<td>1.60</td>
<td>1.75</td>
<td>1.90</td>
<td>2.10</td>
<td>2.30</td>
<td>2.50</td>
<td>2.50</td>
</tr>
<tr>
<td>China</td>
<td>3.19</td>
<td>3.23</td>
<td>3.23</td>
<td>3.25</td>
<td>3.20</td>
<td>3.20</td>
<td>3.20</td>
<td>3.20</td>
<td>3.20</td>
<td>3.20</td>
<td>3.20</td>
</tr>
<tr>
<td>Other Asia</td>
<td>2.18</td>
<td>2.23</td>
<td>2.38</td>
<td>2.20</td>
<td>2.20</td>
<td>2.20</td>
<td>2.20</td>
<td>2.20</td>
<td>2.20</td>
<td>2.20</td>
<td>2.20</td>
</tr>
<tr>
<td>Other Latin America</td>
<td>3.65</td>
<td>3.78</td>
<td>3.77</td>
<td>3.70</td>
<td>3.80</td>
<td>3.80</td>
<td>3.80</td>
<td>3.80</td>
<td>3.80</td>
<td>3.80</td>
<td>3.80</td>
</tr>
<tr>
<td>Other Middle East</td>
<td>1.90</td>
<td>1.88</td>
<td>2.00</td>
<td>2.00</td>
<td>2.00</td>
<td>2.00</td>
<td>2.00</td>
<td>2.00</td>
<td>2.00</td>
<td>2.00</td>
<td>2.00</td>
</tr>
<tr>
<td>Angola</td>
<td>0.72</td>
<td>0.75</td>
<td>0.74</td>
<td>1.00</td>
<td>1.20</td>
<td>1.50</td>
<td>1.50</td>
<td>1.50</td>
<td>1.50</td>
<td>1.50</td>
<td>1.50</td>
</tr>
<tr>
<td>Other Africa</td>
<td>2.03</td>
<td>2.04</td>
<td>2.11</td>
<td>2.20</td>
<td>2.20</td>
<td>2.10</td>
<td>2.10</td>
<td>2.10</td>
<td>2.10</td>
<td>2.10</td>
<td>2.10</td>
</tr>
<tr>
<td><strong>Non-OPEC Europe</strong></td>
<td>0.20</td>
<td>0.19</td>
<td>0.18</td>
<td>0.20</td>
<td>0.20</td>
<td>0.20</td>
<td>0.20</td>
<td>0.20</td>
<td>0.20</td>
<td>0.20</td>
<td>0.20</td>
</tr>
<tr>
<td><strong>Total Non-OPEC</strong></td>
<td>21.17</td>
<td>21.56</td>
<td>21.75</td>
<td>21.95</td>
<td>22.20</td>
<td>22.75</td>
<td>22.90</td>
<td>24.00</td>
<td>24.20</td>
<td>24.30</td>
<td>24.70</td>
</tr>
<tr>
<td>Processing Gains</td>
<td>1.64</td>
<td>1.67</td>
<td>1.73</td>
<td>1.73</td>
<td>1.73</td>
<td>1.73</td>
<td>1.73</td>
<td>1.73</td>
<td>1.73</td>
<td>1.73</td>
<td>1.73</td>
</tr>
<tr>
<td><strong>Total World</strong></td>
<td>44.69</td>
<td>44.69</td>
<td>45.44</td>
<td>46.00</td>
<td>46.30</td>
<td>47.96</td>
<td>47.75</td>
<td>48.20</td>
<td>48.35</td>
<td>48.50</td>
<td>48.90</td>
</tr>
<tr>
<td>World Oil Demand</td>
<td>73.42</td>
<td>74.82</td>
<td>76.26</td>
<td>76.85</td>
<td>77.90</td>
<td>80.05</td>
<td>81.15</td>
<td>83.10</td>
<td>84.75</td>
<td>86.15</td>
<td>87.20</td>
</tr>
<tr>
<td>Total World surplus</td>
<td>73.42</td>
<td>74.82</td>
<td>76.35</td>
<td>76.34</td>
<td>80.66</td>
<td>82.63</td>
<td>84.37</td>
<td>86.23</td>
<td>88.32</td>
<td>90.25</td>
<td>92.43</td>
</tr>
<tr>
<td><strong>Netted &quot;Gap&quot;</strong></td>
<td>1.86</td>
<td>0.68</td>
<td>-0.09</td>
<td>-1.49</td>
<td>-2.56</td>
<td>-2.58</td>
<td>-3.22</td>
<td>-3.13</td>
<td>-3.47</td>
<td>-4.10</td>
<td>-5.23</td>
</tr>
<tr>
<td><strong>CRUDE Oil Price</strong></td>
<td>$113</td>
<td>$18</td>
<td>$28</td>
<td>$26</td>
<td>$33</td>
<td>$33</td>
<td>$35</td>
<td>$35</td>
<td>$35</td>
<td>$36</td>
<td>$37</td>
</tr>
</tbody>
</table>

**ANNEX B**

<table>
<thead>
<tr>
<th>World Oil Balance Through 2008 - Without Sanctions</th>
</tr>
</thead>
<tbody>
<tr>
<td>OPEC</td>
</tr>
<tr>
<td>Saudi Arabia</td>
</tr>
<tr>
<td>Iraq</td>
</tr>
<tr>
<td>UAE</td>
</tr>
<tr>
<td>Kuwait</td>
</tr>
<tr>
<td>Natural Zone</td>
</tr>
<tr>
<td>Qatar</td>
</tr>
<tr>
<td>Nigeria</td>
</tr>
<tr>
<td>Libya</td>
</tr>
<tr>
<td>Algeria</td>
</tr>
<tr>
<td>Venezuela</td>
</tr>
<tr>
<td>Indonesia</td>
</tr>
<tr>
<td>Total Crude</td>
</tr>
<tr>
<td>Total NGLs</td>
</tr>
<tr>
<td>Total OPEC</td>
</tr>
<tr>
<td>Non-OPEC OECD</td>
</tr>
<tr>
<td>Mexico</td>
</tr>
<tr>
<td>Canada</td>
</tr>
<tr>
<td>United Kingdom</td>
</tr>
<tr>
<td>Norway</td>
</tr>
<tr>
<td>Pacific</td>
</tr>
<tr>
<td>Oil Canada</td>
</tr>
<tr>
<td>Total OPEC</td>
</tr>
<tr>
<td>Non-OPEC</td>
</tr>
<tr>
<td>Other FSU (Caspian)</td>
</tr>
<tr>
<td>China</td>
</tr>
<tr>
<td>Other Asia</td>
</tr>
<tr>
<td>Other Latin America</td>
</tr>
<tr>
<td>Other Middle East</td>
</tr>
<tr>
<td>Angola</td>
</tr>
<tr>
<td>Other Africa</td>
</tr>
<tr>
<td>Non-OPEC Europe</td>
</tr>
<tr>
<td>Total Non-OPEC</td>
</tr>
<tr>
<td>Proving Gists</td>
</tr>
<tr>
<td>World Oil Supply</td>
</tr>
<tr>
<td>World Oil Demand</td>
</tr>
<tr>
<td>Nonheat &quot;Gap&quot;</td>
</tr>
<tr>
<td>&quot;Overs&quot; (OilPlus)</td>
</tr>
</tbody>
</table>

*Note: Per barrel, 2000 dollars
### ANNEX C

#### EFFECTS OF POTENTIAL SHOCKS ON OIL SUPPLY AND U.S. GDP – 2003

<table>
<thead>
<tr>
<th>POTENTIAL OIL LOSS (millions of barrels of oil per day)</th>
<th>RESPONSE MECHANISMS</th>
<th>OIL PRICE ($)</th>
<th>U.S. GDP IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>COMMERCIAL STOCKS</td>
<td>SURGE CAPACITY</td>
<td>DEMAND RESTRAINT</td>
</tr>
<tr>
<td>Iran implodes</td>
<td>3.5</td>
<td>0.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Iraq invades Kuwait again</td>
<td>5.0</td>
<td>0.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Saudi Arabia implodes</td>
<td>8.0</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>FSU fizzes</td>
<td>2.0</td>
<td>0.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Indonesian unrest disrupts supply and delivery</td>
<td>2.0</td>
<td>0.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Strong Asian demand growth</td>
<td>1.8</td>
<td>0.2</td>
<td>1</td>
</tr>
<tr>
<td><strong>HISTORICAL &quot;SHOCKS&quot;</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1973 Arab Oil Embargo</td>
<td>3.0</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Iranian Revolution</td>
<td>2.8</td>
<td>-2.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Iran-Iraq War</td>
<td>3.1</td>
<td>2.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Iraqi invasion of Kuwait</td>
<td>4.0</td>
<td>0</td>
<td>1.0</td>
</tr>
</tbody>
</table>

*Source: WPA estimates.*
Introduction

Mr. Chairman and Members of the Committee, thank you very much for the opportunity to provide written testimony on the proposed reauthorization of the Iran and Libya Sanctions Act. I am Willard M. Berry, President of the European-American Business Council, or EABC. The Council is the one transatlantic organization that regularly provides actionable information on policy developments and works with officials in both the United States and Europe to secure a more open trade and investment climate.

Comprised of over 80 United States and European Union companies, EABC is the leading business association active on transatlantic trade, tax and investment, and policy issues. The EABC is viewed as highly substantive, unique in both its membership composition and in its recognized role as an authoritative, highly credible and effective voice on transatlantic policy issues. EABC’s work includes providing a forum for dialogue on transatlantic issues; preventing European Union–United States disputes and roadblocks to desirable policy outcomes; shaping quality and workable issue strategies; and helping member companies achieve business objectives.

The EABC works to resolve transatlantic disputes as they arise and to support the transatlantic trade and investment relationship, which is of critical importance to American companies and consumers. A healthy and effective transatlantic relationship is also critical to move forward global trading and investment rules.

The Transatlantic Economic Relationship

The European Union and the United States are both global economic powers. Their combined GDP is around 56 percent of the world total. Forty percent of world trade is conducted between the United States and the European Union. Clearly, any successful agenda of world trade liberalization requires bilateral cooperation.

Looking closely at United States–European Union trade and investment, we see a substantial economic relationship, which is unmatched in its magnitude, is essentially balanced and is mutually beneficial. If you add up the $552 billion in two-way trade between the United States and the European Union in 1999, the cross investments of more than $1 trillion, and the sales of United States and European Union company affiliates in each other’s market, we find an economic relationship of more than $2 trillion. The United States is the European Union’s largest single trading partner and vice versa, accounting for 20 percent of each other’s trade in goods and 33 percent in services. Forty percent of transatlantic trade in goods is intracompany trade.

Trade and investment flows between the United States and Europe provide real benefits for Americans and Europeans. More than seven million U.S. jobs depend on European investment in the United States, including 3.6 million Americans directly employed by European-owned companies. United States investment in Europe has a similar employment impact. One quarter of all United States exports go to Europe and those exports support 1.6 million jobs in the United States.

Europe is the largest foreign investor in 43 of 50 United States States and number two in the remaining seven. It is the number one or two export market for 42 States. Just to cite one example, Mr. Chairman, Europe is Maryland’s number one export market and your State sold $3.7 billion of goods to Europe last year alone. These exports support 14,000 jobs (in Maryland). European investment accounts for more than 64 percent, or about $6.8 billion, of the total foreign investment in your State and direct investment from Europe supports more than 73,000 jobs in Maryland. Senator Gramm, European direct investments in Texas totaled more than $58.3 billion in 1998, the largest amount of direct investment of all U.S. States, supporting 235,300 jobs. Merchandise exports to Europe alone support an estimated 77,100 jobs in Texas.

The Iran and Libya Sanctions Act

The EABC, like many other business groups, cannot support the reauthorization of ILSA. We see this primarily in cost-benefit terms.

ILSA, since its inception in 1996, has failed to reach its goal to change the behavior of the target regimes. The effectiveness of an economic sanction should be measured not by the volume of business activity deterred in Iran, but rather by improved behavior on part of the target regime. There is no clear evidence that ILSA has significantly improved the behavior of the target regimes. This, as a matter of fact, was recently pointed out by House Middle East and South Asia Subcommittee Chairman
Gilman in a May 20 hearing on the reauthorization of the ILSA legislation. “It is regrettable that Iranian behavior has not changed for the better,” he said.

The fact that unilateral sanctions do not work is reflected in the law’s inability to stop foreign investment flows in the petroleum sectors into Libya and Iran. The law requires the President to apply two out of a possible seven sanctions to companies, United States or foreign, that invest more than $40 million per year in the Libyan petroleum sector and $20 million in the Iranian petroleum sector. Since 1997, Iran has received more than $10.5 billion in foreign investment. At the same time, however, ILSA has imposed tangible costs on companies and has had real negative consequences for U.S.-based firms as is shown later in this testimony.

Cost of ILSA

In the case of ILSA, as in other sanction measures, supporters of what is a laudable cause—stopping global terrorism—often do not realize that economic sanctions involve considerable trade-offs. U.S. sanction measures can have a significant negative impact on the U.S. economy, your political constituencies and the competitive position of multinational companies which, in turn, contribute to the health of your States’ economies.

Negative effects of U.S. sanctions include fewer joint ventures opportunities, a key aspect of global competitiveness, fewer U.S. jobs, severed relationships with key suppliers, less investment outside the United States and we know that companies cannot really compete in markets where they do not have a presence—and reduced U.S. exports. There are “costs” for both United States and European-based companies although the “costs” are different for each. For United States-based firms, the most commonly cited “costs” are fewer joint venture opportunities and less investment outside the United States. For European-based firms, which constitute an important element in the economic base of most U.S. States, there will be less investment in the United States and fewer opportunities to work in cooperative ventures with United States-based firms. European-based companies are often inclined to withdraw investment from the United States and relocate to other, more congenial, markets.

In 1997, the EABC conducted a study to examine the effect of sanctions on transatlantic corporations. This study was conducted after the establishment of the ILSA regime, and is the only study to closely examine the business impacts of particular sanctions measures and the business responses to these measures. Among the firms we surveyed, which include both United States and European companies, 76 percent said that sanctions had had an effect on their worldwide operations and 62 percent said that their U.S. operations had been affected. Forty-four percent of companies said they had had to forego a business opportunity to comply with a sanction law and 81 percent had increased costs, costs, which had not been budgeted in their business plans, to cover routine compliance measures.

Sixty-six percent of our survey respondents say that ILSA has negatively affected their operations. Joint ventures are particularly sensitive to sanctions, and 37.8 percent of our respondents cited that sanctions reduce the ability to participate in joint ventures. This is manifest in employment cuts, and 35.6 percent of the surveyed companies said that sanctions result in lost U.S. jobs. Besides the direct effect of few joint ventures, and lower job growth, sanctions also affect other business activity. For example, they sever supply relationships (27.2 percent) and they reduce investment outside the United States (26.2 percent). They result in fewer exports to Europe (24.2 percent), less investment in the United States (23.8 percent), fewer U.S. imports (13.2 percent), closures of U.S. operations (21.4 percent), and reductions of operations outside of the United States (19.6 percent).

These costs have important ramifications when considering the magnitude of the transatlantic commercial relationship. Nearly 7 million United States jobs are tied to European investment in the United States, including 3.6 million Americans directly employed by European-owned companies. European firms account for 62 percent of United States jobs created by international investment. In fact, 12.5 percent of United States manufacturing jobs are supported by European investment. United States exports to Europe support 1.6 million jobs.

In calculating the cost of United States unilateral sanctions, it is important to keep in mind that European investment has been a real engine of United States economic growth. It brings real benefits to most of the U.S. States’ economies. Foreign direct investment from Europe increased by $245 billion, or 34 percent, in 2000, according to U.S. Department of Commerce (DOC) data released in June 2001. The growth followed a 37 percent increase in 1999 and a 39 percent increase in 1998. European direct investment increased from $528.6 billion in 1998 to $929.7 billion last year.
The May 1998 European Union–United States Understanding

The United States and the European Union share a number of common goals which both have recognized can only be achieved through close cooperation. This cooperation is especially important in efforts to strengthen respects for human rights, to promote nonproliferation, fight terrorism, to address crises in troubled regions and much more. The benefits and need of cooperation were set out in the New Transatlantic Agenda (NTA) in December 1995 and incorporated into the May 1998 package of agreements between the European Union and the United States. These agreements were aimed at solving a serious dispute over ILSA and the Helms-Burton law, and at setting a course for joint action between Europe and the United States for the future. The powerful impact of EU–U.S. cooperation will be enormously reduced with the reauthorization of ILSA. This action undercuts what was agreed in May 1998, as well as the framework for partnership (NTA) signed less than 3 years earlier.

In May 1998, the United States and the EU agreed to certain principles with respect to economic sanctions policy. In order to avoid EU-initiated WTO action on ILSA and Helms-Burton and also to avoid the implementation of the European blocking legislation, the United States agreed to waive sanctions against EU-based firms. At the same time, the two allies identified sanctions as one of several possible responses to “unacceptable behaviour” threatening peace, democracy and prosperity. The May agreement states that the use of sanctions “requires careful consideration.” It goes on to say that:

Economic sanctions would be used only when diplomatic and political options have failed or when a problem is so serious as to require more far-reaching action. In such circumstances, the EU and United States will make a maximum effort to ensure that economic sanctions are multilateral. They are likely to have the strongest political and economic impact when applied as widely as possible throughout the international community. Multilateral actions also distribute the costs of sanctions on the imposing parties more evenly. Whenever possible, effective measures taken by the U.N. Security Council are the optimal approach.

The two parties also agreed not to “seek or propose” and to “resist the passage of new economic sanctions legislation” involving a secondary boycott to ensure the strength of the transatlantic partnership.

This legislative proposal before you today challenges the principles of the May 1998 agreement with respect to economic sanctions. If passed it could bring into play many of the different bilateral problems it diffused. Unilateral action does not promise a positive change in the behavior of Iran but it clearly will diminish the capacity of the United States to work jointly with the European Union in addressing important human rights, nonproliferation, international terrorism and other mutual concerns.

Thank you very much, Mr. Chairman, for the opportunity to express our views. We would be happy to respond to any questions you or any Member of the Committee may have.