

**ENFORCEMENT OF THE IRAN-LIBYA
SANCTIONS ACT AND INCREASING SECURITY
THREATS FROM IRAN**

HEARING
BEFORE THE
SUBCOMMITTEE ON THE MIDDLE EAST
AND CENTRAL ASIA
OF THE
COMMITTEE ON
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HOUSE OF REPRESENTATIVES
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ENFORCEMENT OF THE IRAN-LIBYA SANCTIONS ACT AND INCREASING SECURITY THREATS FROM IRAN

WEDNESDAY, JUNE 25, 2003

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE MIDDLE EAST
AND CENTRAL ASIA,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Subcommittee met, pursuant to call, at 2:40 p.m. in Room 2172, Rayburn House Office Building, Hon. Ileana Ros-Lehtinen [Chairwoman of the Subcommittee] presiding.

Ms. ROS-LEHTINEN. The Subcommittee will come to order. I deeply, truly and sincerely apologize for being so late. I had to handle a bill on the Floor dealing with Israel and suicide bombings, and had it not been for the seriousness of the subject, I would have definitely allowed someone else to handle the bill for me.

I thank the witnesses for your patience. I know that our time will be limited with you, but I will make some opening remarks and ask the other Members to also participate, and then we will hear from you and open it up for questions.

I want to thank the Members of the Subcommittee for your patience and for attending this first in a series of hearings that we will be holding on the implementation of the Iran-Libya Sanctions Act, otherwise known as ILSA. Today's session will focus on Iran.

As many of you know, ILSA was first passed by Congress in August 1996, and it was reauthorized on October 3, 2001. The bill places a ceiling of \$20 million in investments in the oil sectors of both Iran and Libya before United States sanctions become possible. The catalyst for the legislation was the mounting concern that investment in these countries' oil fields would provide them with the funds necessary to expedite their development of weapons of mass destruction and expand their ability to fund, to train and to supply terrorist organizations around the world.

Six years after the passage of ILSA, Iran, according to the State Department's terrorism report, remained the most active state-sponsor of terrorism. The report continues describing how,

"Iran provided Lebanese, Hezbollah and Palestinian rejectionist groups, notably Hamas, the Palestine Islamic Jihad and the Popular Front for the Liberation of Palestine general command, with funding, safe haven, training and weapons. Tehran also encouraged Hezbollah and the Palestine rejectionist

groups to coordinate their planning and to escalate their terrorist activities against Israel.”

The report continues,

“Iran also provided support to extremist groups in Central Asia, Afghanistan and Iraq with ties to al-Qaeda, though less than that provided to the groups opposed to Israel.”

This description is certainly proof of why Iran is deserving of being included in President Bush’s “axis of evil.”

Iran’s terrorism must be paid for, and that could not be done without the sale of oil and natural gas that is abundant in that country. As such, we are reminded of the statement of former Under Secretary of State Peter Tarnoff, who declared at an October 11, 1995, hearing in the Senate Banking Committee regarding oil investment in Iran that,

“A straight line links Iran’s oil income and its ability to sponsor terrorism and build weapons of mass destruction, and any private company that helps Iran to expand its oil sector must accept that it is indirectly contributing to this menace.”

It is precisely because of this connection that we have called this hearing today. In the aftermath of the deplorable attacks on September 11, 2001, when we are focused on starving terrorists of funding, to quote President Bush,

“We must not lose sight of the crucial need to vigorously pursue this same policy with respect to state-sponsors.”

However, it appears that the use of ILSA as a vague and unfulfilled threat is seen by some as more important than the actual application of it. As a result, the deterrent effect has been lost. It is not taken seriously by those investing in Iran, as illustrated by the statement made last year by a Washington oil consultant who referred to ILSA as a “paper tiger.”

How can investing companies accept ILSA as being of any real threat if it has never been used? While we are grateful for the help and support of some of our European allies in Operation Iraqi Freedom, they and the other nations whose companies are investing in Iran must comprehend the threat that that nation poses. The harm that is being done first by the investments and, second, by the refusal to sanction them is incalculable. It is difficult to understand how on the one hand our European allies can so fervently wish to be part of the Middle East road map, yet provide the resources through ongoing investment in Iran to Hamas and other forces seeking to obstruct and destroy that very same peace process. Europe cannot seek inclusion in the diplomatic process while funding its obstruction.

The implementation of ILSA must be viewed in the full context of the war on terrorism, a battle we can and must win. Vital to this fight is a worldwide effort to deny terrorist groups the funds they need to pay for their terrorism. As such, we should remember that President Bush declared on September 24, 2001,

“Money is the lifeblood of terrorist operations today.”

We are asking the world to stop payment. With the Iran-Libya Sanctions Act, I would argue, we would accomplish just that—stopping the flow of money to the terrorists.

Finding ways to restrict the increasing wave of foreign investment into Iran and Libya must be an integral part of the same effort to suppress terrorist financing. It is just as important to stop the flow of money into Iran and Libya as it is to terrorist organizations, their leaders, and corporate and charitable fronts. Terrorist funding schemes are difficult enough to stop. If we aim for their largest donors, the state-sponsors, we are making a bigger dent in the financial infrastructure of the global terrorist network.

Beyond its ongoing support and active participation in terrorist activities, the Iranian regime is racing to obtain weapons of mass destruction. The regime's weapons programs, especially its nuclear programs, are taking on added concern because Iran is speeding up its efforts to build long-range ballistic missiles to deliver these weapons. The discovery of the secret Natanz and Arak nuclear sites, combined with the "Jam Missile Project" and the successful test of the Shahab-4 missiles only further explained why investment by European oil companies must be stopped.

I understand that the Administration is discussing this idea of seeking multilateral sanctions to the United Nations Security Council for the recently disclosed Iranian violations of the Nuclear Nonproliferation Treaty. If this is the case, it is a positive development, but not one that should preclude the use of ILSA as the most effective United States tool short of war to prevent a pariah state such as Iran from achieving nuclear status. We prefer the support of the global community in curbing these weapons of mass destruction; however, when our safety and security and that of our allies in the region is being threatened, we must take immediate action to address the problem and not sit idly by waiting for consensus to be achieved. Diplomacy does not mean surrender.

Defense Secretary Donald Rumsfeld pointed out the threat posed by countries such as Iran securing nuclear weapons. While speaking in Germany in a NATO meeting on June 11, he said,

"If our free nations do not come to grips with this problem, it is possible that not so many years from now when we gather for the 20th anniversary of this center, we could be living in a world with as many as twice the number of nuclear powers, and a number of those new nuclear powers being terrorist states."

With respect to Iran, Under Secretary of State for Arms Control and International Security, John Bolton, testified to the Full Committee on June 4 that the conclusion is inescapable that Iran is pursuing a nuclear energy program, not for peaceful or economic purposes, but as a front for developing the capabilities to produce nuclear materials for nuclear weapons. Moreover, the IAEA's condemnation of Iran's failure to declare its nuclear imports and activities gives added credence to its offensive threatening intentions.

Iran's efforts at building nuclear weapons cannot be achieved without great cost. An influx of hard currency in the form of foreign investments, credits and loans can certainly help, however. In this context, ILSA reveals itself as a critical tool in the arsenal of

U.S. foreign policy instruments. If there is no foreign investment flowing into these terrorist states, their coffers are depleted. Their economies and their official budgets are reduced. This not only results in fewer funds being diverted to weapons of mass destruction programs, but it serves to remove the infusion of financial resources which props up the regime and enables it to carry out repression, persecution and intimidation against those inside the country who want freedom and democracy.

The EU stubbornly continues to believe that only constructive engagement will work with Iran. EU External Affairs Commissioner Chris Patten has stated that he believes that only through investment in Iran can political reform be achieved. Years of investment by the EU has proven this assertion to be false. As this is a regime which stones people to death, flogs or hangs them in the public square in an effort to stifle dissent, the choice is clear. You are either with the oppressor or with those struggling to free themselves from a brutal theocracy. You cannot have it both ways.

Unfortunately, failure to implement ILSA has fueled the assumption that one can. Lack of ILSA implementation has its origin in the State Department's waiver of the 1998 Total deal that violated ILSA. At that time former Secretary of State Albright found that the French company did indeed violate ILSA, but she refused to impose sanctions, instead invoking the national interest waiver included in the law.

Secretary Albright, however, went too far in granting this waiver. While statutorily permitted to grant the company a waiver, there was no provision in ILSA for extending the waiver to the entire continent, nor was there ever intended to be. Then Secretary Albright stated that if there was a continued cooperation from the European Union on these matters with respect to Iran, similar waivers would be granted. It is Congress's view that this type of waiver is not allowable under the law. Simply put, because of this action, ILSA has been undermined.

On April 17, 2003, Iran's oil minister bragged that his country has signed oil investments contracts worth \$20 billion in the last 5 years; interestingly, 5 years from the time the waivers were issued. Moreover, he bragged that that investment has boosted Iran's GDP to a great extent.

European oil investment and credit provisions have unquestionably helped the Iranian economy. Iran is issuing bonds on the international market, receiving credit guarantees from Britain for oil and other investments deals, World Bank loans, and Japanese loan guarantees for its companies' investments in Iran. In September 2000, only 2 years after the waivers, Moody's, the United States credit rating agency, raised Iran's foreign currency ceiling from stable to positive. In 2001, IMF analysts agreed and said Iran's credit rating had greatly improved. Now, with Iran's economic outlook rising even more, the investments by companies in Europe is only speeding the day when we will see a nuclear Iran.

As frightening a thought as this may be, we must face the facts. Iran's economic rise and its ability to advance its nuclear and chemical weapons programs are directly tied to our lack of enforcement. If the waivers had not been granted, the investment flow would not have gone forward as it has. While we are gratified by

the recent statements from the EU countries on Iran's nuclear objectives, mere rhetoric while negotiating further investments deals with Iran are not sufficient grounds, do not justify the lack of ILSA implementation. We are talking about an extremely dangerous regime, a regime whose leaders have repeatedly vowed to bring America to its knees, and who are committed to the destruction of our country and our allies in the region.

We intend to review ILSA implementation very carefully. Now that we have seen the painful truth that the oceans that separate us no longer provide us the protection they once did, we all must be mindful of the actions we take in building up tyrants who may one day grow to hurt us. I look forward with great interest in hearing the testimony of our witnesses today, and I thank you again for your patience.

[The prepared statement of Ms. Ros-Lehtinen follows:]

PREPARED STATEMENT OF THE HONORABLE ILEANA ROS-LEHTINEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA, AND CHAIRWOMAN, SUBCOMMITTEE ON THE MIDDLE EAST AND CENTRAL ASIA

I want to thank the members of the Subcommittee for attending this first in a series of hearings we will be holding on the implementation of the Iran-Libya Sanctions Act—otherwise known as ILSA. Today's session will focus on Iran.

As many of you know, ILSA was first passed by Congress in August 1996 and was reauthorized on August 3, 2001. The bill places a ceiling of \$20 million in investment in the oil sectors of both Iran and Libya, before U.S. sanctions become possible.

The catalyst for the legislation was the mounting concern that investments in these countries' oil fields would provide them with the funds necessary to expedite their development of weapons of mass destruction and expand their ability to fund, train, and supply terrorist organizations around the world.

Six years after the passage of ILSA, Iran, according to the State Department's Terrorism report, "remained the most active state sponsor of terrorism..."

The report continues describing how:

"Iran provided Lebanese Hizballah and Palestinian rejectionist groups—notably HAMAS, the Palestine Islamic Jihad, and the Popular Front for the Liberation of Palestine-General Command—with funding, safehaven, training, and weapons. Tehran also encouraged Hizballah and the Palestinian rejectionist groups to coordinate their planning and to escalate their terrorist activities against Israel. Iran also provided support to extremist groups in Central Asia, Afghanistan, and Iraq with ties to al-Qaeda, though less than that provided to the groups opposed to Israel."

This description is certainly proof of why Iran is deserving of inclusion in President Bush's "Axis of Evil."

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"a straight line links Iran's oil income and its ability to sponsor terrorism and build weapons of mass destruction...and any private company that helps Iran to expand its oil [sector] must accept that it is indirectly contributing to this menace."

It is precisely because of this connection that we have called this hearing today.

In the aftermath of the deplorable attacks of September 11, 2001, when we are focused on "starving terrorists of funding", to quote President Bush, we must not lose sight of the crucial need to vigorously pursue this same policy with respect to state-sponsors.

However, it appears that the use of ILSA as a vague and unfulfilled threat is seen by some as more important, than the actual application of it.

As a result, the deterrent effect has been lost. It is not taken seriously by those investing in Iran, as illustrated by the statement made last year by a Washington oil consultant, who referred to ILSA as “a paper-tiger.”

How can investing companies accept ILSA as being of any real threat if it has never been used?

While we are grateful for the help and support of some of our European allies in Operation Iraqi Freedom, they and the other nations whose companies are investing in Iran, must comprehend the threat that nation poses. The harm that is being done first, by the investments, and second by the refusal to sanction them, is incalculable.

It is difficult to understand how, on the one hand, our European allies can so fervently wish to be part of the Middle East Roadmap, yet provide the resources, through ongoing investment in Iran, to Hamas and other forces seeking to obstruct and destroy the peace process.

Europe cannot seek inclusion in the diplomatic process while funding its obstruction.

The implementation of ILSA must be viewed in the full context of the War on Terrorism, a battle we can and must win.

Vital to this fight is a world-wide effort to deny terrorist groups the funds they need to pay for their terrorism. As such, we should remember that President Bush declared on September 24, 2001: “Money is the lifeblood of terrorist operations today. We’re asking the world to stop payment.”

With the Iran-Libya Sanctions Act, I would argue, we would accomplish just that—*stopping the flow of money to the terrorists.*

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Beyond its ongoing support and active participation in terrorist activities, the Iranian regime is racing to obtain weapons of mass destruction. The regime’s weapons programs, especially its nuclear programs, are taking on added concern because Iran is speeding up its efforts to build long-range ballistic missiles to deliver these weapons.

The discovery of the secret Natanz and Arak nuclear sites, combined with the “Jam Missile Project” and successful tests of Shahab-4 missiles, only further explain why investment by European oil companies must be stopped.

I understand that the Administration is discussing the idea of seeking multilateral sanctions through the United Nations Security Council for the recently disclosed Iranian violations of the Nuclear Non-proliferation Treaty.

If this is the case, it is a positive development, but not one that should preclude the use of ILSA as the most effective U.S. tool, short of war, to prevent a pariah state such as Iran from achieving nuclear status.

We prefer the support of the global community in curbing the proliferation of weapons of mass destruction. However, when our safety and security, and that of our allies in the region, is being threatened, we must take immediate action to address the problem and not sit idly by waiting for consensus to be achieved.

Diplomacy does not mean surrender.

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“If our free nations do not come to grips with the proliferation problem, it is possible that not so many years from now, when we gather for the 20th anniversary of this center, we could be living in a world with as many as twice the number of nuclear powers—and a number of those new nuclear powers being terrorist states.”

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Moreover, the IAEA’s condemnation of Iran’s failure to declare its nuclear imports and activities, give added credence to its offensive, threatening intentions. Iran’s efforts at building nuclear weapons cannot be achieved without great cost. An influx of hard currency in the form of foreign investments, credits, and loans however, can certainly help.

In this context, ILSA reveals itself as a critical tool in the arsenal of U.S. foreign policy instruments. If there is no foreign investment flowing into these terrorist states, their coffers are depleted, their economies and official budgets are reduced.

This not only results in fewer funds being diverted to WMD programs, but it serves to remove the infusion of financial resources, which props up the regime, and enables it to carry out repression, persecution, and intimidation against those inside the country who want freedom and democracy.

The EU stubbornly continues to believe that only “constructive engagement” will work with Iran. EU External Affairs Commissioner Chris Patten has stated that he believes that only through investment in Iran, can political reform can be achieved.

Years of investment by the EU has proven this assertion to be false, as this is a regime which stones people to death; flogs or hangs them in the public square, in an effort to stifle dissent.

The choice is clear, you are either with the oppressor or with those struggling to free themselves from a brutal theocracy. You cannot have it both ways.

Unfortunately, failure to implement ILSA has fueled the assumption that one can. Lack of ILSA implementation has its origin in the State Department’s waiver of the 1998 Total deal that violated ILSA. At that time, former Secretary of State Albright found that the French company Total did indeed violate ILSA, but she refused to impose sanctions, instead invoking the “National Interest waiver” included in the law .

Secretary Albright, however, went too far in granting this waiver. While statutorily permitted to grant Total a waiver, there was no provision in ILSA for extending the waiver to the entire continent nor was there ever intended to be.

Then Secretary Albright stated that, if there was continued cooperation from the European Union on non-proliferation matters with respect to Iran, similar waivers would be granted.

It is Congress’ view that this type of waiver, however, is not allowable under the law.

Simply put, because of this action, ILSA has been undermined.

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While we are gratified by recent statements from the EU countries on Iran’s nuclear objectives, mere rhetoric while negotiating further investments deals with Iran, are not sufficient grounds—do not justify—lack of ILSA implementation.

We are talking about an extremely dangerous regime—a regime whose leaders have repeatedly vowed to “bring America to its knees” and who are committed to the destruction of our country and our allies in the region.

We intend to review ILSA implementation very carefully.

Now that we have seen the painful truth that the oceans that separate us no longer provide us the protection they once did, we all must be mindful of the actions we take in building up tyrants who may one day grow to hurt us.

I look forward with great interest in hearing the testimony of our witnesses today.

Ms. ROS-LEHTINEN. I would like to yield to Mr. McCotter for his opening remarks.

Mr. MCCOTTER. I have no opening remarks.

Ms. ROS-LEHTINEN. Thank you. I know that the State Department witnesses must leave at 3:30 p.m., so if you would like to give your remarks, and we will open it up for questions. Thank you

again for your patience and I would like to take this opportunity to introduce the panel.

Ms. Anna Borg became the Deputy Assistant Secretary of State for Energy, Sanctions and Commodities in August 2000. She was also named the State Department Coordinator for Conflict Diamonds. From 1999 to 2000, she served as a Director of the Office of United Kingdom and Ireland Affairs.

Mr. Philo Dibble is a career member of the Senior Foreign Service. He has been a Deputy Assistant Secretary of State in the Bureau of Near East Affairs since May 2003. He was Deputy Chief of Mission in Damascus, Syria, from 2001 until 2003. Other overseas assignments have included tours in Saudi Arabia, Lebanon, Tunisia, Italy and Pakistan.

Mr. Charles Reis, Principal Deputy Assistant Secretary of State for European and Eurasian Affairs, will unfortunately be unable to attend this hearing due to illness. Mr. Charles English, Acting Deputy Assistant Secretary for European and Eurasian Affairs, will testify in his stead. Thank you so much.

We will begin with you, Ms. Borg.

**STATEMENT OF ANNA BORG, DEPUTY ASSISTANT SECRETARY,
BUREAU OF ECONOMIC AND BUSINESS AFFAIRS, U.S. DEPARTMENT OF STATE**

Ms. BORG. Madam Chairwoman, thank you very much, and Members of the Middle East Subcommittee. I appreciate very much the opportunity to testify today about implementation of the Iran and Libya Sanctions Act in the context of dealing with key threats to our national security.

In enacting ILSA, Congress expressed deep concern about the pursuit of weapons of mass destruction by Iran and Libya; also about their support for international terrorism and, in the case of Libya, its failure to meet its obligations under the U.N. Security Council resolutions related to the bombing of Pan Am 103. Accordingly, we have sought to ensure that the process of ILSA implementation makes the greatest possible contribution to the goal of countering the WMD and terrorism threat posed by Iran and Libya.

The effort to combat these threats is, of course, a very broad one within the U.S. Government. ILSA is only one of a number of ways in which we are pursuing these important objectives. In discussing the implementation of ILSA, it is useful to go back to the decision by the Secretary of State in the 1998 South Pars case, involved an agreement by a French-Russian-Malaysian consortium to develop part of a gas field in Iran. The Secretary decided in this case to exercise the authority granted by the statute, and delegated to the Secretary of State by the President, to waive the imposition of ILSA sanctions on the ground that doing so was important to the national interest. The Secretary's statement noted that she found after careful examination of all the facts available, that the investment by the companies did constitute sanctionable activity under the statute, but that the imposition of sanctions would not stop the deal.

The Secretary found further that we had achieved enhanced cooperation with the European Union and Russia in accomplishing

ILSA's primary objective of inhibiting Iran's ability to develop WMD and support terrorism, and that the waiver would enhance our ability to work with all the countries involved on a host of bilateral and international concerns. This framework was endorsed again in 2001 at the first U.S.-EU summit of the present Administration.

We have continually raised our ILSA and policy concerns at senior levels of government and with company management whenever petroleum sector agreements with Iran or Libya appeared to be likely. ILSA has thus served as an important platform for discussions that allows us to reiterate and to underscore the seriousness of our WMD and terrorism concerns about Iran and Libya, and to press for greater cooperation. ILSA's very existence has testified to the depth of our concerns. United States policy toward Iran and close consultations with like-minded governments, including those in the G-8, have further enhanced the level of cooperation from other countries in contesting terrorism and WMD, particularly those posed by Iran. The importance of this focus was highlighted by President Bush, who, in his signing statement for the ILSA reauthorization legislation in 2001, called for, and I quote,

“ . . . strengthening our efforts with other countries whose cooperation is essential to pursuing the most effective approaches to solving the problems of proliferation and terrorism addressed by ILSA.”

We have not succeeded in stopping all petroleum sector investment in these countries of concern, although some observers and analysts do credit ILSA for slowing oil and gas development in Iran. ILSA thus is one vehicle for emphasizing our concerns about the objectionable policies and actions of Iran and Libya. It is certainly not the only such instrument, but we are using the law continually as a basis for making representations to governments and companies that underline our views about these two very problematic countries.

Under the terms of reauthorization legislation, we will be reporting to Congress between August of this year and next February on certain aspects of ILSA's impact and effectiveness. We look forward to presenting that report and look forward to taking your questions today.

Ms. ROS-LEHTINEN. Thank you very much.

[The prepared statement of Ms. Borg follows:]

PREPARED STATEMENT OF ANNA BORG, DEPUTY ASSISTANT SECRETARY, BUREAU OF ECONOMIC AND BUSINESS AFFAIRS, U.S. DEPARTMENT OF STATE

Madam Chairwoman and members of the Middle East Subcommittee, I appreciate the opportunity to testify today about implementation of the Iran and Libya Sanctions Act (ILSA), in the context of dealing with key threats to our national security. In enacting ILSA, Congress expressed its deep concern about the pursuit of weapons of mass destruction (WMD) by Iran and Libya, their support for international terrorism, and, in the case of Libya, its failure to meet its obligations under the UN Security Council Resolutions related to the bombing of Pan Am 103.

Accordingly, we have sought to ensure that the process of ILSA implementation makes the greatest possible contribution to the goal of countering the WMD and terrorism threats posed by Iran and Libya. The effort to combat these threats is of course a very broad one within the US Government. ILSA is only one of a number of ways in which we are pursuing this objective.

In discussing the implementation of ILSA, it is useful to go back for a moment to the decision by the Secretary of State in the 1998 South Pars case, which involved an agreement by a French/Russian/Malaysian consortium to develop part of a major gas field in Iran. The Secretary decided in this case to exercise the authority granted by the statute (and delegated to the Secretary of State by the President) to waive the imposition of ILSA sanctions, on the ground that doing so was important to the national interest.

Let us look at the elements of that decision, as set forth in the Secretary's public statement on the subject at the May 1998 US-EU Summit in London. The Secretary found, after careful examination of the facts, that the investment by the companies did constitute sanctionable activity under the statute, but that the imposition of sanctions would not stop the deal. The Secretary found further that we had achieved enhanced cooperation with the EU and Russia in "accomplishing ILSA's primary objective" of inhibiting Iran's ability to develop WMD and support terrorism, and that waiver would enhance our ability to work with all the countries involved on a host of bilateral and international concerns—of which several examples were specified.

With respect to the EU, the enhanced cooperation achieved was reflected, *inter alia*, in the US-EU joint statements on cooperation in nonproliferation and counterterrorism issued at the London Summit. Finally, the Secretary drew a link between continued heightened cooperation by the EU in these crucial areas, and decisions in similar future cases involving EU firms. In testimony before the International Relations Committee shortly afterward, the Under Secretary for Economic Affairs further explained the background and rationale for our decision in the South Pars case and our overall approach, as outlined in the Secretary's statement.

This framework (together with other non-ILSA aspects of the May 1998 Summit) was endorsed at the first US-EU Summit of the present Administration at Goteborg, Sweden in 2001, where it was agreed by both sides that: "Conscious of their importance for our bilateral relationship, we confirm our commitment to honor and fully implement the various understandings and agreements reached at the May 1998 London Summit." The debate on the re-authorization of ILSA in 2001 offered a further opportunity for an extensive review and discussion of Iran policy and ILSA issues with the International Relations Committee and other relevant House committees, as well as with appropriate Senate committees. In his statement upon signing the reauthorization legislation, President Bush noted that a "new provision in this bill mandates a report on the impact of certain actions taken pursuant to the Act. I approve of this statutorily mandated requirement to periodically assess the effectiveness of sanctions and to recommend whether the Congress should terminate or modify the Act. The Act also continues the President's power to waive sanctions in the national interest."

Since the 1998 South Pars case, we have continually raised our ILSA and policy concerns, at senior levels of government and of company management, when petroleum-sector agreements with Iran or Libya appeared to be likely. ILSA has thus served as an important platform for discussions that allow us to reiterate and to underscore the seriousness of our WMD and terrorism concerns about Iran and Libya, and to press for greater cooperation. ILSA's very existence has testified to the depth of our concerns.

US policy toward Iran and close consultations with like-minded governments, including those in the G-8, have further enhanced the level of cooperation from other countries in countering WMD and terrorism threats, particularly those posed by Iran. The importance of this focus was highlighted by President Bush who, again in his signing statement for the ILSA re-authorization legislation in 2001, called for "strengthening our efforts with other countries, whose cooperation is essential to pursuing the most effective approaches to solving the problems of proliferation and terrorism addressed by ILSA." My colleagues will talk in more detail about that cooperation.

We have not succeeded in stopping petroleum-sector investment, although some observers and analysts do credit ILSA for slowing oil and gas development in Iran, particularly in its earlier days. We note that Iran's sustainable oil production capacity has not increased significantly since the early 90s, holding steady at about 3.7 million barrels per day. Export volumes have generally declined due to increased domestic consumption. As a recent Department of Energy publication noted, "Iran produced 6 million bbl/d [barrels per day] in 1974, but has not surpassed 3.8 million bbl/d on an annual basis since the 1978/79 Iranian revolution."

As I indicated earlier, ILSA is one vehicle for emphasizing our concerns about the objectionable policies and actions of Iran and Libya. It is certainly not the only such instrument, but we are using the law continually as a basis for making representations to governments and companies that underline our views about these two very problematic countries.

Under the terms of the re-authorization legislation, we will be reporting to Congress between August and next February on certain aspects of ILSA's impact and effectiveness. We look forward to presenting that report, and I look forward to taking your questions this morning.

Ms. ROS-LEHTINEN. Thank you. Mr. Dibble.

STATEMENT OF PHILO DIBBLE, DEPUTY ASSISTANT SECRETARY, BUREAU OF NEAR EASTERN AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. DIBBLE. Thank you, Madam Chairwoman. I, too, am thankful for the opportunity to appear before the Subcommittee today.

The United States policy toward state-sponsors of terrorism, including Iran and Libya, has always been oriented toward maximum United States unilateral effort to end those countries' destructive policies combined with maximum effort to garner international cooperation. While there is still much to be done, we see indications that both countries are feeling increasingly pressured. Both Iran and Libya represent great challenges, but we are making some progress in gaining international cooperation to pressure them to end their destructive policies.

First with respect to Iran, President Bush has clearly stated that the United States supports the aspirations of the people of Iran for freedom and democracy, and he has called on the Iranian Government to fulfill those aspirations. United States policy toward Iran has not changed. As in the past, he works to advance long-standing goals. It focuses now on the issues of Iran granting safe haven to al-Qaeda operatives and interfering in the establishment of a representative government in Iraq, along with the continuing effort to end Iran's support for terrorism and for violent opposition to the peace process and its pursuit of weapons of mass destruction, including nuclear weapons. In addition, it calls on Iran to stop abusing the human rights of the Iranian people.

Unlike some countries, we do not accept the notion of differentiating between hard-liners and reformers in the Government of Iran. We believe that the government as a whole must be held responsible for its actions. President Bush has stated in no uncertain terms that the international community will not tolerate a nuclear-armed Iran. Such a development would greatly destabilize an already volatile region and do grave harm to the Nuclear Non-proliferation Treaty and the international nonproliferation regime.

We saw the international community come together last week at the IAEA Board of Governors to support a strong conclusion by the Chairwoman calling on Iran to address the concerns outlined in Director General ElBaradei's interim report. This report is based on the results to date of the work of inspectors on the ground in Iran, and it outlines in thorough detail Iran's failure to meet its safeguards obligations, its lack of cooperation with IAEA inspectors, and the areas of unresolved concern that the IAEA will continue to investigate. We expect to hear a further report from Dr. ElBaradei as soon as new information comes to light, including the results of environmental samples. If such sampling results and other information support it, we would expect an eventual IAEA Board resolution finding Iran in noncompliance with its safeguards obligations.

As a result of our efforts to date, we have seen the EU and Russia adopt a firmer stance toward the growing threat of Iran's covert nuclear weapons program. We continue to press them and all countries to do all they can to counter Iran's nuclear, chemical, biological and missile programs. The strong G-8 statement on Iran's nuclear program was a very positive development.

Iran is currently the most active state supporter of terrorism. It is the primary political and financial backer of Hezbollah and the chief supplier of its military equipment and training. It maintains forces as advisors to Hezbollah in Lebanon. Iran also provides financial and logistical support to many Palestinian terrorist groups, and, as evidenced by the intercepted Karine-A shipment of January 2002, has been involved in attempts to smuggle weapons to the Palestinian Authority. As we relaunch peace negotiations, we are watching closely to see if Iran will direct these groups to try to derail the quartet's road map and are calling on the plan's coauthors to make clear to Iran the unacceptability of its acting as a spoiler.

In addition to our long-standing concerns about Iranian involvement in terror, the presence of senior al-Qaeda members in Iran is worrisome. We are certain that some members of the al-Qaeda Advisory Council are connected to the May 12 attacks in Riyadh. Some council members knew attacks in Saudi Arabia were imminent, and they had been coordinating terrorist plots with top members of the Saudi al-Qaeda network which carried out the attacks since last fall. While in the past we had seen instances where Iran turned over suspected al-Qaeda operatives to other countries, in these cases senior al-Qaeda extremists appear to be finding safe haven in Iran, likely with the support of some elements within the Iranian regime. Iran claims to have a number of al-Qaeda in detention, but to date has not turned them over to other countries.

We have seen evidence that other countries have also strongly voiced to Iran the importance of taking unequivocal steps to shut down al-Qaeda. As National Security Advisor Dr. Rice said recently, we cannot tolerate al-Qaeda activists going in and of Iran.

The overall human rights situation inside Iran has continued to deteriorate. Pro-reform publications are regularly shut down, and journalists, editors and publishers are routinely jailed. Fifteen political activists were recently given lengthy jail sentences. A dissident academic was sentenced to death last fall for questioning Islamic rule, sparking days of demonstrations and domestic and international outrage that eventually forced the regime to grant a re-trial. While the regime has supposedly suspended, though not outlawed, the practice of stoning, we have heard a recent report of a beheading.

We are pleased to have received congressional authority to use Middle East Partnership Initiative funds as well as funds administered by the Bureau of Democracy, Rights and Labor to initiate pro-democracy and human rights for Iran. We are not studying how to initiate programs in the most effective way.

President Bush and other senior U.S. officials have applauded the courage of the demonstrators who came out for over a week of protests this month calling for democracy and an end to clerical domination. The Iranian Government nonetheless has put down these protests. The population seems to have lost faith in the

Khatami government's ability to carry out meaningful reform in both the political and economic spheres. The Iranian people deserve a better future. Their greatest concern is the economy, with high levels of inflation and corruption, and a woeful lack of professional jobs causing constant deterioration of their standard of living.

More recently, we have seen other disturbing indicators of negative Iranian behavior, such as Iran's meddling with the political process inside Iraq. Iran is using money and armed proxies to try to promote those Shi'a groups that it sees as sympathetic to its interests. Coalition Provisional Authority Administrator Bremer has publicly warned Iran that there would be consequences for such behavior.

And briefly, with respect to Libya, another state-sponsor of terrorism, has yet to fulfill its obligations under the relevant U.N. Security Council resolutions related to the bombing of Pan Am 103 over Lockerbie, Scotland, in 1988. Those obligations include accepting responsibility for the actions of its officials and paying appropriate compensation. It is past time that Libya fulfill these obligations.

Thank you, Madam Chairwoman.

Ms. ROS-LEHTINEN. Thank you.

[The prepared statement of Mr. Dibble follows:]

PREPARED STATEMENT OF PHILO DIBBLE, DEPUTY ASSISTANT SECRETARY, BUREAU OF NEAR EASTERN AFFAIRS, U.S. DEPARTMENT OF STATE

U.S. policy towards state sponsors of terrorism, including Iran and Libya, has always been oriented towards maximum U.S. unilateral effort to end those countries' destructive policies, combined with maximum effort to garner international cooperation. While there is still much to be done, we see indications that both countries are feeling increasingly pressured. Both Iran and Libya represent great challenges, but we are making some progress in gaining international cooperation to pressure them to end their destructive policies.

IRAN:

President Bush has clearly stated that the United States supports the aspirations of the people of Iran for freedom and democracy, and he has called on the Iranian government to fulfill these aspirations. U.S. policy towards Iran has not changed; as in the past, it works to advance longstanding goals. It focuses now on the issues of Iran granting safe-haven to al-Qaida operatives and interfering in the establishment of a representative government in Iraq, along with the continuing effort to end Iran's support for terrorism and for violent opposition to the peace process, and its pursuit of WMD, including nuclear weapons. In addition, it calls on Iran to stop abusing the human rights of the Iranian people. Unlike some countries, we do not accept the notion of differentiating between hardliners and reformers elements of the government. We believe that the government as a whole must be held responsible for its actions.

President Bush has stated in no uncertain terms that the international community will not tolerate a nuclear-armed Iran. Such a development would greatly destabilize an already volatile region and do grave harm to the Nuclear Non-Proliferation Treaty and the international nonproliferation regime. We saw the international community come together last week at the IAEA Board of Governors to support a strong conclusion by the Chairwoman calling on Iran to address the concerns outlined in Director General ElBaradei's interim report. This report is based on the results to date of the work of inspectors on the ground in Iran, and it outlines in thorough detail Iran's failures to meet its safeguards obligations, its lack of cooperation with IAEA inspectors, and the areas of unresolved concern that the IAEA will continue to investigate. We expect to hear a further report from Dr. ElBaradei as soon as new information comes to light, including the results of environmental samples. If such sampling results and other information support it, we would expect an eventual IAEA Board resolution finding Iran in noncompliance with its safeguards obligations. As a result of our efforts to date, we have seen the EU and Russia adopt

a firmer stance towards the growing threat of Iran's covert nuclear weapons program. We continue to press them and all countries to do all they can to counter Iran's nuclear, chemical, biological, and missile programs. The strong G-8 statement on Iran's nuclear program was a very positive development.

Iran is currently the most active state supporter of terrorism. It is the primary political and financial backer of Hizballah, and the chief supplier of its military equipment and training. It maintains forces as advisors to Hizballah in Lebanon. Iran also provides financial and logistical support to many Palestinian terrorist groups, and as evidenced by the intercepted Karine-A shipment of January 2002, has been involved in attempts to smuggle weapons to the Palestinian Authority. As we re-launch peace negotiations, we are watching closely to see if Iran will direct these groups to try to derail the Quartet's 'roadmap' and are calling on the plan's co-authors to make clear to Iran the unacceptability of its acting as a spoiler.

In addition to our longstanding concerns about Iranian involvement in terror, the presence of senior al-Qaida members in Iran is worrisome. We are certain that some members of the al-Qaida advisory council are connected to the 12 May Riyadh attacks. Some council members knew attacks in Saudi Arabia were imminent and they had been coordinating terrorist plots with top members of the Saudi Al-Qaida network, which carried out the attacks, since last fall. While in the past we had seen instances where Iran turned over suspected al-Qaida operatives to other countries, in these cases, senior al-Qaida extremists appear to be finding safe-haven in Iran, likely with the support of some elements within the Iranian regime. Iran claims to have a number of al-Qaida in detention, but to date, has not turned them over to other countries. We have seen evidence that other countries have also strongly voiced to Iran the importance of taking unequivocal steps to shut down al-Qaida. As National Security Advisor Rice said recently, we cannot tolerate al-Qaida activists going in and out of Iran.

The overall human rights situation inside Iran has continued to deteriorate. Pro-reform publications are regularly shut down, and journalists, editors and publishers are routinely jailed. Fifteen political activists were recently given lengthy jail sentences. A dissident academic was sentenced to death last fall for questioning Islamic rule, sparking days of demonstrations and domestic and international outrage that eventually forced the regime to grant a retrial. While the regime has supposedly suspended (though not outlawed) the practice of stoning, we have heard a recent report of a beheading.

We are pleased to have received Congressional authority to use Middle East Partnership Initiative funds as well as funds administered by the bureau of Democracy Rights and Labor to initiate pro-democracy and human rights programs for Iran. We are now studying how to initiate programs in the most effective way.

President Bush and other senior US officials have applauded the courage of the demonstrators who came out for over a week of protests this month calling for democracy and an end to clerical domination. The Iranian government nonetheless has put down these protests. The population seems to have lost faith in the Khatami government's ability to carry out meaningful reform, in both the political and economic spheres. The Iranian people deserve a better future. Their greatest concern is the economy, with high levels of inflation and corruption and a woeful lack of professional jobs, causing constant deterioration of their standard of living.

More recently, we have seen other disturbing indicators of negative Iranian behavior such as Iran's meddling with the political process inside Iraq. Iran is using money and armed proxies to try to promote those Shia groups that it sees as sympathetic to its interests. Coalition Provisional Authority Administrator Bremer has publicly warned Iran that there would be consequences for such behavior.

LIBYA:

Libya, another state sponsor of terrorism, has yet to fulfill its obligations under the relevant UN security Council Resolutions related to the bombing of Pan Am 103 over Lockerbie, Scotland in 1988. These obligations include accepting responsibility for the actions of its officials and paying appropriate compensation. It is past time that Libya fulfills these obligations.

STATEMENT OF CHARLES ENGLISH, ACTING DEPUTY ASSISTANT SECRETARY FOR EUROPEAN AND EURASIAN AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. ENGLISH. I thank you, Madam Chairwoman. I, too, appreciate the opportunity to appear before you and your Subcommittee

this afternoon. I would like to discuss with you today our European Union policies with Iran and to talk about some recent developments in the cooperation between the United States and the EU on control of the spread of weapons of mass destruction.

Iran's pursuit of weapons of mass destruction and its support of terrorism were major concerns to the Congress when it passed the Iran and Libya Sanctions Act. I will try to outline how the U.S. and EU cooperate to address our shared concerns over Iranian policies and how we cooperate in the broader question of nonproliferation.

The United States and the EU share a strong concern over Iran's pursuit of WMD, over their support of terrorism, their promotion of violent opposition to the peace process, and their abysmal record on human rights. We do, however, come from different starting points on how to curb objectionable Iranian behavior. The EU follows a policy of engagement with Iran, with the political focus to a large degree centered on a structured so-called comprehensive dialogue. The dialogue focuses on major EU political concerns regarding Iran. The EU believes that engagement gives it influence with the Iranian regime, and that it also encourages reformers in the Iranian Government.

We, as Mr. Dibble has testified, are very skeptical, and do not believe that engagement will achieve either objective. We have certainly not seen evidence that this engagement has to date produced any real change in Iranian behavior. This is a point that we continuously make clear to the European Union. But while United States and EU policy toward Iran come from different starting points, the gaps between the United States and the EU approach have narrowed, and the EU has increased its cooperation with us on practical levels since the passage of ILSA. The May 1998 U.S.–EU joint declarations on nonproliferation and counterterrorism reflect our shared goals in these areas and a determination to work together to pursue these objectives.

More recently, the EU has shown greater willingness to condition improvement in its economic relations with Iran on concrete, verifiable and sustained improvements in Iranian behavior. An example is the EU's response to an Iranian request to improve economic relations through a trade and cooperation agreement. In June of last year, the European Union Council responded positively, but decided to keep the proposed agreement at a basic level; that is to say it contained—it would contain no preferential tariffs, nor would it contain any concessional assistance. With considerable United States urging, the European Union decided to link this trade and cooperation agreement with tangible improvements in Iranian policies in such areas as weapons of mass destruction, to alleviate their support for terrorism, to stop Iranian opposition to the peace process, and to improve their abysmal record on human rights. The EU is currently negotiating two political agreements with Iran focusing on those areas. In those agreements the EU has stressed that they must proceed in parallel with the trade and cooperation agreement and would have to be signed simultaneously with this TCA. Not surprisingly, there has been considerable resistance in the Government of Iran to this approach, and we understand that negotiations have moved very slowly.

Our European allies are also proving to be staunch partners in the face of recent revelations that Iran's declared nuclear program masks a hidden program to develop fissile material production in support of weapons programs. We understand that during a visit to Tehran on June 1st and 2nd, an EU delegation made clear to high levels of the Iranian Government that the European Union was very concerned about their nuclear program. And at the June 1st Evian summit, G-8 leaders, which include the leaders of the four largest European Union member nations and include the European Union itself as an observer, declared their concern about Iran's nuclear program.

I would like to just quote briefly the G-8 statement on Iran.

"We will not ignore the proliferation implications of Iran's advanced nuclear program. We stress the importance of Iran's full compliance with its obligations under the NPT. We urge Iran to sign and implement an IAEA additional protocol without delays or conditions. We offer our strongest support to a comprehensive IAEA examination of this country's nuclear program."

I would like to note, Madam Chairwoman, that the European Union followed up with its own statement on this at its June 16 Council and at its June 20 summit meeting at Thessaloniki. As well as today, in the U.S.-EU summit, the United States and the European Union agreed on a nonproliferation statement which contained very harsh language about Iran.

I would like to submit the balance of my statement for the record.

Ms. ROS-LEHTINEN. Thank you so much.

Mr. ENGLISH. And if I may just with a few sentences' summary.

Ms. ROS-LEHTINEN. You teased us with that.

Mr. ENGLISH. Well, two sentences. I promise. No more.

Ms. ROS-LEHTINEN. Go ahead.

Mr. ENGLISH. In sum, while we can still find ways to further strengthen and deepen our cooperation, the United States and the EU particularly over the past year have taken significant steps to achieve our common objectives in Iran and more broadly have had an impact on nonproliferation in the world as a whole. And that is it.

Ms. ROS-LEHTINEN. Indeed a great finish.

Mr. ENGLISH. Yes, ma'am.

Ms. ROS-LEHTINEN. Thank you very much. Thank you.

[The prepared statement of Mr. Ries follows:]

PREPARED STATEMENT OF CHARLES RIES, ACTING ASSISTANT SECRETARY, BUREAU OF EUROPEAN AND EURASIAN AFFAIRS

Madame Chairwoman and Members of the Subcommittee on the Middle East. I appreciate the opportunity to discuss with you today European Union policies toward Iran and some recent developments in the cooperation between the U.S. and EU on the control of the spread of weapons of mass destruction. Iran's pursuit of weapons of mass destruction and its support of terrorism were major concern to the Congress when it passed the Iran and Libya Sanctions Act (ILSA). I will try to outline how the U.S. and EU cooperate to address our shared concerns over Iranian policies and the broader question of nonproliferation.

The U.S. and EU share strong concerns over Iran's pursuit of weapons of mass destruction, support of terrorism, promotion of violent opposition to the peace process, and abysmal record on human rights. We come from different starting points

on how to curb objectionable Iranian behavior. The EU follows a policy of engagement with Iran, with the political focus conducted to a large degree through a structured “comprehensive dialogue.” The dialogue focuses on the major EU political concerns regarding Iran. The EU believes that engagement gives it influence with the Iranian regime, and the also encourages reformers in the Iranian government. We are very skeptical that engagement will achieve either objective. We have not seen evidence that this engagement has to date produced any real change in Iranian behavior, a point we make clear to the EU.

While U.S. and EU policy toward Iran comes from different starting points, the gaps between the U.S. and European approach have narrowed, and the EU has increased its cooperation on a practical level since the passage of ILSA. The May 1998 U.S.–EU joint declarations on non-proliferation and counter-terrorism reflected shared goals in these areas and a determination to work together to pursue these objectives. More recently, the EU has shown greater willingness to condition improvement in its economic relations with Iran on concrete, verifiable, and sustained improvements in Iranian behavior.

An example is the EU’s response to an Iranian request to improve economic relations through a Trade and Cooperation agreement. In June of last year, the EU Council responded positively, but decided to keep the agreement at a basic level (no preferential tariffs or concessional assistance). With considerable U.S. urging, the EU decided to link the TCA with tangible improvements in Iranian policies on weapons of mass destruction, support for terrorism, the peace process, and human rights. The EU is currently negotiating two political agreements with Iran, focusing on the areas above. EU has stressed these political agreements must proceed in parallel with the TCA and will have to be signed simultaneously with the TCA. Not surprisingly there has been considerable resistance in the government of Iran to this approach, and we understand that negotiations have moved very slowly.

Our Europeans allies are also proving to be staunch partners in the face of recent revelations that Iran’s declared nuclear program masks a hidden program to develop fissile material production capability in support of a weapons program. We understand that during a visit to Tehran June 1–2, an EU delegation made clear to high levels of the Iranian government that the European Union was very concerned about the nuclear program. At the June 1 Evian Summit, G–S leaders, including the leaders of the four largest EU nations and the EU itself as an observer, declared their concern about Iran’s nuclear program. I think the language on Iran is worth repeating:

We will not ignore the proliferation implications of Iran’s advanced nuclear program. We stress the importance of Iran’s full compliance with its obligation under the NPT. We urge Iran to sign and implement an IAEA Additional Protocol without delay or conditions. We offer our strongest support to comprehensive IAEA examination of this country’s nuclear program.

The EU released a similar statement at a June 16 EU Council meeting in Luxembourg and reiterated the linkage between Iran’s weapons of mass destruction programs, terrorism, human rights and the peace process to the Trade and Cooperation agreement. It also noted the Council’s “significant concerns about the Iranian regime’s handling of recent demonstrations. Finally, the EU worked shoulder-to-shoulder with the United States in the IAEA Board meeting of June 16–20 to ensure an outcome that reaffirms the international community’s call on Iran to open up its program to effective IAEA supervision and to answer all of the IAEA’s unresolved questions and concerns about its program.

The EU’s tougher approach to the revelations on the Iranian nuclear program reflects broader changes in the EU’s strategy to contain the spread of weapons of mass destruction. The EU Council of June 16 also approved a set of Basic Principles and an Action Plan to strengthen international controls of weapons of mass destruction, which included a mandate to develop new cooperative measures with the United States.

At the U.S.–EU Summit this morning in Washington, both sides pledged cooperation on a joint work program to combat the proliferation of dangerous weapons. It is worth mentioning some of the measures both sides agreed to implement:

- making the IAEA Additional Protocol a standard for international nuclear cooperation and non-proliferation;
- supporting an increase in the IAEA safeguards budget;
 - tightening the enforcement and implementation of national export controls on dangerous materials and technology. The U.S. and the EU have also agreed that these national controls should include criminal penalties for the illegal export, transport, or brokering of weapons of mass

destruction, missile delivery systems, and related materials and technology to create effective national exports systems to prevent transfers of WMD. The U.S. and the EU may provide assistance to advance this effort.

- strengthening national controls over dangerous pathogens and fostering the elimination of chemical weapons.
- Cooperating to address regional proliferation challenges. U.S.-EU Leaders emphasized the international community's concerns about North Korea's, and Iran's weapons programs.

In sum, while we still can find ways to further strengthen and deepen our cooperation, the U.S. and EU—particularly over the past year—have taken significant steps to achieve our common objectives in Iran and more broadly had an impact on non-proliferation in world as a whole.

Ms. ROS-LEHTINEN. And I wanted to point out that we have a series of international relations resolutions on the Floor today, and that is why you don't see many of our Members here.

Ms. Borg, if I could begin the questions with you, and then I will have Mr. Smith question the panelists as well. In your statement you say that the imposition of sanctions for the Total deal would not have prevented it from going through. Is this now the threshold for the imposition of sanctions under ILSA; that is, do we waive a sanction ability if it is deemed that the deal can't be stopped?

Ms. BORG. Thank you, Madam Chairwoman.

In the statement I tried to bring out the factors that were involved in that decision of which only one factor, in fact, was the conclusion that sanctions would not prevent the deal from going forward. But also involved in the decision were—and I refer again to President Bush's statement, because it underscores that in going forward with the national interest waiver, there was a decision that—again, that was based on the importance of strengthening efforts with other countries whose cooperation is essential to pursuing the most effective approaches to solving the problems of proliferation and terrorism. In the whole mix there was a decision, as you know, that what had occurred or what appeared—what we knew of the reports made it look as if this fit under the umbrella of ILSA. At the same time, it was determined at that point that it was very unlikely that any sanction would prevent that deal from going forward, and that there were the additional factors of needing to work these issues forward in cooperation with other partners.

And so there was a great deal of activity at that time; as we have continued since then, a great deal of activity both with senior diplomats, senior company officials and others to describe our concerns, and at the same time at the London summit in 1998, there was also an agreement to work on those areas with the EU. So it was in that whole context of heightened cooperation that this decision was taken.

Ms. ROS-LEHTINEN. Thank you.

Mr. Dibble, in your testimony you state that unlike some countries, we do not accept the notion of differentiating between hardliners and the so-called reformers in the Iranian regime. Are you referring to the European countries, and do you believe that the differences in the approach between the U.S. and the EU is rooted in this fine-line differentiation by the EU in spite of the recent harsh words as it does with Hamas, for example? And how can we

reconcile this difference to ensure greater cooperation from our EU partners toward an EU policy that demands concrete, verifiable results from the Iranian regime?

Mr. DIBBLE. I think—thank you, Madam Chairwoman.

I think that what we look at with respect to Iran are the actions of the regime. And while it is an interesting analytical exercise to try and figure out who is behind what action and how much each one—how much support each one has, what we need to see are the actions themselves, and what we need to do is to hold the government as a whole accountable for them.

I think we are seeing our European allies come to the same realization. I think that is one of the meanings—

Ms. ROS-LEHTINEN. With actions?

Mr. DIBBLE. Yes.

Ms. ROS-LEHTINEN. Not just with the rhetoric.

Mr. DIBBLE. That is one of the meanings of the IAEA Board of Governors statement. I think that is the meaning of the EU statement, that the Europeans saw that we had, in fact, Iranian actions as documented by the IAEA report which they had to deal with. And what we saw was a growing process of getting closer to our position on this question.

Ms. ROS-LEHTINEN. Would you rephrase that?

Mr. DIBBLE. Say it again? Sure.

I think the important thing is Iranian actions and not the degree of support they may or may not have within Iran. I think the Europeans are coming to share that view, and the evidence for that are recent statements by the EU in the G-8 and in other fora in reaction to the reports on the Iranian nuclear industry. There was a fact, there was an action. The EU had to deal with it, and it really didn't matter whether this was hard-liners or the reformists who were behind it.

Ms. ROS-LEHTINEN. Thank you.

Mr. English, on your written statement following up on that, the most recent report to Congress on Iran-related multilateral sanctions regime efforts. That report states that the United States,

“ . . . works with other countries and regional organizations such as the European Union that have relations with Iran to promote compliance with arms control agreements and link improvements in their relations to concrete, verifiable cessation of Iran's destructive policies.”

And based on that, what is the message that our diplomats are delivering to foreign governments whose companies are making deals with Iran in spite of their governments' harsh statements? Would you say that our efforts have been successful? How is State defining what is concrete, verifiable stoppage of Iran's policies, and what is the threshold that State is using with our EU partners to determine whether their actions are sufficient to substantiate a continuing waiver of ILSA?

Related to that, are European diplomats willing to listen to our objections to deals with Iran, or do they dismiss our complaints out of hand? You have mentioned the new rhetoric that is coming out of the EU. We hope that it is followed up. Are there consequences to the EU's lack of cooperation on some of these key areas?

Mr. ENGLISH. Madam Chairwoman, in terms of the overall cooperation that the EU is beginning to show and is ever more showing in terms of understanding our position on Iran, I think that the best example, as I mentioned in my testimony, is—are the conditions that they are willing to consider in terms of their moving forward in their program of engagement. We have been in touch with the European Union 15 and increasingly now, with the European Union soon to be 25, very often. They meet monthly in something called the General Affairs and External Relations Council, and we ask them almost monthly to listen to our complaints about Iran, to listen to our proposals in this area, that they carry forward these linkages in their trade and cooperation agreement. We have not determined for them what those concrete, verifiable benchmarks must be. We have urged them to do so. We want to hold a dialogue with them as they are developing them. But the fact of the matter is their negotiations are going so slowly at the moment that we haven't yet really engaged them to that point.

So the bottom line is, through our diplomatic pressure, we have both gotten the European Union collectively to join us in such places as the IAEA Board of Governors to condemn Iran's policies and to insist on change and to insist in that setting on possible consequences. And also, we have mitigated their warming of relations or any possibility of their warming relations with Iran by continually bringing to their attention Iran's support for terrorism, Iran's abysmal human rights record. And I think the proof that we have been successful on that is that no agreement—these agreements have not gone forward.

Ms. ROS-LEHTINEN. Thank you very much.

Mr. Smith.

I will have other questions, and I will submit them in writing. Thank you.

Mr. SMITH. Madam Chairman, thank you. I have a question on the demonstrations.

At the time of his election, there was guarded optimism that the government of President Mohammad Khatami was going to move toward greater democracy and reform. However, it would seem that the protests that we observed in the last couple of weeks indicate that there is still a lot of frustration with both Khatami and the ruling mullahs. The protests are almost unprecedented in the number, apparently, that were involved, and the duration. And though the demonstrations pretty much have been silenced now, if Khatami and the mullahs can convince people that the demonstrations were instigated by the United States, then it seems to me like they are absolutely going to be unsuccessful in terms of bringing about any change.

Will they be able to convince people and prove that the United States was instigating the demonstrations?

Mr. DIBBLE. Well, of course, it is nonsense that we were. And it is very hard to prove a negative. But I am sure that the—all elements of the Iranian Government understand that they have a problem; that they are, in the President's words, unable to meet the aspirations, whether political, social, cultural or economic, of a rising generation of Iranians. They are going to have to deal with this, and their problems have nothing to do with the United States.

Mr. SMITH. What are our communications, and what is available in terms of radio/television communications?

Mr. DIBBLE. We operate Radio Farda, and we operate Web sites. The Internet has been a very, very powerful weapon in both in Iran and communicating between Iran and the outside world, and we intend to use that as much as possible.

Mr. SMITH. Let me ask a question about the Iran-Libya Sanctions Act. Ten billion dollars billion in foreign investment have been channeled into Iran in the last 5 years. So apparently those sanctions aren't working the way at least I thought they were going to work. Can you react to that, anybody?

Ms. BORG. Yes. Thank you.

Ms. ROS-LEHTINEN. You can make your answer brief because I would like to recognize Mr. Chabot for his last question. Thank you.

Ms. BORG. Right. I think there are a lot of different ways in which we have looked at effectiveness of sanctions, and one of them, again, has been the area of strengthening cooperation. The other has been I think people have looked at—as a number of oil company people have said, when they think about investments, they have a lot of different factors in front of them, and one of them described ILSA as having a dampening effect.

Lastly I would say that one can look at all different numbers of investment over recent years in Iran, and the estimates range all across the map. Most recently we looked at the IMF, the chapter 4 consultation piece, which estimated 360 million in a number of recent years and 2 billion, and then proposed—or possibly for this year, 1.9 billion, leading to a total of maybe 6 billion. But I think we agree it is very hard to get a sense of the numbers, and we certainly would never let up even if the numbers were low. Our concerns are there, and we raise them all the time.

Ms. ROS-LEHTINEN. Thank you so much.

Mr. SMITH. Madam Chairman, thank you. I understand we are under a time constraint, so I yield back.

Ms. ROS-LEHTINEN. Right. Thank you. You can submit them for the record, and I am sorry I took up so much time.

Mr. Chabot.

Mr. CHABOT. Thank you, Madam Chair. Do you want me to ask and—

Ms. ROS-LEHTINEN. You could just ask one question, and then we will submit the rest.

Mr. CHABOT. Thank you.

This is relevant to the—or relative to the Total waiver. The Clinton Administration issued a waiver of ILSA for Total's investment phases 2 and 3 of the South Pars gas project. Since then there have been several other foreign energy investments over \$20 million. How many foreign energy investments over 20 million have the Iranians secured, and how many are actually online today? What is the total value of the investments, and how much in additional energy production and revenue will Iran acquire as a result of these foreign investments?

And I have got some more questions, but we can submit them in writing and get answers later.

Ms. BORG. Thank you. And we look forward, of course, to answering all the written questions and getting back to the Committee. We know it has been a day pressed for time. So let me just comment on the ones that you noted.

In our semiannual report to Congress, under section 10 of ILSA, we have a section always on recent reported petroleum investments agreements in Iran where we note ones that we are watching, ones that been in the press, and also note the instances where we have brought these up with governments and oil company senior management. And as you can see from recent reports, we are looking—or we have seen reports of investment agreements in the range of 15-, 16-; some of these, you know, pop up on the horizon, as Tracer did, and then they disappear. So it has been a constant effort to see how many there are and what has happened to them.

On the issue of how many do we think are actually onstream at this point, I think our best estimate is probably about four of them onstream. In terms of the total investments that these might amount to, as we tried to answer before, it is tough to gauge these because it is hard to gauge the actual investment or whether you add in capital costs or when it comes on at a certain point. And I think that answers most of the questions you outlined.

Mr. CHABOT. Okay. Thank you very much.

Ms. ROS-LEHTINEN. Thank you. And that was a question.

Just one more. Mr. Berman, my traveling buddy from Jordan. We just got back the other day. Do you have a statement or a question? They must leave.

Mr. BERMAN. Leave? No, I think it would be wrong to come in now and mess up the timing, so I will hold off on any questions.

Ms. ROS-LEHTINEN. I messed up the timing.

Mr. BERMAN. No—

Ms. ROS-LEHTINEN. They were very nice about it.

Mr. BERMAN. We had issues on the Floor.

Ms. ROS-LEHTINEN. We all have issues.

Thank you so much, we appreciate it. And we will submit our questions in writing to you.

I would like to introduce our second panel. Dr. Patrick Clawson is the Deputy Director of the Washington Institute for Near East Policy. He is the author of more than 30 scholarly articles on the Middle East and is currently Senior Editor of Middle East Quarterly. He has served as a Senior Research Professor at the Institute for National Strategic Studies of the National Defense University in Washington, and a Research Economist for 4 years each at the International Monetary Fund, World Bank, and Foreign Policy Research Institute.

Roger Robinson, Jr., is President and CEO of Conflict Securities Advisory Group, a Washington, DC-based company that offers impartial research and advisory services in the field of global security risk management. He is also President of RWR, Inc., a consulting firm providing strategic planning services and analysis of geopolitical developments affecting international equity debt and currency markets. Prior to forming these firms, Mr. Robinson was Senior Director of International Economic Affairs at the National Security Council from 1982 to 1985.

We will begin with Dr. Clawson.

STATEMENT OF PATRICK CLAWSON, Ph.D., DEPUTY DIRECTOR, THE WASHINGTON INSTITUTE FOR NEAR EAST POLICY

Mr. CLAWSON. Thank you, Madam Chairwoman. I have a statement for the record I would like to submit.

Ms. ROS-LEHTINEN. Without objection. Thank you.

Mr. CLAWSON. Thank you. And let me just offer some brief remarks.

Iranian proliferation and terrorism remain serious problems, and the question that we should be asking is whether or not ILSA is an effective instrument for addressing these problems for which more use could be made.

To answer that question, I would pose three issues. First, are economic sanctions appropriate instruments against Iranian proliferation and terrorism, as ILSA presumes? Second, is European and Japanese cooperation important to making sanctions fully effective, as ILSA supposes? And third, is the threat of economic pressure an appropriate instrument to secure European and Japanese cooperation, as ILSA presumes? And I would suggest that the answer to all three questions is yes. Let me suggest why.

First, our economic sanctions appropriate instruments against Iranian proliferation and terrorism. I would be the first to acknowledge that economic sanctions are imperfect instruments to use, but I would suggest that all of the instruments that we have available against Iranian proliferation and terrorism are imperfect instruments. It is easy to criticize each of those instruments considered individually. Indeed I run through some of the options that are available for dealing with Iran's nuclear program to say that each one of them suffers from serious problems.

For instance, multilateral diplomacy has made a lot of progress recently, but it is very optimistic to think that diplomatic pressure alone is going to lead Iran to reverse its nuclear program. As for a grand deal with Tehran's hard-liners, which some have proposed, well, I see little interest that Iran's hard-liners are interested in such a deal. Besides which they have a history of cheating on deals. And any deal we did with them would like look we were selling out Iran's democratic forces to support autocratic rulers.

Regime change. Well, it is true the vast majority of Iran's people detest the hard-liners, but it would be optimistic to count on the Iranian people being able to seize power in the few years before Iran becomes a nuclear power.

Preemptive military action. Unfortunately, the military action might not slow Iran's programs much. They may have unknown facilities we wouldn't be able to hit, and they could promptly reconstitute most destroyed facilities within a few years. Furthermore, Iran could retaliate, for instance, with terrorism. In other words, our policy choices for dealing with Iranian proliferation, are really pretty bad, and in that context economic sanctions look pretty good. For one thing, economic problems are high on the screen for Iran's leaders. So I would argue that ILSA's focus on economic sanctions is appropriate. Indeed, focusing on Iran's oil and gas industry is the right focus for sanctions, because the oil and gas industry is what provides revenue to the Iranian government. What we should be primarily trying to do is restrict the financing of the Iranian

government, while at the same time reaching out to the Iranian people and encouraging people to build exchanges.

My second question was whether or not European and Japanese cooperation are important to make sanctions fully effective; and there the news, I am afraid, is not particularly good. Initially when we imposed sanctions, our unilateral action had a lot of effect. Indeed, Iran's oil output has actually declined over the last 4 years. But, unfortunately, because of higher oil prices, Iran has built up a large cushion, a large reserve; and I am afraid that in the future we are really only going to be able to influence Iran's economy if the European and Japanese join in with us.

Indeed, it is instructive to see that the Iranians have—are so eager for good economic relations with Europe that the Iranians have agreed in their negotiations with the Europeans about a trade agreement to talk about human rights, about proliferation, about terrorism, and about Iran's undermining of the Middle East peace process. So what we learn from these trade agreement negotiations the Europeans are conducting is that Iran is very sensitive to economic pressure from Europe. If we could get Europe to join in with us on economic sanctions, then we think we have a good prospects of making change.

Then, very briefly, my last point is that the threat of economic pressure is an appropriate instrument to secure European and Japanese cooperation.

It would be wonderful if Europe and Japan decided to join the United States in taking firm action against Iranian terrorism and proliferation solely on the basis of the excellent arguments that United States Government officials offered, but I suspect that in fact United States Government officials will get further if they can also have a big stick that they can threaten the European governments with and not just a sweet tongue.

Ms. ROS-LEHTINEN. Thank you very much.

[The prepared statement of Mr. Clawson follows:]

PREPARED STATEMENT OF PATRICK CLAWSON, PH.D., DEPUTY DIRECTOR, THE
WASHINGTON INSTITUTE FOR NEAR EAST POLICY

CAN ILSA HELP STOP IRANIAN PROLIFERATION AND TERRORISM?

I wish to primarily address the Iran side of the Iran-Libya Sanctions Act (ILSA). ILSA's aim is not to sanction European or other foreign firms which invest in Iran. As set forth in its Section 3, ILSA's purpose is "to deny Iran the ability to support acts of international terrorism and to fund the development and acquisition of weapons of mass destruction [WMD] and the means to deliver them by limiting the development of Iran's" petroleum industry. Any evaluation of ILSA enforcement has to ask, has Iran's proliferation and terrorism been successfully limited, whether by use of ILSA or through other policies? If Iranian proliferation and terrorism remain problems, could more use be made of ILSA to address these problems? These are the issues which should be at the heart of the report on the effectiveness of actions under ILSA, due no less than 24 months and no more than 30 months after the July 2001 ILSA Extension Act. To be more specific, that report should acknowledge that Iran has remained the principal state sponsor of terror and that Iran is making great progress towards acquiring nuclear weapons and long-range missiles with which to deliver them. After that sober assessment, the report should answer three questions:

- Are economic sanctions appropriate instruments against Iranian proliferation and terrorism, as ILSA presumes?
- Is European and Japanese cooperation important to making sanctions against fully effective, as ILSA presumes?

- Is the threat of economic pressure an appropriate instrument to secure European and Japanese cooperation, as ILSA presumes?

The answer to all three questions is, yes. Let us see why.

Are Economic Sanctions Appropriate Instruments Against Iranian Proliferation and Terrorism?

Economic sanctions are imperfect instruments to use against Iranian proliferation and terrorism. But all the instruments available to the United States are imperfect, and sanctions make sense as part of a coordinated package.

To understand the problem, consider the urgent question of how the United States can stop Iran's relentless march towards acquiring nuclear weapons within the very near future. Iran's program has acquired a dynamic which is going to be very hard to reverse. Iran has accomplished the most difficult technical step, which manufacturing enrichment devices, in this case, centrifuges. Many experts think Iran will have a complete fuel cycle, capable of going from natural uranium mined in Iran to enriched uranium ready for a bomb, within a matter of months rather than years, though it would then take more than a year to produce the first bombs using that fuel cycle. Even Russian experts now write about Iran having missiles carrying nuclear warheads by 2006—in other words, during the life of the next Congress.¹ That is not good news.

All of the options available for stopping this drive suffer from serious problems:

- Multilateral diplomacy: In recent months, the United States has made considerable progress at persuading the European Union (EU), the International Atomic Energy Agency (IAEA), and even Russia that Iran's nuclear programs are troubling. But it is optimistic to think that Iran will cease or reverse nuclear proliferation because of diplomatic pressure. More likely, Tehran will do just enough to split the international community, while continuing with clandestine nuclear programs.
- A "grand deal" with Tehran: There is little reason to think that Iran's hardliners, who for years refused to even talk to Washington, are interested in a deal. Based on their history (e.g., the release of hostages in Lebanon), Iran and the United States are each convinced the other cheats and refuses to respond to overtures. Any deal might involve terms so generous it would look like Tehran was being rewarded for being a proliferator, which could encourage others to proliferate. Plus, any deal would look like Washington was supporting Iran's hardliners, thereby selling out the democratic forces.
- Regime change: While the vast majority of Iran's people detest the hardliners who control power, it would be optimistic to count on them seizing power in the few years before Iran becomes a nuclear power. It would therefore be prudent for the United States government to plan on having to deal with a problematic regime in Tehran for the indefinite future. It is not clear Washington can do much if anything to speed victory of democratic forces. And a democratic government would be intensely nationalist and so might be loathe to give up nuclear programs until it better understood the strategic cost such programs entail, e.g., the suspicion they cause.
- Preemptive military action: Iran's known program involves several large facilities far inland which would require a large military action to destroy. Military action might not slow Iran's program much: it may well have other unknown facilities, and it could probably reconstitute most destroyed facilities (other than the Bushehr nuclear power reactor) within a few years. Iran could retaliate, e.g., with terrorism. And military action could lose the United States the sympathy of the Iranian people.

Given this set of bad choices, economic sanctions look pretty good. After all, economic problems are high on the mind of Iran's leaders. They are acutely aware that the youth protests threatening their rule are fueled by the poor prospects for the young. Schools are overcrowded, with three shifts common at high schools. The state universities accept less than one-fifth of those who take the entrance exam, and the private universities are beyond the reach of most Iranians (plus, they are not very good). Few of those leaving school find jobs readily: about 700,000 young men look for their first job each year, but less than 250,000 jobs become available, and the situation for young women is so bad that few bother even looking for employment. Iran's "baby boom generation" (born in the decade after the 1979 revolution) faces a dismal future, and they are frustrated. These young people blame the hardliners

¹ Andrew Jack, "Iran missiles a 'potential threat to 20m Russians,'" *Financial Times*, June 17, 2003, p 3, describing a report from the PIR Centre.

for their economic problems. High on the list of complaints is that hardliners have prevented normal economic relations with the United States. In this situation, the U.S. government is in a good position to say to Iran's leaders: stop proliferation and terrorism, and the United States will drop its sanctions. In other words, the sanctions provide a powerful leverage to advance the anti-terror, anti-proliferation goals of ILSA.

In the long run, the prospects for stopping Iranian proliferation and terrorism are good, because the Iranian people hate the current system, want democracy, and are friendly to the United States. Therefore, any policy should reach out to the Iranian people to support their hopes for change while taking a tough stand against those who engage in repression at home and terror abroad. For this reason, economic pressure on Iran should be primarily through restrictions on the oil and gas industry, because those industries finance the Iranian government. Restrictions on the oil and gas industry in no way slow the people-to-people contact which is so important for supporting democratic forces in Iran. Nor do restrictions on oil and gas directly hurt private Iranian business people, many of whom are fierce opponents of the present regime. For all these reasons, the focus in ILSA on the oil and gas industry is a wise choice.

Is European and Japanese Cooperation Important to Making Sanctions Fully Effective?

While initially denying that U.S. economic sanctions and ILSA would have much impact, Iran and international oil analysts now agree that in fact the U.S. actions significantly impeded investment in Iran's oil and gas industry, which is exactly its stated purpose. To be sure, the Iranian government's own incompetence—its corruption, inefficiency, and generally inflexible stance in negotiations with international oil companies—have had more impact than U.S. actions at reducing foreign investment in Iranian oil and gas. But Iranian commentators regularly ascribe the failure to attract foreign investment to U.S. pressure, even though the Iranian oil experts recognize that is not the case. In other words, Iranians see the U.S. government as being more powerful than it really is, which is a fine thing—if we can take credit for the actions of others, that magnifies our perceived power.

Because it has not been able to attract as much foreign investment as it hoped, Iran has not been able to increase its oil output in recent years. According to the most recent International Monetary Fund (IMF) report on Iran,² Iran's oil output in 1997/98 was 3.623 million barrels of oil per day and that actually fell over the next four years to 3.441 million in 2001/02. In other words, despite the tremendous importance the Iranian government put on increasing oil output, it has not been able to do so. Unfortunately, however, higher oil prices have allowed the Iranian government to substantially increase its income. According to the IMF report, Iran's crude oil exports averaged \$11.6 billion in 1997/98–1998/99, but then averaged \$17.1 billion in 1999/00–2001/02, and I estimate they were at least that much in 2002/03. That extra \$5.5 billion a year for four years has provided the Iranian government considerable margin. Tehran has used the money to reduce its vulnerability to external economic pressure, paying off at least \$5 billion dollars in foreign debt and building up at least \$12 billion in foreign exchange reserves. In what it told the IMF, Iran claimed its foreign exchange reserves were \$17.5 billion in March 2002 and projected they would be \$22.9 billion in March 2003. The sad reality is that Iran is extremely well positioned at present to resist foreign economic pressures.

Because Iran has used the high oil prices of the last few years to build up a cushion against foreign economic pressure, the United States is no longer in as good a position to press Iran on its own. Iran's leaders seem convinced they can outlast any economic pressure the United States can apply. On the other hand, they are anxious to secure closer economic cooperation with Europe and to a lesser extent Japan. Once the United States blocked Iran's application to join the World Trade Organization, Iran's hardline government bent every effort to reaching a "Trade Cooperation Agreement" (TCA) with the EU. To its credit, the EU insisted that the TCA had to include provisions about human rights (which has become the norm for TCAs) and, in an unusual move, that the TCA could only proceed if progress were made in parallel on three political issues: proliferation, terrorism, and Iran's undermining of the Middle East peace process.³ It is a sign of just how desperate Iran's

² IMF, "Islamic Republic of Iran: Selected Issues and Statistical Appendix," Country Report No 02/212, September 2002.

³ The 2518th meeting of the European Council (the ministerial body directing the EU) on June 16, 2003 concluded, "The Council recalled that in deciding to open these negotiations [with Iran] it expected that deepening of economic and commercial relations between the EU and Iran

hardliners are for a trade agreement with Europe that they agreed to discuss these issues. Several rounds of negotiations have been held. To be sure, the EU is making only mild demands of the Iranians, e.g., on human rights, the EU asked that stoning adulterers to death be stopped, and it appears to have accepted Iran's counteroffer to suspend the stonings.

The TCA negotiations show that economic pressure by Europe can bring Iran to the negotiating table to discuss the most important political issues. Therefore, a priority for U.S. policy should be pushing Europe, and if possible also Japan, into taking joint economic actions to stop Iranian proliferation and terrorism. This is the objective of ILSA.

Is the Threat of Economic Pressure an Appropriate Instrument to Secure European and Japanese Cooperation?

It would be wonderful if Europe and Japan decided to join the United States in taking firm action against Iranian terrorism and proliferation solely on the basis of the excellent arguments which U.S. government officials offered. Perhaps that can be done. Already, the EU has become active pressing Iran to do more to address the IAEA's concerns about Iran's nuclear program, and the EU has formally said that "coercive measures" have to remain a last resort to prevent proliferation.⁴

Nevertheless, the record of the EU's "critical dialogue" with Iran during the 1990s and the more recent TCA negotiations suggest that the EU will be less than vigorous in pressing Iran to end terrorism and proliferation. Under those circumstances, surely it is helpful if U.S. policymakers have additional instruments they can use to influence European decisions. ILSA provides a wide range of instruments that can be held over the head of European governments. For instance, ILSA provides that if a government adopts a program to use economic pressure to impede Iranian proliferation and terrorism, then the president can issue a general waiver of any sanctions because of investments by nationals of that country. This provision has not been used. There are lots of ways that it could be productively applied. For instance, it would be very useful if the EU countries joined with the United States in applying economic sanctions on Russian, Chinese, and North Korean firms involved in the proliferation of 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, whereas the Russian reaction might be quite different if it were faced with concern from all the G-7 countries.

Instead of making use of the general waiver provision, the Clinton administration concluded an agreement with the EU on May 18, 1998 under which it issued a waiver for a specific investment project.⁵ In return, the EU agreed to a series of measures designed to tighten export controls on military and dual-use technologies for Iran and it signed eleven counterrorism conventions with the United States. Another aspect of the deal was that the EU agreed to suspend its complaint to the WTO about ILSA and the United States agreed that "like treatment for future projects [i.e., project-specific waivers] would occur only in the circumstance where we were getting the kind of enhanced cooperation on weapons of mass destruction and counterterrorism that we've gotten as a result of our May 18, 1998 agreement," to quote Undersecretary of State Stuart Eizenstat's testimony to this committee on June 3, 1998.

That may have been the best that could be gotten from the EU at the time. However, times change. With the problem of Iranian proliferation growing markedly worse, and with the EU becoming more cognizant of the grave danger from the nexus of proliferation and terrorism, the time has come to revisit whether we are getting the kind of enhanced cooperation Secretary Eizenstat spoke of. Surely as the problem grows worse, the cooperation we expect from Europe should grow. The 1998 agreement to grant future waivers was conditional upon such "enhanced coopera-

should be matched by similar progress in all other aspects of the EU's relations with Iran. It identified in particular the need for significant positive developments on human rights, non-proliferation, terrorism, and the Middle East Peace Process."

⁴In its Declaration on Non-Proliferation of Weapons of Mass Destruction adopted June 16, 2003, the Council concluded, "The proliferation of weapons of mass destruction and means of delivery such as ballistic missiles is a growing threat to international peace and security . . . We have a wide range of instruments available [against proliferation, including] as a last resort, coercive measures in accordance with the UN Charter. While all [these instruments] are necessary, none is sufficient in itself. We need to strengthen them all, and deploy those which are most effective in each case."

⁵As Undersecretary of State for Economic Affairs Stuart Eizenstat explained to this committee on June 3, 1998, the EU wanted a country waiver under ILSA's Section 4(c). What the United States agreed to instead was a national security waiver under Section 9(c) for one project (the South Pars project). The United States specifically said that it would apply ILSA sanctions on any EU firm that invested in building a trans-Iranian oil or gas pipeline from the Caspian.

tion." There are a variety of issues which could be raised with the EU about enhanced cooperation. And it would be useful to adopt the same approach with countries outside the EU, namely, to make waivers contingent on enhanced cooperation on Iranian proliferation and terrorism. Iran has been soliciting investments in its oil industry from Japan, China, Russia, Canada, and a number of other industrial and industrializing nations; all of these countries could be approached about enhanced cooperation against Iranian proliferation and terrorism.

Many in European circles regard ILSA has too intrusive on Europe's turf. I have never understood how the U.S. and the EU decide which issues are sufficiently important that the two sides will escalate the issue into a serious trade dispute. Off-hand, 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, imposing far-reaching sanctions against offenders, while the United States agreed to waivers to prevent a trade dispute about Iranian proliferation and terrorism. Unless some more effective policies are developed to prevent Iran's rapidly advancing nuclear program, it is time to reconsider risking a trade dispute if need be in order to secure European enhanced cooperation against Iranian proliferation and terrorism.

Ms. ROS-LEHTINEN. Mr. Robinson.

**STATEMENT OF ROGER W. ROBINSON, CEO AND PRESIDENT,
CONFLICT SECURITIES ADVISORY GROUP, INC.**

Mr. ROBINSON. Thank you, Madam Chair and the Committee, for convening this timely session. As you noted, I will be testifying today in my capacity as President and CEO of Conflict Securities Advisory Group, which specializes in impartially assessing the financial and reputational risks associated with the operation of publicly-traded companies in or with countries that sponsor terrorism.

Our company was founded in 2001 to help investors identify portfolio companies exposed to global security risk of the type described as well as those firms that have been associated with proliferation-related concerns. I am also currently serving as Chairman of the Congressional United States-China Economic and Security Review Commission.

By way of background, I have been evaluating the nexus between national security and global finance for over 25 years. Prior to my government service at the National Security Council, I was a Vice President in the International Department of the Chase Manhattan Bank, with responsibilities for the bank's loan portfolios in the former Soviet Union, Eastern and Central Europe and Yugoslavia.

A determination was made by the SEC in May, 2001, that significant corporate operations in United States-sanctioned countries, including Iran and Libya, can represent a material risk to investors and should be properly disclosed. Pursuant to this development, we launched our Global Security Risk Monitor online service in May of last year. The Monitor is the world's only online research and risk assessment tool that identifies and profiles every publicly-traded company worldwide that does business in Iran, Libya, and other terrorist-sponsoring states. Put simply, it allows investors and government analysts to know who is doing business where and, more importantly, what specific operations are under way in these higher-risk countries. It is recognized, for example, that there is a substantial difference between a firm selling soft drinks and one that is constructing a potentially dual-use fiberoptic network.

Due to time constraints, I would encourage interested parties to review our Web site, www.conflictsecurities.com, for more informa-

tion regarding global security risk and our Global Security Risk Monitor subscription service. The site includes some examples of at-risk companies and dozens of mainstream press and broadcast media pieces covering of this subject.

As we now have over \$1 trillion in funds under management that have subscribed to the Monitor, it is reasonable to assert that corporate ties to terrorist-sponsoring states is a market issue that has taken on national prominence. To underscore this point, the announcements of the shareholder resolutions on this subject registered with the SEC by New York City firefighters and police officers pension funds, which incidentally signaled out three of America's largest corporations doing business in Iran through their overseas subsidiaries, and the unanimously-passed legislative resolution of Pennsylvania's State assembly are submitted for the record of this hearing.

I should emphasize at this point that, as an impartial information provider, we don't take a position regarding whether companies should or should not do business in Iran, Libya, or other terrorist-sponsoring states. The relevance and use of our data is for the individual investor to determine. We likewise assume that the operations of companies included in our Monitor product are legal and commercial in nature. That said, we recognize the important public policy issues embedded in our research, hence the relevance of our findings to today's discussion.

Following an exhaustive 7-month research effort, our company and our partner firm, Investor Responsibility Research Center, determined that roughly 375 publicly-traded companies are operating in State Department-designated terrorist-sponsoring states—not including Cuba. There are over 200 publicly-traded companies with such links to Iran. Over 60 have business activities in Libya. Based on our research findings, it is my view that these companies offer critical commercial infrastructure for the governments of Iran, Libya, and other terrorist-sponsoring governments and nations. These three major points I should say underpin this view.

First, as might be expected, it is primarily the largest and most well-known companies in the world that have the risk appetite to conduct business with government sponsors of terrorism. Many of these firms are found in the retirement portfolios and mutual funds of millions of Americans.

Some 70 percent of those firms identified in our Monitor product are of European and Asian origin—companies such as TotalFinaElf and Alcatel of France, ENI of Italy, Hyundai of South Korea and several leading Japanese firms come to mind. Notwithstanding U.S. sanctions, some 35 major U.S. companies have legal operations in these countries through their overseas subsidiaries.

Second, virtually all of these nations are afflicted with serious economic shortcomings and bottlenecks. Years of economic mismanagement, corruption and ill-advised policies have left these nations inordinately dependent on foreign corporate and government assistance. Accordingly, it is common for these firms to be required to partner with state-owned enterprises in these countries to ensure that the government can access advanced technology, equipment and expertise as well as maintain control over associated revenue flows.

Third, the sheer volume of business being conducted by publicly-traded firms in these countries is worth noting. Many companies don't disclose figures associated with projects in terrorist-sponsoring states or document how much revenue they are generating for these governments. Our research, however, indicates that these companies are participating in projects and financial and commercial transactions totalling, at minimum, tens of billions of dollars in these countries. ENI alone is engaged in consortia energy deals in Iran and Libya totalling as much as \$9 billion. Given the size of these economies, this level of foreign corporate involvement is of great significance.

In conclusion, publicly-traded companies are providing substantial hard currency revenues and infrastructure support to terrorist-sponsoring governments. The fact that legal commercial transactions and revenue flows can in select cases be employed by these irresponsible governments for dual-use, militarily-relevant purposes has created a risk to the share values and reputations of many companies doing business in these nations. Such risks can take the form of official sanctions, lawsuits, negative publicity, shareholder activism or military intervention.

Thank you, and I would be pleased to take your questions.

Ms. ROS-LEHTINEN. Thank you very much.

[The prepared statement of Mr. Robinson follows:]

PREPARED STATEMENT OF ROGER W. ROBINSON, CEO AND PRESIDENT, CONFLICT SECURITIES ADVISORY GROUP, INC.

I'd like to thank the Chairman and the Committee for convening this timely session. I am testifying today in my capacity as President and CEO of Conflict Securities Advisory Group, which specializes in impartially assessing the financial and reputational risks associated with the operations of publicly traded companies in or with countries that sponsor terrorism. Our firm was founded in 2001 to help investors identify portfolio companies exposed to global security risk of the type described as well as those firms that have been associated with proliferation-related concerns. I also currently serve as Chairman of the Congressional U.S.-China Economic and Security Review Commission.

By way of background, I have been evaluating the nexus between national security and global finance for over twenty-five years. From 1982–1985, I served as Senior Director of International Economic Affairs at the National Security Council. Prior to my government service, I was a Vice President in the International Department of the Chase Manhattan Bank, with responsibilities for the bank's loan portfolios in the former Soviet Union, Eastern and Central Europe and Yugoslavia.

A determination was made by the SEC in May 2001 that significant corporate operations in U.S.-sanctioned countries, including Iran and Libya, can represent a material risk to investors and should properly be disclosed. Pursuant to this development, we launched our Global Security Risk Monitor online service in May of last year. The Monitor is the world's only on-line research and risk assessment tool that identifies and profiles every publicly traded company worldwide that does business in Iran, Libya and other terrorist-sponsoring states. Put simply, it allows investors and government analysts to know who is doing business where and, more importantly, what specific operations are underway in these higher risk countries. It is recognized, for example, that there is a substantial difference between a firm selling soft drinks and one that is constructing a potentially dual-use fiber optic network.

Due to time constraints, I encourage interested parties to review our website—www.conflictsecurities.com—for more information regarding global security risk and our Global Security Risk Monitor subscription service. The site includes some examples of “at risk” companies and dozens of mainstream print and broadcast media pieces covering this topic. As we now have over \$1 trillion in funds under management that have subscribed to the Monitor, it is reasonable to assert that corporate ties to terrorist-sponsoring states is a market issue that has taken on national prominence. To underscore this point, the announcement of the shareholder resolutions on this subject recently registered with the SEC by the New York City fire-

fighters and police pension funds and the unanimously-passed legislative resolution of Pennsylvania's State Assembly are submitted for the record of this hearing.

I should emphasize at this point that we do not take a position regarding whether companies *should* or *should not* do business in Iran, Libya or other terrorist-sponsoring states. The relevance and use of our data is for the individual investor to determine. We likewise assume that the operations of companies included in our Monitor product are legal and commercial in nature. That said, we recognize the important public policy issues embedded in our research, hence the relevance of our findings to today's discussion.

Following an exhaustive, seven-month research effort, our company and our partner firm, Investor Responsibility Research Center, determined that roughly 375 publicly traded companies are operating in State Department-designated terrorist-sponsoring states (not including Cuba). There are over 200 publicly traded firms with such links to Iran. Over 60 have business activities in Libya. Based on our research findings, it is my view that these companies offer critical commercial infrastructure for the governments of Iran, Libya and other terrorist-sponsoring nations. Three major points underpin this view.

- *Size and Type of Companies:* First, as might be expected, it is primarily the largest and most well-known companies in the world that have the risk appetite to conduct business with government sponsors of terrorism. Many of these firms are found in the retirement portfolios and mutual funds of millions of Americans.

Some 70 percent of those firms identified in our Monitor product are of European and Asian origin—companies such as TotalFinaElf and Alcatel of France, ENI of Italy, Hyundai of South Korea and several leading Japanese firms come to mind. Notwithstanding U.S. sanctions, some 35 major U.S. companies have legal operations in these countries through their overseas subsidiaries.

- *Country Assessments:* Second, virtually all of these nations are afflicted with serious economic shortcomings and bottlenecks. Years of economic mismanagement, corruption and ill-advised policies have left these nations inordinately dependent on foreign corporate and government assistance. Accordingly, it is common for these firms to be required to partner with state-owned enterprises in these countries to ensure that the government can access advanced technology, equipment and expertise as well as maintain control over associated revenue flows.
- *Volume:* Third, the sheer volume of business being conducted by publicly traded firms in these countries is worth noting. Many companies do not disclose figures associated with projects in terrorist-sponsoring states or document how much revenue they are generating for these governments. Our research, however, indicates that these companies are participating in projects and financial and commercial transactions totaling, at minimum, tens of billions of dollars in these countries. ENI alone is engaged in consortia energy deals in Iran and Libya totaling as much as \$9 billion. Given the size of these economies, this level of foreign corporate involvement is of great significance.

In conclusion, publicly traded companies are providing substantial hard currency revenues and infrastructure support to terrorist-sponsoring governments. The fact that legal, commercial transactions and revenue flows can, in select cases, be employed by these irresponsible governments for dual-use, military-relevant purposes, has created a risk to the sharevalues and reputations of many companies doing business in these nations. Such risks can take the form of official sanctions, lawsuits, negative publicity, shareholder activism or military intervention. Thank you and I would be pleased to take your questions.

Ms. ROS-LEHTINEN. Mr. Berman, I would like to recognize you to begin the questions so that you could have an opportunity.

Mr. BERMAN. Thank you very much, Madam Chairwoman; and appreciate both of you being here.

Maybe just initially, Mr. Robinson, did you quantify how much of this corporate involvement was in the oil and gas sector of Iran as opposed to other investments?

Mr. ROBINSON. It's very difficult to quantify, but I can give you a sense of the scale of corporate involvement in the energy sectors for both Iran and Libya.

Mr. BERMAN. Okay. I am particularly focused on Iran here.

Mr. ROBINSON. In the case of Iran, we have identified some 58 publicly-traded firms worldwide doing business in the energy sector as defined by the ILSA statute of which as many as 41 appear to have investments totaling over \$20 million.

Mr. BERMAN. Any of those foreign subsidiaries of American corporations?

Mr. ROBINSON. I would have to check, but I don't believe that is the case. Just one moment on that.

I don't think so, but we can check that for you.

Mr. BERMAN. Then, given that data of approximately \$20 billion, Dr. Clawson, I would like to go to the second question you posed, which was if ILSA picked that sector of the Iranian economy to focus on on the theory that that was the most value-added kind of investments that Iran could have, that would bring them more resources to continue their activities both in the proliferation and terrorism support effort.

The second question was Europe and Japan cooperation and the essentiality—ILSA was designed—we didn't need ILSA to deal with United States company involvement. We already had an embargo on Iran, somewhat modified, as my colleague Mr. Sherman likes to point out, recently in the last few years, but basically still prohibiting investments in the oil and gas sector. ILSA was designed to tear through what some view as extraterritorial sanctions on foreign investment and in particular European and Japanese investment. It seemed like in the first years of ILSA it was having that effect.

Would you comment on the extent to which this long list of projects that are now under way, that are reported in our staff memo, to what extent our willingness to provide waivers of those sanctions has encouraged the level of investment that Mr. Robinson talked about?

Mr. CLAWSON. Not only have we provided waivers, but we have often looked the other way, and the United States Government has not been noted for the effort which it has devoted to investigating whether or not companies are becoming involved. As someone who has for years had visitors from many of the companies that have become involved and asking my opinion and my advice as to whether or not the United States Government would single them out for these investments, I have had to tell them candidly that so long as they can keep the investments off the front pages of the newspapers it is likely that the United States Government will do very little about these investments.

Mr. BERMAN. While that process started in the previous Administration I take it it has continued into this Administration, that notion of both waivers and looking at but never deciding the investments and deals that have been made since that time.

Mr. CLAWSON. Yes, sir. In part, if I may say so, that is because the Iranian incompetence and mismanagement has done quite a good job at slowing down many of those projects so that, in many cases, grand investments are announced and not much happens for years and years.

Mr. BERMAN. I think my time has expired. Thank you, Madam Chair.

Ms. ROS-LEHTINEN. Mr. Sherman.

Mr. SHERMAN. Thank you, Madam Chair, for letting me participate. I am a Member of the Full Committee, and it is good to be with you here in the Subcommittee.

Looking at the Middle East at the beginning of this year, we saw two threats to the security of Americans, Iraq and Iran. It is pretty clear that Iran was overwhelmingly the greater threat, far more advanced in its nuclear program, not suffering from the diplomatic infirmities of having invaded a country in the 1990s, and not subject to any international inspections it wasn't happy with and easily able to evade. Recent efforts to find weapons of mass destruction in Iraq have shown that it was a distant competitor with Iran in terms of which country was most likely to develop weapons of mass destruction, particularly nuclear weapons, and have the capacity to smuggle them into American cities.

It is odd that the Administration has sacrificed the lives of American servicemen and women to go after this distant competitor of Iran and yet when it comes to Iran we have not even used the economic tools. It is as if we are more willing to risk the lives of our servicemen and women than we are to inconvenience the corporate sector.

You gentlemen have talked about the Iran-Libya Sanctions Act. You have made us even more aware of the tendency to simply waive it or our new don't-ask, don't-tell policy toward whether countries are loaning and investing hundreds of millions of dollars.

I can add to that the fact that the United States has adopted a hear-no-evil, see-no-evil policy with regard to the World Bank loaning roughly \$200 million to this government just in the last 7 months. Pursuant to laws passed by Congress, they voted no; and then, as I pointed out, I had tea and crumpets with the folks who outvoted us and voted yes.

Finally, we import \$150 million from Iran so that they can easily sell their oil to elsewhere, but they can export to our markets for caviar and carpets. I won't even ask the question of whether we have a caviar crisis in the United States that necessitates those imports for our own domestic needs.

I want to thank both of you for your testimony and ask Mr. Clawson whether—the one bit of economic pressure that is being put on Iran to try to force it to not develop nuclear weapons and not support terrorism has been the possibility of not being able to conclude a trade agreement with Europe. How does the importance of that trade agreement on the one hand compare to the things that we can do that have a more direct impact on, namely, enforcement of ILSA, a withdrawal of the World Bank loans which haven't been disbursed and will not be disbursed if we threaten to withdraw from the World Bank and the closing of our markets?

So if you were an economic advisor to the Government of Iran trying to deal with which is of greater economic importance, which would you fear most, a denial of a trade agreement with Europe or the withdrawal of the World Bank loans and end of the ability to export to the United States and an Ileana Ros-Lehtinen approach to enforcement of ILSA?

Mr. CLAWSON. Congressman Sherman, the Iranian government seems to have decided that once ILSA was enacted it wanted to re-

duce its vulnerability to United States economic pressure. So it adopted really quite a belt-tightening approach. That combined with higher oil income allowed them to repay a lot of their foreign debt and to build up a reserve of at least 12, possibly as much as 20, billion dollars in foreign exchange reserves.

So they decided that whatever economic pain the United States may inflict upon them they are prepared to sustain. So that while certainly the methods that you mentioned which the United States could do would have a greater impact upon the Iranian economy, Iran's leaders seem to have decided as a political matter that they would be prepared to sustain that kind of price, if necessary, in large part because they are reasonably confident they wouldn't have to sustain any economic pain from Europe. So it would come to them as an unpleasant shock if Europe were to join in with us. Therefore, if Europe were to join in with us, that might have a greater political impact on Iran's nuclear program.

So that my answer to your question would be two parts: Which has got a greater economic impact? The U.S. action. Which would likely have the greater political impact? I suspect the European action might have the greater political impact.

There is a good prospect that Europe might do this. The European leaders are talking about suspending the trade cooperation agreement negotiations unless there is greater progress on these political fronts by September.

Mr. SHERMAN. So you are saying that rejection by Europe—if they have got these billions in reserve, they could easily survive 4 or 5 years without the benefits of a trade deal that they don't have now.

Mr. CLAWSON. That is true, Congressman. But I think the concern that the Iranian leaders have is that suspension of the trade cooperation agreement negotiations might be just one shoe dropping. The other shoe which might drop might be that if Iran in fact is, as it may well be, found by the International Atomic Energy Agency Board to be not in compliance with its obligations under the Nonproliferation Treaty, then Europe might actually be prepared to consider some far-reaching economic sanctions.

We saw in this morning's *Wall Street Journal* the former Israeli Prime Minister Simon Perez arguing for comprehensive international economic sanctions against Iran unless it halts its nuclear program. I think the Iranian leaders are afraid that those kind of arguments are gaining greater ground even in places like Europe.

Mr. SHERMAN. I would hope this Administration would be willing if necessary to endanger, as they have been all too willing to endanger in the past, our relations with Europe to achieve that economic pressure than to endanger American cities by allowing the culmination of the nuclear weapons program in Iran.

I want to thank you for your time.

Ms. ROS-LEHTINEN. Very good statement. Thank you, Mr. Sherman.

What role does ILSA play within the broader United States policy toward the Iranian regime? What message does the lack of ILSA implementation send to other rogue states in the region such as Syria?

Mr. CLAWSON. The lack of enforcement of ILSA along with some statements indeed from President Clinton while he was still President would suggest that sometimes the Administration is forced to sign bills which are popular in Congress but which it then has no intentions of enforcing. Sometimes that leaves the impression in rogue states that the United States may take a tough rhetorical stance but you can ignore that because the actions may be less.

That undercuts our position. Indeed, we saw some former officials of the Bush Administration, such as former Policy Planning Director Richard Haas, who was well-known to be someone who was eager to find ways to reduce economic sanctions. This led to the impression in a number of these states that there may be tough words said by Administration officials, but when it comes to actions don't expect much.

Mr. ROBINSON. While I can't take a public policy position on ILSA, as it could impact on companies profiled in our Global Security Risk Monitor, I would only say our research findings indicate that publicly-traded companies don't appear to be deterred by the legislation based on the number of firms that I have just cited that are involved in Iran's and Libya's energy sector.

To elaborate on a point that I was starting to make a little earlier in the case of Libya you have approximately 22 public-traded firms that are engaged in corporate operations in the country's energy sector as defined, at least as we understand it, by ILSA; and of those 22 companies, about half appear to have investments of over \$20 million. So this is at least one numerical indicator of corporate attitudes on the matter.

Ms. ROS-LEHTINEN. Thank you.

Dr. Clawson, in your testimony you note that Iran's nuclear program has acquired a dynamic which is going to be very hard to reverse. Do you believe that Iran's rush to go nuclear is also being motivated by the different approaches in the United States that we undertook against the Iraqi regime where our actions were preventative in nature versus the North Korea regime which already has the nuclear weapons?

Mr. CLAWSON. It would certainly seem from the public debate in Iran that some people in Iran have concluded from the contrast between United States policy toward Iraq and United States policy toward North Korea that Iran would be well-advised to acquire a nuclear weapon as soon as possible or, at the very least, to create an ambiguity as to whether or not Iran has a nuclear weapon because that could then deter the United States from military action against Iran, a military action which many in Iran erroneously believe is imminent.

Ms. ROS-LEHTINEN. Thank you.

Mr. Sherman, I don't know if you wanted another follow-up question.

Mr. SHERMAN. What would be more entertaining? We have got a situation where the World Bank has approved these loans. It is a couple hundred million dollars, but it is also the World Bank making a loan. Has this provided some degree of psychological solace to either the upper echelons of the Iranian government or Iranians in general that they are approved by doing business in favorable terms with the major economic institutions of the world?

Mr. CLAWSON. Yes, Congressman. I would contrast that with Iran's considerable annoyance that its application for membership in the World Trade Organization continues to be blocked by United States action.

Mr. SHERMAN. Now, we have a chance to put some political pressure on the Europeans or just to encourage them not to trade with Iran. What effect would it have on Iran if Europe adopted a minimalist approach to trade, which I would define as a willingness to purchase oil at the world price, a willingness to sell European goods for cash on the barrelhead, but, aside from that, no investments, no loans. If Europe adopted that approach, what affect would that have on the ability of the Iranian government to carry out its objectives?

Mr. CLAWSON. One of the more dramatic impacts it might have is on political discontent inside Iran, where the growing unemployment problem is often attributed by the youth to the hard-line regime in Iran's inability to attract foreign investment and to establish normal economic relations with the rest of the world. Indeed, I suspect the youth may exaggerate the impact, that I suspect Iran would have difficult problems creating jobs under any circumstances.

But in the event of Europe adopting the kind of policy described I suspect that a great many young people in Iran who are dissatisfied about their inability to find jobs would feel that the Iranian government has once again taken steps to isolate the country and hurt their prospects for a better life. That would make them more likely to join protests.

Mr. SHERMAN. What effect would it have on the likely European investment or Japanese investment in Iran if we were to announce that, while we have no intention at the present time of any military action, that any dollars invested after today in economic facilities would be regarded as fair economic targets should events require military action in the future? In other words, any investments you make are first on our target list and on that basis you can go ahead and decide whether to make investments.

Mr. ROBINSON, do you think that your 300 and some—or 200 and some companies would be investing in anything physical in Iran if they knew that our smart bombs already had the location programmed into their GPS systems?

Mr. ROBINSON. I think it is an interesting question. I believe in the first instance the companies would be testing U.S. political resolve and raising their risk profile to ignore such a development.

Mr. SHERMAN. They wouldn't know whether hostilities were going to break out or not. We simply issue the statement, and then if you are thinking of building something in Iran and owning it, maybe there will be a war, maybe we have the GPS location of your facility recorded. I don't—and is there anybody in the world who would sell war hazard insurance if the target had been so speculated about or identified?

Mr. ROBINSON. I think it is safe to say that the risk profile of Iran would rise markedly, certainly among the publicly-traded companies because they have shareholders who read newspapers and many of whom pay attention to the political and economic cir-

cumstances of the countries in which their portfolio companies are invested.

Mr. SHERMAN. So, to cut to the chase, if we wanted to, we could enforce ILSA. If we wanted to, with one press release we could pretty much prevent investment in Iran. You might see a willingness to make loans to the government on the theory that some way, some how they are going to repay, but if you owned a physical facility in Iran, you wouldn't make that investment after such a press release was issued.

Mr. ROBINSON. I would only say that I think it would clearly have a dampening affect. But as far as electrocuting investment I tend to doubt it, only because in the real world the kind of European and Asian companies that comprise the bulk of the firms that are investing in Iran have a substantial risk appetite, as I mentioned in testimony. They probably believe they are going to get some top cover from their respective governments and those governments are loathe to see anything that smacks of U.S. extra territoriality, as we well know. So leave it to say that I don't think it would vaporize investment in Iran, but I do think that it would cast a pall over the investment landscape.

Mr. SHERMAN. Can you think of anything that has been mentioned in this room that would cast a greater pall over investment appetite?

Mr. ROBINSON. Not so far.

Ms. ROS-LEHTINEN. Thank you very much.

Thank you, witnesses, for appearing before us. Thank you to the audience members.

In preparation for this hearing and as an initial step in exerting oversight over ILSA implementation, I sent letters of inquiry to the State Department and Treasury, which I would like to include in the hearing record. Without objection.

The Subcommittee is now adjourned. Thank you.

[Whereupon, at 4:13 p.m., the Subcommittee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE NICK SMITH, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF MICHIGAN

Mrs. Chairwoman, thank you for scheduling this hearing today. Despite the fall of Saddam Hussein's brutal regime earlier this spring, the prospects for a lasting and prosperous peace in the region remain threatened by one particularly fanatical government. Two years into the War on Terror, the Islamic Republic of Iran continues to be uncooperative and conspicuously unresponsive to calls by the international community to combat terror. Iran has been labeled by the US State Department as the "most active state sponsor of international terrorism," and is most deserving of membership in President Bush's "Axis of Evil." Having demonstrated our resolve since the 9-11 terror attacks in Afghanistan and Iraq, it is no surprise that we now find ourselves at the doorstep of this growing threat.

The list of American grievances against Iran is long and horrific. Iran is known to provide training and material support to terrorist groups like HAMAS, Hezbollah, and Palestinian Islamic Jihad. These actions and the subsequent activities of these groups continue to poison the Middle East peace process, bringing death, destruction, and insecurity to Israelis and Palestinians alike. The Iranian regime is directly responsible for the 1983 attacks on the United States Embassy and Marine barracks in Beirut, Lebanon that killed a combined 314 Americans. More recently, we have heard Iran implicated in the bombing of the Khobar Towers in Saudi Arabia, which killed another 19 US servicemen. Most recently, we believe that Al-Qaeda operatives based in Iran were responsible for bomb attacks on American expatriates living in Riyadh.

Iran is also active in fomenting resistance and revolt against American reconstruction efforts in Iraq and Afghanistan, especially amongst Shiite communities. Domestically, Iran is responsible for the persecution of Iranian Jews, Baha'i, and other religious minorities. Furthermore, the Iranian regime continues to stifle the most basic democratic rights of its 65 million citizens, half of whom are under the age of 20 and never experienced the Islamic Revolution.

Internationally, Iran is a member of the Biological Weapons Convention, Chemical Weapons Convention, and the Nuclear Non-proliferation treaty. In blatant defiance of its international obligations and commitments, Iran is widely known to have biochemical weapons, and is working furiously to develop nuclear-weapons capabilities.

The trajectory here is extremely troubling: Iran, an extremely active sponsor of international terrorism, having acquired biological and chemical weapons, is doggedly pursuing nuclear weapons. The implications for the Mid-East peace process, the emergence of democracy in the region, and the War on Terror are clear. Something must be done.

Last week, President Bush said that "the international community must come together to make it very clear to Iran that we will not tolerate" proliferation of WMD. Since that time, Russia has stated that it will make its nuclear contracts with Iran contingent on Iran working openly and constructively with the IAEA. Iran has also since signaled that it will cooperate. This is a good sign for international efforts to stop Iranian WMD proliferation, but words must still be matched by action and other concerns must still be addressed.

Of course, today we are here to discuss the role of the Iran-Libya Sanctions Act (ILSA) as a tool of foreign policy. Since being signed into law in 1996, the sanctions it established have never been invoked. This is not a result of strict foreign compliance to our law, as \$10 billion in foreign investment has been channeled into Iran in the last 5 years alone. Are the penalties of this Act simply hollow or has the stick

of sanctions played a subtler role in international efforts to isolate Iran and alter its behavior?

At the time of his election, there was guarded optimism that the government of President Mohammed Khatami would bring democratic reform to his country. However, the protests we witnessed last week of hundreds of thousands of Iranians in the streets of Tehran apparently show frustration with both Khatami and the ruling mullahs. The protests are unprecedented in their duration, enthusiasm, and extent since the 1979 revolution, and they represent what seems to be the hostility of many average Iranians to their draconian oppressive government. Though the demonstrations have now been silenced as security forces continue their mass arrests of students, their voice is still clear. They demand reform, openness, and the downfall of the clerics.

We should make it clear, that despite the problems facing Iranian-US relations, the American people wholeheartedly support many Iranians' goals of basic democratic reform and closer ties to the West, including the United States.

PREPARED STATEMENT OF THE HONORABLE JOSEPH R. PITTS, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF PENNSYLVANIA

Madam Chairwoman, I would like to thank you for convening this hearing today on an issue of such great national importance and national security.

In this post-September 11th world, we have become even more aware of the threats posed by the proliferation of nuclear weapons to rogue states and terrorist groups.

Since President Bush's designation of Iraq, North Korea, and Iran as the "axis of evil," we have uncovered disturbing and frightening new evidence of each country's drive to possess weapons of mass destruction, including nuclear weapons.

The Iranian government continues to insist that its nuclear research program is for civilian use only, but this argument must be dismissed as mere propaganda in the face of Iran's plentiful supplies of oil and natural gas.

The recently released International Atomic Energy Agency's report on Iranian nuclear capability demonstrates that Iran is aggressively pursuing fissile material for a nuclear weapon, and is engaged in all stages of the nuclear fuel cycle, from the mining of uranium to the production of highly enriched uranium through centrifuge technology.

Estimates on the length of time it will take Iran to produce a nuclear bomb range from late 2005 to the end of this decade. Even the most conservative assessment is not comforting.

According to the testimony of Deputy Assistant Secretary Philo Dibble, Bureau of Near Eastern Affairs, "Iran is currently the most active state supporter of terrorism," adding that Iran "is the primary political and financial backer of Hizballah, and the chief supplier of its military equipment and training."

Senior-level al-Qaeda officials are also reportedly finding safe haven inside Iran's borders, and Tehran is said to be actively supporting extremist Shia groups inside Iraq even as the Coalition attempts to rebuild that country and establish a democratic government.

It is clear that Iran must not be allowed to possess a nuclear bomb, and that the United States must use every tool at its disposal to prevent this from happening.

It is in this context that we must evaluate the enforcement and effectiveness of the Iran-Libya Sanctions Act (ILSA) of 1996. Designed to deter foreign investment in Iran's key source of revenue—the petroleum sector—ILSA requires the President to impose at least two out of a menu of six sanctions on foreign companies that make an "investment" of more than \$20 million in one year in Iran's energy sector.

Stiff resistance from the European Union, combined with a decision by the Clinton Administration to waive ILSA sanction on the first project determined to be in violation, however, have hampered attempts by the United States to enforce the Act.

Further, a number of our allies have invested heavily in Iran, which signed an \$800 million deal with Russia in 1995 to build a nuclear power plant in the southern port of Bushehr, and announced in October 2002 that it plans to build six more nuclear power reactors with Russian assistance.

The United States and others in the international community have strongly criticized the Russian nuclear cooperation with Iran, but the Russian government is defending its investment, arguing that abandoning the project would simply open the market to other nuclear export competitors.

Despite the Russian government's recently expressed concern that Iran is developing nuclear weapons, Russia continues to ship nuclear material to the newly com-

pleted Bushehr plant, and denies any involvement in transferring nuclear weapons technology to Iran.

U.S. officials have also expressed concern about a trade and cooperation agreement Iran is currently negotiating with the European Union. The EU is currently Iran's largest trading partner with imports of around \$7.6 billion (\$6 billion of which is oil), and exports of approximately \$5 billion.

EU leaders reject the U.S. characterization of Iran as part of the "axis of evil," and maintain that engagement with Iran will bolster the cause of the reformists.

I hope the panel today will address how and when these sanctions have been used since September 11, 2001, and the message the lack of ILSA implementation sends to other rogue states in the region such as Syria.

I am also interested in learning the witnesses' views on whether or not countries whose companies have violated ILSA should be given the right to bid on contracts for the reconstruction of the Iraqi oil industry.

Madam Chairwoman, I welcome the opportunity today to hear this important testimony, and I yield back my time.

QUESTIONS SUBMITTED FOR THE RECORD TO ANNA BORG, DEPUTY ASSISTANT SECRETARY, BUREAU OF ECONOMIC AND BUSINESS AFFAIRS, U.S. DEPARTMENT OF STATE, PHILO DIBBLE, DEPUTY ASSISTANT SECRETARY, BUREAU OF NEAR EASTERN AFFAIRS, U.S. DEPARTMENT OF STATE, AND CHARLES RIES, ACTING ASSISTANT SECRETARY, BUREAU OF EUROPEAN AND EURASIAN AFFAIRS, BY THE MEMBERS OF THE SUBCOMMITTEE ON THE MIDDLE EAST AND CENTRAL ASIA, ALONG WITH THE RESPONSES

Question:

ILSA seems to be of more use to the State Department as a threat than a tool for use. Under what conditions do you foresee the Department sanctioning a foreign company for violating ILSA?

Response:

US national interest is the key to the decision that would be made in every individual ILSA case about whether to impose or waive sanctions. Each case is different as to its circumstances and the evidence available to us, and each case must be treated on its own terms. A careful weighing of all the factors affecting US national interest is required in all cases.

Question:

Is there, or has there ever been any connection, implicit or explicit, between ILSA implementation and U.S. talks with our European allies on the Roadmap or Iraq?

Response:

In talks with European allies on the Roadmap and Iraq, we make clear our concerns about Iran's role in both. We stress that as a member of the Quartet, the EU has the responsibility to make clear to Iran that any attempts by it to derail the Roadmap's progress through terrorism will have serious ramifications in its relationship with the EU. We also encourage the EU to underscore to Iran how it has isolated itself in the region, following the Arab League's acceptance of Crown Prince Abdullah's initiative indicating acceptance of a two-state solution.

On Iraq, we have spoken out strongly—both publicly and in diplomatic exchanges with allies—against Iranian interference in the political reconstruction of the country and its attempts to help pro-Iranian elements solidify power post-Saddam.

Question:

Iran's improved debt picture since the Total (TOE-TALL) waiver has led most European export credit agencies, including Germany's Hermes, France's COFACE, and that of Spain, to restore insurance cover for exports to Iran. In July 2002, Iran tapped international capital markets for the first time since the Islamic revolution, selling \$500 million in bonds to European banks. What has the State Department done to prevent these countries from extending Iran's lifeline through loans and credits?

Response:

We frequently raise with other countries, both bilaterally and in international fora, our serious concerns about Iran's objectionable actions and policies. Overall, we believe that those concerns—particularly with respect to Iran's nuclear ambitions—are shared to an increasing degree by other countries. Nevertheless, at present, most countries still regard themselves as having normal commercial relations with

Iran, and the potential availability of financing by export credit agencies is seen as an ordinary aspect of that status. With respect to bonds, perceptions of risk, which impact bond sales and prices, may be affected by the continuing effort we have made to highlight Iran's objectionable behavior.

Question:

What is the great attraction in Iran for Europe to be so intensely interested in investing there? Is there a specter of European competitiveness involved?

Response:

The great attraction of Iran for foreign investors is its oil and gas resources. Iran is usually said to have the 4th or 5th largest reserves of oil in the world, about 9% of the world total, and the second largest reserves of natural gas, after Russia. Oil companies from a variety of countries see Iran as an arena for competition. A number of countries are almost totally dependent on imports from producing countries abroad for their oil supply.

Question:

The most recent "Report to Congress on Iran-Related Multilateral Sanctions Regime Efforts" states that the U.S. "works with other countries and regional organizations, such as the European Union, that have relations with Iran to promote compliance with arms control agreements and link improvements in their relations to concrete, verifiable cessation of Iran's destructive policies."

(A) What is the message that our diplomats are delivering to foreign governments whose companies are making deals with Iran? Would you say our efforts have been successful? How is State defining "concrete, verifiable cessation" of Iran's policies? What is the threshold State is using with our EU partners to determine when their actions are sufficient to substantiate a continuing waiver of ILSA?

(B) Are European diplomats willing to listen to our objections to deals with Iran, or do they dismiss our complaints out of hand? Are there any consequences to the EU's lack of cooperation on these critical issues?

Response:

(A) The message is, first, that we have deep concerns about Iranian policies and actions—Iran's pursuit of weapons of mass destruction and missile delivery systems; its support for terrorism, its violent opposition to Middle East peace; its poor human rights record and denial of democratic reform; and more recently, its interference in Iraq and its safehaven of al-Qaida. We are particularly at a critical point now of formulating international consensus on Iran's nuclear program and believe the results of the June IAEA Board of Governors meeting sent Iran a very strong message from the international community. We work closely with other countries on counterterrorism efforts, as well as to try to cut off Iranian access to technology and materials that could further its WMD programs, and believe we have seen significant progress in these areas. We stress that given these concerns about Iranian behavior, the US opposes investment in Iran's petroleum sector and that any such project raises concerns under ILSA, which provides for sanctions in the case of certain such investments. President Bush's statement upon the signing of the ILSA reauthorization legislation last year emphasized the critical importance of "strengthening our efforts with other countries, whose cooperation is essential to pursuing the most effective approaches to solving the problems of proliferation and terrorism addressed by ILSA."

In the case of the EU, we have seen improvements in U.S.–EU cooperation and coordination on Iran, particularly as EU concerns have heightened as the Iranian human rights situation continues to deteriorate, revelations have emerged of Iran's ambitious and hidden nuclear program, and terrorist attacks continue to threaten the Middle East peace process. In this regard, the EU has decided to link improvement in economic relations with improvement in Iran's policies with respect to key areas of concern. As the EU recently stated after a meeting of Foreign Ministers, "The [Foreign Ministers'] Council reconfirmed that progress in economic and political relations with Iran should be evaluated in parallel. More intense economic relations can be achieved only if progress is reached in the four areas of concern, namely human rights, terrorism, non-proliferation and the Middle East Peace Process." In addition, the EU–U.S. cooperation within the IAEA on Iran's nuclear program has been particularly close. The EU has made clear that they share our areas of concern, and that they see the nuclear issue as critical. There is no "continuing waiver"; cases must be examined and decided upon individually.

(B) We have extensive consultations on the situation in Iran and the broad question of investment in Iran both bilaterally and with the EU. Our European interlocutors do not dismiss our arguments about Iran out of hand. The EU and its mem-

ber states often separate their views of ILSA from their view of the best EU policy toward Iran. Discussions on ILSA from the EU side focus on European objections to what they view as the extraterritorial application of US law and the imposition of a secondary boycott. They have a specific policy forbidding EU companies from complying with ILSA. On Iran, European officials usually make clear that the US and EU both object to Iranian policies and have the same goals, but there are differences on the best way to achieve those goals. As a practical matter, in recent years these differences over tactics for dealing with Iran have narrowed substantially as the situation in Iran has deteriorated. However, EU policy remains opposed to ILSA.

Disagreements between global partners can have consequences on the tone and substance of the relationship for both sides of the dispute. The EU is well aware—and we remind European officials often—that investment in the Iranian oil and gas sector may have implications under U.S. law. They respond that imposition of ILSA sanctions on an EU company would generate an EU counter action.

Question:

Today, U.S. and EU delegations are meeting in a summit to discuss a myriad of issues in our bilateral relations. Could you please elaborate upon the specific arguments U.S. officials are making regarding their investments and ILSA applicability?

Response:

Discussions on Iran at the June 25 Washington Summit focused closely on the threats posed by the Iranian nuclear program and how the U.S. and EU could most effectively counter these threats. Both sides pledged cooperation on a joint work program to combat the proliferation of dangerous weapons.

Question:

How are violating companies approached to express our disagreement with their violation of ILSA? At what levels are these contacts made—Ambassadorial or lower? Are the contacts made at the corporate or governmental levels, or both? Are demarches filed? Can we get access to these demarches?

Response:

We normally ask our Embassy to make a demarche to both the host country and the firm involved. We not only make clear our ILSA concerns, but also stress the range of issues that trouble us with regard to Iran and Libya. Such demarches may be made by an Ambassador or a less senior officer.

Question:

What role does ILSA play within the broader U.S. policy toward the Iranian regime? What message does the lack of ILSA implementation send to other rogue states in the region such as Syria?

Response:

U.S. policy towards state sponsors of terrorism has always been oriented towards maximum U.S. effort to end those countries' destructive policies, combined with maximum effort to garner international consensus against that country. Sanctions are one tool in our toolbox. In the case of Iran, while it is not subject to any multilateral sanctions, the U.S. has enacted numerous national sanctions laws as a deterrent to its negative behavior. In addition to ILSA, there are a number of other restrictions on activities involving Iran. These include numerous nonproliferation laws we use to deter exports to Iran that can contribute to its WMD and missile programs. We have used ILSA and other sanctions within our constant dialogue with other countries on ending Iran's support for terrorism and pursuit of WMD.

In keeping the pressure on Iran, we have many tools at our disposal, from diplomatic dialogue with the international community to export controls and sanctions. The success of all of our efforts depends to a great deal on cooperation from other countries.

As U.S. officials have made clear, there is no cookie-cutter solution for all state sponsors of terrorism, but we make maximum use of all levers in our efforts to put an end to the scourge of terrorism.

Question:

The Karine-A incident in January 2002 highlighted the new arms relationship between the Iranian regime and senior PLS leadership. Were any of the current Palestinian Ministers involved in the Karine-A incident?

Response:

We have no concrete information that any current Palestinian Ministers were involved in the Karine-A affair.

Question:

How is the new Palestinian leadership addressing the arms links to the Iranian regime and other state-sponsors of terrorism? What safeguards is the U.S. monitoring team implementing to ensure that Palestinians involved in the security services do not have ties to the Iranian regime, other state-sponsors of terrorism, and terrorist groups? How are we ensuring that U.S. assistance, such as the \$300 million transferred to the Palestinian security Minister, is not directly or indirectly going to the terrorists or state-sponsors such as the Iranian regime?

Response:

Several current Palestinian Ministers and other senior Palestinian leaders have often and publicly voiced their concerns about links between Iran and armed elements of Fatah and the Islamist Palestinian rejectionist groups. These officials recognize the destabilizing effects posed by Iranian involvement and seek to minimize this threat. The Palestinian Prime Minister's strong public statements calling for an end to violence also send an important signal to other regional state sponsors of terror.

Ambassador Wolf and the members of his team are coordinating, monitoring, and promoting implementation of Israeli and Palestinian commitments, with particular emphasis on the roadmap, in furtherance of President Bush's vision of two states, Palestine and Israeli, co-existing in peace and security. The President expects both parties to fulfill their commitments to him. He further expects the Palestinian Authority to dismantle all terrorist groups and their infrastructure.

For information on the US support for the restructuring and rebuilding of the Palestinian security forces, a classified intelligence briefing would be appropriate.

Question:

What does the Administration plan to do to prevent Iran from acquiring nuclear weapons, keeping in mind President Bush's recent statement that we would not allow Iran to gain a nuclear capability?

Response:

This Administration is committed to using all available tools to try to stop Iran's nuclear weapons program. The President noted June 18 that the international community must come together to make it very clear to Iran that we will not tolerate the construction of a nuclear weapon. He said he brought this subject up in the G-8; they had a good discussion on the subject, with near universal agreement that we all must work together to prevent Iran from developing a nuclear weapon.

We are supporting fully the efforts of the International Atomic Energy Agency (IAEA) to investigate concerns over Iran's nuclear activities. The IAEA has already uncovered proof of Iranian safeguards failures—including the import and use of undeclared nuclear material at undeclared locations. We are confident that IAEA inspections throughout this summer will find further evidence of serious Iranian safeguards violations. At its next meeting, the IAEA Board of Governors will consider evidence reported to it by the Director General, and will determine whether Iran is in noncompliance with its safeguards obligations. We are working actively with friends, allies, and partners to prepare the IAEA Board to take such action.

We are continuing to engage Russia extensively, to urge Russia to suspend all nuclear cooperation with Iran. The President has raised this issue frequently with President Putin, who has assured us that Russia shares our goal of preventing Iran from acquiring nuclear weapons capability. Russia has been pressing Iran to cooperate fully with the IAEA and to sign and implement a safeguards-strengthening IAEA Additional Protocol. We remain concerned by Russian cooperation with Iran, including on the Bushehr light-water reactor. We have made our concerns clear to Russia. We expect that if Iran is found in noncompliance with its safeguards obligations, this will significantly affect Russia's cooperation with Iran.

We are also working closely with the European Union, as underscored by the June 25 joint U.S.-EU Summit Statement on Proliferation of Weapons of Mass Destruction (WMD). The EU shares our serious concerns about Iran's program. The EU has made clear to Iran that EU-Iran relations are linked with Iran's cooperation with the IAEA, its commitment to giving more transparency to its nuclear program, and its willingness to answer fully the international community's concerns about its nuclear program.

Finally, we have been working with nuclear supplier countries in the Nuclear Suppliers Group (NSG) and the Zangger Committee to urge closer scrutiny of proposed exports to Iran and to tighten up on Iranian nuclear procurement attempts.

Question:

One of the witnesses in the second panel asserts that it is optimistic to think that Iran will cease or reverse nuclear proliferation because of diplomatic pressure. Do you agree or disagree? Have our diplomatic efforts with the Iranians in the last year yielded any concrete results on the WMD front?

Response:

We believe our diplomatic efforts have met with concrete results, though we recognize that significant work remains. Over the past ten months, Russian nuclear cooperation with Iran has been bounded in important ways and Russia has expressed growing concern about Iran's enrichment program. China has become an increasingly helpful interlocutor. The EU is requiring that Iran demonstrate verifiable improvements in its nonproliferation behavior as a condition to progress in relations with Iran, and key European states have told Iran it should cease development of nuclear fuel cycle technology. Nuclear supplier countries are more closely scrutinizing exports destined for Iran. In addition, the IAEA is undertaking a rigorous examination into Iran's nuclear activities that has already confirmed serious Iranian safeguards violations.

The international community has made clear to Iran the steps it must take. Iran, however, has refused to meet the IAEA's requests, in a timely fashion, and when it does "cooperate" after repeated delays, it seems to be doing so only as a result of being confronted with evidence it can no longer refute. Additionally, Iran continues to talk about signing and implementing an Additional Protocol, but has taken no step to actually do so. Nonetheless, we believe sustained diplomatic pressure and the threat of isolation that would result from a finding of Iranian noncompliance are beginning to force the regime to reconsider its nuclear goals and ambitions. Continued firm diplomacy, combined with ongoing IAEA inspections, can help achieve our policy goal. However, as the President and others have indicated, we will not rule out any policy option that would help prevent Iran from developing nuclear weapons.

Question:

Would you agree that the only sure way to remove the threat of Iran's WMD is regime change? Would you agree that, to accomplish this long-term goal, the U.S. should be supportive of democratic forces? Would you agree that ILSA implementation would, at the very least, demonstrate to pro-democracy elements in Iran that the U.S. supports their efforts and not the regime? Within this context, could you please explain the statement made by Deputy Secretary of State Armitage a couple of months ago, referring to Iran as a democracy?

Response:

As President Bush has made clear, it is U.S. policy to call on the government of Iran to listen to the will of its people who are so clearly desirous of democratic and economic reform in their country, and to offer our moral support to those brave political activists. Our problems are with the policies of the government and not with the Iranian people, and we take every opportunity to underscore how the government's destructive policies hurt the population. While we see indications of support for pursuing a nuclear program across the political spectrum in Iran, we believe that a truly democratic Iran will make more responsible choices about its future. In addition, ending its destructive policies will greatly reduce the tensions in the region that currently makes Iran feel it needs the strongest of defenses.

We hear repeatedly from Iranian activists that they appreciate the strong political stands the U.S. makes in its Iran policy, and that the Iranian people will remember how other countries dealt with Iran. We also hear that they do not seek outside military intervention or leaders or fighters imposed from abroad. They desire the international community's moral support; they see that the U.S. clearly stands with them.

Iran has some of the fundamental structures of a democracy, such as an elected president and a parliament that debates the real issues of concern in the country. In that way, Iran has more of a grounding of civil society than we see in many other countries, and citizens and the press understand the power of their voice. Nonetheless, real power in the country is maintained by people who do not answer to the electorate. Until power is transferred to elected officials in a transparent manner and vetting of candidates ends, Iran will not experience true democracy.

Question:

How is the State Department's approach to ILSA different today than it was five years ago?

Response:

Our approach has always focused on how best to achieve the nonproliferation and counterterrorism objectives of the Act. This continues to be the case.

Question:

Which countries have been more accommodating with trying to restrict their own companies from violating ILSA? Which ones have been less accommodating?

Response:

Absent a national law or policy, or a recognized international action such as a UNSC resolution, most countries take the position that commercial investment decisions should be left to the companies concerned.

Question:

Will countries whose companies have violated ILSA be given the right to bid on contracts for the reconstruction of the Iraqi oil industry? Have we discussed this issue with EU countries? Are we monitoring for such activity and are we implementing any safeguards to prevent against rewarding ILSA violators with Iraqi contracts?

Response:

Iraq's oil belongs to the Iraqi people and will be used for the benefit of all Iraqis, consistent with UN Security Council Resolution 1483. Near-term decisions regarding Iraq's oil sector are being taken by an interim Iraqi management team, headed by Thamer Ghadhban, in coordination with the Coalition Provisional Authority. Neither the Coalition Provisional Authority nor the interim Iraqi management team will enter into contracts for the exploration and development of Iraq's oil resources. Those decisions will be made by an internationally recognized, representative Iraqi government, when in place.

The United States is supporting, with appropriated funds, the immediate rehabilitation of Iraq's existing oil infrastructure and the restoration of oil production. Efforts funded by the U.S. Government are being undertaken by the Army Corps of Engineers in consultation with the interim Iraqi oil management team and the Coalition Provisional Authority. Contracts funded out of U.S. appropriated funds related to these efforts will comply fully with applicable U.S. procurement regulations.

We continue to raise with our European and other partners our concerns related to Iran's support for terrorism and the potential application of ILSA to companies that choose to invest in Iran's energy sector.

Question:

How would you characterize the Administration's position on imposing sanctions on foreign firms, if any, determined to have violated ILSA? To what extent are you concerned that imposing ILSA sanctions might complicate the achievement of other U.S. foreign policy objectives? Please explain.

Response:

If the Secretary determined that a firm had engaged in activity covered by the statute, the Secretary would decide in light of our national interests what action under the statute to take. It's a case by case decision, in light of the circumstances that apply at the time. Imposing sanctions might have a negative impact on U.S. foreign policy interests, and even work against the foreign policy goals set out in ILSA. In recognition of this possibility, ILSA authorizes the executive branch to waive the imposition of sanctions if a waiver is found to be important to the U.S. national interest.

Question:

To what extent does ILSA supplement other U.S. sanctions against Iran?

Response:

ILSA is one of a number of tools we have for addressing proliferation and terrorism concerns relating to Iran. ILSA is one platform for raising these concerns with other countries.

Question:

The most recent report on "Iran-Related Multilateral Sanctions Regime Efforts" states that the U.S. has continued to enforce sanctions against specific foreign entities

that we have determined are involved in the supply of sensitive WMD and missile-related materials and technology to Iran.

(A) Please elaborate on which entities have been sanctioned? What about governments, such as Russia, who have been contributing to Iran's nuclear capabilities?

(B) The report also states that these sanctions have delayed Iran's progress but it has not halted Iran's continued drive for WMD. Does ILSA have a useful role to play with respect to constraining Iran's nuclear programs or its support for terrorism by closing the loopholes and truly raising the costs for Iran? Please explain.

Response:

(A) Since January 2001 the United States has imposed penalties in forty-one cases, based on foreign entities' roles in supplying to Iran goods or technology related to weapons of mass destruction (WMD) or missile-related items. No foreign governments have triggered the sanctions laws during that time through WMD/missile-related transfers. The United States has an extensive dialogue with Russia regarding its nuclear cooperation with Iran, and we believe Russia supports fully the ongoing IAEA investigation into Iran's nuclear program. The following is a list of these cases, organized on the basis of the legal authority for the penalties and the date of imposition.

Chemical and Biological Weapons Sanctions:

July 9, 2002:

Jiangsu Yongli Chemicals and Technology Import and Export Corporation (Chinese company),
 Q.C. Chen (Chinese citizen),
 China Machinery and Equipment Import Export Corporation (Chinese company),
 China National Machinery and Equipment Import Export Corporation (Chinese company),
 CMEC Machinery and Electric Equipment Import and Export Company Ltd. (CMECMEE) (Chinese company),
 CMEC Machinery and Electrical Import Export Company, Ltd. (Chinese company),
 China Machinery and Electric Equipment Import and Export Company (Chinese company), and
 Wha Cheong Tai Company Ltd. (Chinese company).

Missile Sanctions

May 9, 2003:

Cuanta S.A. (Moldova)
 Computer & Comunicatii SRL (Moldova), and Mikhail Vladov (Moldova).

Executive Order 12938

May 9, 2003:

Shahid Hemmat Industrial Group (SHIG).
 [NOTE: E.O. penalties were imposed on SHIG twice for two different transactions.]
 North China Industries (NORINCO).

Iran Nonproliferation Act Sanctions

January 2, 2001:

Changgwang Sinyong Corporation (North Korea).

June 14, 2001:

Jiangsu Yongli Chemicals and Technology Import and Export Corporation (China),
 Changgwang Sinyong Corporation (North Korea).

January 16, 2002:

Liyang Chemical Equipment (China),
 China Machinery and Electric Equipment Import and Export Company (China), and
 Q.C. Chen (China).

May 9, 2002:

Lizen Open Joint Stock Company (Armenia), Armen Sargsian (Armenia),
 Liyang Yunlong, aka Liyang Chemical Equipment Company (China),
 Zibo Chemical Equipment Plant, aka Chemet Global Ltd. (China),
 China National Machinery and Electric Equipment Import and Export Company (China),
 Wha Cheong Tai Company (China),
 China Shipbuilding Trading Company (China),

The China Precision Machinery Import/Export Corporation (China),
 The China National Aero-Technology Import And Export Corporation (China),
 Q.C. Chen (China),
 Cuanta, SA (Moldova), and
 Mikhail Pavlovich Vladov (Moldova).

Iran-Iraq Nonproliferation Act of 1992 Sanctions

July 9, 2002:

Jiangsu Yongli Chemicals and Technology Import and Export Corporation (Chinese company),
 Q.C. Chen (Chinese citizen),
 China Machinery and Equipment Import Export Corporation (Chinese company),
 China National Machinery and Equipment Import Export Corporation (Chinese company),
 CMEC Machinery and Electric Equipment Import and Export Company Ltd. (CMECMEE) (Chinese company),
 CMEC Machinery and Electrical Import Export Company, Ltd. (Chinese company),
 China Machinery and Electric Equipment Import and Export Company (Chinese company),
 Wha Cheong Tai Company Ltd. (Chinese company), and
 China Shipbuilding Trading Company (Chinese company).

(B) In the 1998 South Pars case, we concluded that the imposition of sanctions would not have stopped the investment. However, as noted, we have had some success in increasing the level of cooperation with other countries in inhibiting Iran's WMD development.

Question:

To what extent, if any, did ILSA contribute to the decision of regional states and corporations operating in the Caspian to construct the Baku-Ceyhan pipeline?

Response:

This is a difficult matter to prove, but some observers and analysts have concluded that ILSA did have some impact in discouraging the "Iran option" for pipelines to export Caspian oil and gas resources. This enhanced the prospects for the Baku-Tbilisi-Ceyhan pipeline (BTC), which is now under construction.

Question:

To what extent are foreign corporations satisfied with their returns on their energy investments in Iran? What problems, if any, have foreign firms reported in implementing their projects in Iran?

Response:

The terms offered by Iran have reportedly been sufficient to attract some foreign investment. However, we note that the pace of agreements on oil projects appears to have slowed, and industry press reporting suggests that there is dissatisfaction by foreign oil companies with the terms currently being offered by Iran. Problems of which we have heard also include general political opposition to deals with foreign firms in the sensitive oil and gas sector, bureaucratic inefficiency, corruption, and high local-content requirements.

Question:

Have deals, such as continued contracts for South Pars, which have been amended after June 13, 2001, been reviewed for sanctions as new investments as called for in the re-authorization of ILSA in August 2001?

Response:

The agreements reportedly signed since the 1998 waiver decision (which covered Phases 2 and 3) for development of the later phases of the South Pars project, are the subjects of pending ILSA cases.

Question:

What is the status of review of the signed agreements between the South Korean firm, LG Constructions, with the National Iranian Oil Company to develop Phases 9 and 10 of the South Pars field? What about the review of Norway's Statoil for the offshore portions of Phases 6, 7, and 8 of South Pars? Has a decision been made on sanctionability? If so, what is the determination and why? If not, when should the Congress anticipate such a decision?

Response:

The reported agreement by LG Construction regarding Phases 9 and 10 of South Pars, and that by Statoil for the offshore portions of Phases 6, 7, and 8 are the subjects of pending cases. No determination on sanctionability has yet been made. We are not able to say when that decision will be made.

Question:

How is the information obtained to decide whether an investment deal is in violation of ILSA? Does the information gathering begin at our overseas diplomatic posts? What is the quality of the Administration's information on the details of the investment deals that have been signed with Iran since ILSA was enacted into law?

Response:

We seek information from all available sources. In many cases, our initial step is to request that Embassies seek additional information from the company concerned. In some cases, we have met with company officials or representatives in Washington. Some information is available about most major "deals", but the quality and extent of information could always be improved.

Question:

To what extent has the Administration received information from the foreign investors themselves about their deals with Iran? How is that information obtained? Does the information gathering begin at our overseas diplomatic posts? What is the quality of the Administration's information on the details of the investment deals that have been signed with Iran since ILSA was enacted into law?

Response:

When there are reports about plans or actions that raise ILSA concerns, we regularly request that our Embassies seek additional information. In such cases, the information-gathering process could begin at a post abroad, and the first point of inquiry is likely to be the company concerned. Some information is available about most major "deals", but, as we have said, the quality and extent of information, and our knowledge of the facts, could always be improved.

Question:

There are about 10 foreign investments in Iran for which no determination with respect to ILSA has been announced. When will the Administration issue decisions on these deals? Why is it taking so long to come to formal conclusions on whether or not a particular investment violates ILSA? What is the process by which a final determination is made on these cases?

(A) What is the degree of information the Department considers necessary to make the appropriate decision on sanctionability? Is any information lacking preventing the Department from making a decision on the deal's sanctionability?

(B) Please provide the rationale for determinations of an investment deal's sanctionability? Can you describe the overall process for examining oil investment deals with Iran? What specific variables/ criteria are used to evaluate/ investigate possible ILSA violations?

(C) Who is responsible for the final decision on ILSA violations—the Economic Bureau, NEA, or the European Bureau? Does any other department weigh in on the decision? Is there input by the non-proliferation and counter-terrorism bureaus in these decisions?

Response:

We cannot provide a timeline for these decisions: each case is different as to its circumstances and the evidence available to us, and each case must be treated on its own terms. We have to proceed carefully to ensure not only that we understand the facts, but that we understand the implications of those facts in terms of the provisions of the law. Meanwhile, as noted, we are continuing to seek enhanced cooperation from other countries on our WMD and terrorism concerns with respect to Iran, particularly on forming international consensus on Iran's nuclear program. The process involves fact-finding and information-gathering about the particular project; internal meetings and interagency consultations; and an eventual decision by the Secretary of State on whether the deal comes within the statute, and if it does, what action to take under the law.

(A) As indicated, in terms of information, each case is different as to its circumstances and the evidence available to us concerning its nature, value, and the like. In all cases, of course, we must satisfy ourselves that sanctionable activity is involved. While we have some knowledge about the major deals, our information could be improved.

(B) The basis for the examination of cases, and the selection of variables or criteria to be considered, is the text of the statute, which defines key terms, such as “investment” and “development”, and establishes other criteria, such as the investment threshold, and the “directly and significantly” requirement. Regarding process, as indicated, it involves, first, fact-finding and information-gathering about the particular project, internal meetings and interagency consultations; then an eventual decision by the Secretary of State on whether the deal comes within the statute, and if it does, what action to take under the law.

(C) The Secretary of State, under authority delegated by the President, is responsible for making the final determination. Within the Department, all relevant bureaus would be involved. Consultation with other agencies is a part of the process required by the delegation of authority.

Question:

Have there been any oil trans-shipment arrangements through Iran that have been sanctioned or denied licenses?

Response:

We understand from Treasury’s Office of Foreign Assets Control (OFAC) that a license for transshipment was issued in 1999, after consultation with the State Department, to a US oil-service company for equipment to be used in operations in the Caspian area.

Question:

What will the report called for in the 2001 ILSA reauthorization contain and when can we expect it? Will there be any further policy recommendations in that report?

Response:

The report will be submitted, as required, in the six-month period following August 3, 2003. The report will, of course, address the issues specified in the legislation. No decisions have yet been made on specific content, or on whether to make a policy recommendation.

QUESTION SUBMITTED FOR THE RECORD TO ROGER W. ROBINSON, CEO AND PRESIDENT, CONFLICT SECURITIES ADVISORY GROUP, INC., BY THE HONORABLE ILEANA ROS-LEHTINEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA, AND CHAIRWOMAN, SUBCOMMITTEE ON THE MIDDLE EAST AND CENTRAL ASIA, AND MR. ROBINSON’S RESPONSE

Ms. Ros-Lehtinen’s Question:

The Administration indicated that four companies are currently in violation of ILSA. You stated in your testimony that some 375 are currently operating in terrorist-sponsoring states. Can you tell us how many are in Iran and Libya and, to your knowledge, whether those firms have investments totaling more than \$20 million.

Mr. Robinson’s Response:

Our research findings show that some 22 publicly traded companies are doing business in Libya’s energy sector, as we understand that sector to be defined by the Iran-Libya Sanctions Act (ILSA). Of this total, about half appear to have investments in excess of \$20 million. In the case of Iran, the Global Security Risk Monitor research indicates that 58 publicly traded companies have operations in the energy sector of that country (as we understand the ILSA definition), of which some 41 are engaged in investment activity of over \$20 million.

