

**THE ILSA (IRAN-LIBYA SANCTIONS)  
EXTENSION ACT OF 2001**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON THE MIDDLE EAST  
AND SOUTH ASIA  
OF THE  
COMMITTEE ON  
INTERNATIONAL RELATIONS  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

\_\_\_\_\_  
MAY 9, 2001  
\_\_\_\_\_

**Serial No. 107-13**

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Printed for the use of the Committee on International Relations



Available via the World Wide Web: [http://www.house.gov/international\\_relations](http://www.house.gov/international_relations)

U.S. GOVERNMENT PRINTING OFFICE

72-349 DTP

WASHINGTON : 2001

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## THE ILSA (IRAN-LIBYA SANCTIONS) EXTENSION ACT OF 2001

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WEDNESDAY, MAY 9, 2001

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

The Committee met, pursuant to call, at 10:23 a.m. in Room 2172, Rayburn House Office Building, Hon. Benjamin A. Gilman, [Chairman of the Subcommittee] presiding.

Mr. GILMAN. The Subcommittee will come to order.

The Subcommittee on the Middle East and South Asia meets today in open session to receive testimony on a draft bill to extend the life of the Iran-Libya Sanctions Act (ILSA) for another 5 years. We are about to receive testimony from the author of the original ILSA legislation, Senator Alfonse D'Amato, and I was pleased to join with him in sponsoring this in the House.

We will be hearing witnesses on both sides of the issue and we will be introducing them properly in a moment, but first permit me to make just a few opening remarks.

ILSA was intended to change unacceptable Iranian behavior by reducing or making more expensive Iran's access to its energy resources. It was the intent of the supporters of the bill and its authors 5 years ago that either Iran would change its behavior so that it would gain access to investments from around the world or that—absent a change in behavior—it would be hampered in its efforts to promote terror and obtain weapons of mass destruction.

It is regrettable that Iranian behavior has not changed for the better. In fact, it seems to be getting worse—in its training of terrorists, its production of chemical and biological weapons, its production of long-range missiles and pursuit of the development of nuclear capabilities. But that is no reason to give up the struggle to deprive Iran of the means to use to violence to achieve its aims.

We do not repeal the laws against murder because those laws fail to deter every killer, nor do we close down our police departments because they do not resolve every case. There is ample evidence that ILSA has delayed exploitation of Iran's energy resources and made their development even more difficult and more expensive. That is exactly what we intended to do when we introduced this measure.

We need to ask those who would tell us not to use sanctions as a tool against Iran what the record of the alternative, that is, diplomacy and commercial engagement, has been with respect to dealing with Iran?

Has Iran changed at all in the face of European diplomatic and commercial engagement?

Have Saudi Arabia, Syria, Iraq, Equatorial Guinea and other oil exporters become places where the right to free speech and religion flourish under the influence of our oil companies?

It could be said, on the contrary, that the more money some of these regimes have, the more repressive they have become. Let me note that there are and will continue to be constraints—which I believe are illegal—on oil production imposed by the OPEC cartel. As long as that cartel continues to operate, it is pure folly to say that increasing investment in energy production in Iran will do anything significant to lower prices or increase availability. Oil production may move marginally in the direction of Iran, but prices and availability are manipulated by OPEC's emirs and there is little any Administration has been able to do about it.

In Iran, we are faced with a regime whose national security aims appear to include the destruction of the state of Israel and a desire to threaten the United States. There is no appreciable gap between the views of the so-called moderates in Iran and the so-called hard liners on these issues. Each call for the destruction of Israel.

Iran's supreme leader, Ayatollah Khomeini, calls Israel a "cancerous tumor." Iran's parliament, in the hands of the moderates, hosts conferences where terrorists are feted and "moderate" President Khatami recently told Yasser Arafat that, and I quote, "All of Palestine must be liberated."

It does not matter how many liberal French philosophers Khatami may have read. He has not understood their true message.

We cannot send a signal of lack of resolve to the rulers of Iran. We have no quarrel with the Iranian people who do not—I repeat, do not—have the right to elect a leader who would move them away from the destructive policies of the Islamic republic. Their ability to change their government is circumscribed by the clerics who defend the existing order. And, of course, their regime is a repressive one that often stifles dissent and kills or imprisons members of religious minorities.

So it is left to us to do what the Iranian people cannot do for themselves, which is to contain the existing regime as best we can, and that is all that our policy does.

Let me remind my colleagues that ILSA levels the playing field between American companies and foreign companies. ILSA does not affect American companies. They are barred by executive order from dealing in Iran.

All we are doing in the underlying measure and in its reauthorization is telling foreign companies that are willing to deal with Iran that they may have to pay a price when it comes to their dealings with our nation. Clearly, this can create problems for our diplomacy with Europeans and others. But, if as President Bush certified in March, Iran continues to, and I quote the President, "Threaten the vital interests of the national security, foreign policy and the economy of the United States," then they must continue to do everything to contain that threat and today that means we must renew the Iran-Libya Sanctions Act.

[The bill follows:]

.....  
(Original Signature of Member)

107TH CONGRESS  
1ST SESSION

**H. R.** \_\_\_\_\_

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IN THE HOUSE OF REPRESENTATIVES

Mr. GILMAN (for himself, Mr. BERMAN, **[see attached list of cosponsors]**) introduced the following bill; which was referred to the Committee on \_\_\_\_\_

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**A BILL**

To extend the authorities of the Iran and Libya Sanctions Act of 1996 until 2006.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the "ILSA Extension Act  
5 of 2001".

1 **SEC. 2. EXTENSION OF IRAN AND LIBYA SANCTIONS ACT OF**  
2 **1996.**

3 Section 13(b) of the Iran and Libya Sanctions Act  
4 of 1996 (50 U.S.C. 1701 note; Public Law 104-172) is  
5 amended by striking "5 years" and inserting "10 years".

Mr. GILMAN. I am pleased to recognize the Ranking Minority Member, who is with us today, the gentleman from New York, Mr. Ackerman.

[The prepared statement of Mr. Gilman follows:]

PREPARED STATEMENT OF THE HONORABLE BENJAMIN A. GILMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK, AND CHAIRMAN, SUBCOMMITTEE ON THE MIDDLE EAST AND SOUTH ASIA

The Subcommittee will come to order.

The Subcommittee on the Middle East and South Asia meets today in open session to receive testimony on a draft bill to extend the life of the Iran-Libya Sanctions Act—ILSA—for another five years.

We will receive today testimony from the original author of the legislation, Senator Alfonse D'Amato, and from witnesses on both sides of this issue. I will introduce them properly in a moment but first permit me to make a few opening remarks.

ILSA is intended to change unacceptable Iranian behavior by reducing, or making more expensive, Iran's access to its energy resources. It was the intent of the supporters of this bill, five years ago, that either Iran would change its behavior so that it would gain access to investments from around the world or that, absent a change in behavior, it would be hampered in its efforts to promote terror and obtain weapons of mass destruction.

It is regrettable that Iranian behavior has not changed for the better. In fact, it seems to be getting worse—in its training of terrorists, in its production of chemical and biological weapons and the production of long range missiles.

But that is no reason to give up our struggle to deprive Iran of the means to use violence to achieve its aims.

We do not repeal the laws against murder because those laws fail to deter every killer. We do not close down our police departments because they do not resolve every case.

There is ample evidence that ILSA has delayed exploitation of Iran's energy resources and made their development more difficult and more expensive. And that is exactly what it is intended to do.

We need to ask those who would tell us not to use sanctions as a tool against Iran what the record of the alternative—that is, diplomacy and commercial engagement—has been with respect to dealing with Iran. Has Iran changed at all in the face of European diplomatic and commercial engagement? Have Saudi Arabia, Syria, Iraq, Equatorial Guinea, and other oil exporters become places where the right to free speech and religion flourish under the influence of our oil companies? It could be said, on the contrary, that the more money some of these regimes, have the more repressive they become.

Let me note that there are and will continue to be constraints—which I believe are illegal—on oil production imposed by the OPEC cartel. As long as that cartel continues to operate, it is pure folly to say that increasing investment in energy production in Iran will do anything significant to lower prices or increase availability. Oil production may move, marginally, in the direction of Iran. Prices and availability are manipulated by OPEC's Emirs, and there is little any Administration has been able to do about it.

In Iran we are faced with a regime whose national security aims appear to include the destruction of the State of Israel and a desire to threaten the United States. There is no appreciable gap between the views of the so-called "moderates" and the so-called "hard liners" on these issues. Each call for the destruction of Israel. Iran's Supreme Leader, Ayatollah Khamenei, calls Israel a "cancerous tumor." Iran's Parliament, in the hands of the "moderates", hosts conferences where terrorists are feted. And "moderate" President Khatami recently told Yasir Arafat that "all of Palestine must be liberated." It doesn't matter how many liberal French philosophers Khatami has read. He hasn't understood their true message. We cannot send a signal of lack of resolve to the rulers of Iran.

We have no quarrel with the Iranian people, who do not—I repeat, do not—have the right to elect a leader who would move them away from the destructive policies of the Islamic Republic. Their ability to change their government is circumscribed by clerics who defend the existing order. And, of course, their regime is a repressive one that often stifled dissent and kills or imprisons members of religious minorities. So it is left to us to do what the Iranian people cannot do for themselves, which is to contain the existing regime as best we can. And that is all that our policy does.

Let me remind the public that ILSA levels the playing field between American companies and foreign ones. ILSA does not affect American companies—they are barred by executive order from dealing in Iran. All we are doing is telling foreign companies that are willing to deal with Iran that they may have to pay a price when it comes to their dealings with the United States. Clearly this can create problems for our diplomacy with the Europeans and others.

But if, as President Bush certified in March, Iran continues to “threaten the vital interests of the national security, foreign policy and economy of the United States”, then we must continue to do everything to contain that threat. And today, that means we must renew the Iran-Libya Sanctions Act.

Mr. ACKERMAN. Thank you very much, Mr. Chairman. Thank you for scheduling this meeting. I want to associate myself with your very articulate and strong statement.

Mr. Chairman, when the Iran-Libya Sanctions Act was signed into law 5 years ago, it was the judgment of this Committee that the bill would be, in the exact words of the Committee, “a key element in United States policy of cutting off sources of funding to those rogue regimes in Iran and Libya who continue to support acts of terrorism and develop weapons of mass destruction.” That is exactly from the report language.

Five years later, little has changed and I believe ILSA remains a key element of U.S. policy. The State Department’s most recent terrorism report states that, and I quote, “Iran remains the most active state sponsor of terrorism.”

Iranian support for terrorism continues to focus on groups who are opposed to peace between Israel and its neighbors and opposes the very existence of Israel itself.

Iran continues to provide Hezbollah, Hamas, the Palestinian-Islamic Jihad, Ahmed Jabril’s PFLP-GC with weapons, training, safe haven and varying amounts of funding.

Iran also remains a significant threat to the region through its aggressive pursuit of both weapons of mass destruction and advanced conventional weapons technology.

According to the most recent CIA report on the acquisition of these technologies, “Iran remains one of the most active countries seeking to acquire WMD and ACW technology from abroad.”

Iranian cooperation with Russia, China and North Korea will accelerate Iran’s missile program and its ability to develop nuclear weapons. There are those in the United States who believe that it is time for a new relationship with Iran. They argue that President Khatami is a reformer whose efforts we should encourage.

Well, Mr. Chairman, President Khatami is no reformer when it comes to Iranian foreign policy. He continues to oppose the peace process. President Khatami has said “The Arab countries now know that it is not impossible to defeat Israel as they once believed, and the states that did think so were isolated by their own people.”

Clearly, President Khatami is not interested in supporting a peace agreement between Israel and the Palestinians.

With regard to Libya, President Bush was correct to note a few weeks ago that Libya needs to take further steps before sanctions can be lifted. Libya must express remorse, admit their guilt and renounce terrorism, and compensate the families of Pan Am 103 for their tragic losses. If that happens, I think it might be appropriate to reconsider U.S. policy toward Libya, bearing in mind Libya’s

continued pursuit of chemical weapons as well as ballistic missile technology.

Mr. Chairman, given the circumstances in both Iran and Libya, I think the Congress should act swiftly to renew the Iran-Libya Sanctions Act. The same conditions that demanded actions 5 years ago demand action today.

I look forward to hearing from our very distinguished witnesses today, Mr. Chairman, especially from our very good friend and former colleague, the distinguished Senator from New York, Senator D'Amato, and we look forward to his remarks, especially since he played the lead role in formulating the original act.

Thank you, Mr. Chairman.

Mr. GILMAN. Thank you, Mr. Ackerman.

Mr. Cooksey?

Mr. COOKSEY. Thank you, Mr. Chairman. In my opening statement, I want to throw out some challenges for the witnesses for today. I hope today you will answer the question, which is: Are the sanctions working? And, if not, what can be done to improve the effectiveness of the sanctions?

I can say more bad things about the leadership of Iran and Libya than they can. The difference is that I am usually very blunt about it and they are more diplomatic, and I do not want to be diplomatic. Qaddafi is a bad guy. The leadership of Iran is terrible. Their leadership is bad for the people in Libya and Iran. But on the other hand, when I look at countries like France—and I hate the use the word prostitute—but when I see the way they acted in removing our people from the Human Rights Commission and replacing them with the government representatives from Sudan, Cuba, Libya, whoever else is on there, and yet if you would confirm or deny this in your testimony, every time the French oil companies are threatened with sanctions a waiver is made. Specifically, I am talking about Total SA of France, France's Elf Aquitaine, and also a project run by Canada's Bow Valley, Royal Dutch Shell—of course, that is the Netherlands.

So my question again, and I hope you will answer this, and I hope my colleagues on this panel will be objective, are the sanctions working? If not, what can be done to improve them and what can be done to make the rogue nations in Europe, that are supposedly our allies, behave in a manner that is a little bit more honorable than what they were last week when they removed us as a member of the Human Rights Commission?

So I have laid out my challenges for you, I would like to hear the answer.

Thank you, Mr. Chairman.

Mr. GILMAN. Thank you, Dr. Cooksey.

Mr. Lantos?

Mr. LANTOS. Thank you very much, Mr. Chairman. Let me identify myself with your comments and those of my other colleagues.

Mr. Chairman, a little over a year ago, Secretary of State Madeleine Albright offered new hope for improvement in relations between the United States and Iran. Let me recall for you and for all of us Secretary Albright's memorable words: "Spring is the season of hope and renewal, of planting the seeds for new crops, and

my hope is that both in Iran and the United States we can plant the seeds now for a new and better relationship in years to come.”

Secretary Albright did indeed plant new seeds last spring by announcing an easing of sanctions against Iran, including the lifting of the ban on caviar and carpet imports. It was a bold and courageous move and one I supported. The Administration’s rationale was sound, offering sanctions relief to hard working Iranians engaged in those industries, not to the Iranian regime. And its intention was good, Mr. Chairman, seeking to break a stalemate in U.S. Iranian relations.

Iranian caviar began arriving in this country in May of 2000 and the Iranian carpets now being sold here have the potential to earn hundreds of millions of dollars for the Iranian people every year, but there was more to Madeleine Albright’s approach toward Iran than caviar and carpets.

In September of 2000, Secretary Albright and President Clinton personally attended speeches at the United Nations of Iranian President Khatami and the U.S. quietly reached to Iran through many different channels. Given the litany of concerns we have regarding Iran’s destabilizing behavior in the international community, these were extraordinary signals by the United States that we were prepared for a new chapter in our relations with Iran.

We are now a year later and we must ask the question have the seeds that we planted a year ago taken root? Did the easing of sanctions and other goodwill gestures succeed in making relations between Washington and Tehran better?

Unfortunately, the answer to both of those questions is decidedly no.

Since Secretary Albright’s announcement last year, the Iranian regime has not reciprocated with a similar level of good faith gestures of its own, nor has it given any indication of wanting to reverse its ways. It continues to support terrorism aimed at Americans and our allies. It continues to seek weapons of mass destruction and the technologies to deliver them. It continues to wage a propaganda war against the west. It continues to violate the human rights of its citizens, especially women, the B’hai and its Jewish community.

Let me offer just a few specific examples, Mr. Chairman, of the menacing actions Iran has taken since Secretary Albright made her speech a year ago.

A few weeks ago, President Khatami visited Moscow and the two sides agreed that Russia will resume new arms sales to Iran. Iran’s Ambassador to Moscow says that Iran plans to purchase \$7 billion worth of Russian weapons in the near future. This deal provides clear insights into Russia’s new intentions and the new intentions of Iran.

A CIA report released earlier this year concludes that Iran continues to actively seek to acquire weapons of mass destruction, not only from Russia, but from China and North Korea. Recent non-proliferation reports indicate that Iran continues to seek the technology that could be used to create a self-sufficient chemical weapons infrastructure and it may have stockpiled chemical weapons, including blister, blood and choking agents.

Just 4 months after Secretary Albright made her speech, Iran tested an 800-mile range Shahab-3 missile and it is currently developing a 1200-mile missile.

Iran fingerprints are all over the Khobar Towers housing complex bombing in which 19 of our airmen perished. Iran still refuses to cooperate with U.S. investigators.

In the Middle East, Iran publicly supports Hezbollah and its ambush and capture of soldiers on the Israeli border and supreme leader Ali Khameni in November said that the crisis in the Middle East could only end if Israel were, I quote, "eradicated."

About 100 Iranian revolutionary guards remain in Lebanon to coordinate arms deliveries to Hezbollah. Iran has also tried to exploit the current crisis to rally Arab nations against Israel, threatening the very survival of the region's only democracy.

On the human rights front, Mr. Chairman, the persecution of the Iranian B'hai community has continued unabated. Eight Iranian intellectuals were sentenced to prison terms in January 2001 for attending a scientific conference in Germany. And just these past few weeks authorities banned four more newspapers critical of the regime.

In short, Mr. Chairman, the United States reached out an open hand only to be met with a clenched fist from Iran. We have no choice but to hold firm to our principles and our policies and I support the Bush Administration in its recent announcement to continue sanctions against Tehran. President George Bush has no other choice.

And I strongly support my colleague and the Chairman of our Committee, Henry Hyde, who announced earlier this year that he plans to move expeditiously to the floor of the House a renewal of the Iran-Libya Sanctions Act. I pledge my full support to assist Henry Hyde in achieving that objective and I commend you for holding this hearing.

Mr. GILMAN. Thank you, Mr. Lantos.

I am going to urge my colleagues to limit their remarks and we are going to call on just two more colleagues, one on each side, so that we can get to the witness who has been kind enough to wait during the opening remarks.

Mr. Issa?

Mr. ISSA. Thank you, Mr. Chairman.

In light of your request, I will submit my opening statement for the record and make just very brief remarks outside of the opening statement.

Mr. GILMAN. Thank you, Mr. Issa.

Mr. ISSA. Thank you, Mr. Chairman.

I would hope that today we get as much interface of ideas about what those items are that we should do instead of lifting the sanctions and what signs to look for or what signals to send Iran to let them know that we do want peace, we do want a dialogue, we do want to work together to solve the problems in the Middle East if they have a will to do so.

I say this as an Arab-American, as somebody who has family and friends throughout the region of the Middle East, that it is with great regret that these sanctions must stay in place. It is with great regret that we have not been able to convince Iran who funds

Hezbollah (in all candor, for the good things they do, too, the humanitarian, the hospitals, the schools that they pay) to cease the funding of those things which only prolong the agony of the people in the Middle East.

And to the extent that I have the ability to do so and that this Committee has the ability to do so, we ask you to give us guidance here today.

Thank you, Mr. Chairman.

Mr. GILMAN. Thank you, Mr. Issa.

Mr. Sherman, our last intervenor.

Mr. SHERMAN. Mr. Chairman, I think the so-called difference between the moderates and the extremists in the Iranian government may relate to important cultural and domestic issues, but they are united in their support for terrorism, total opposition to peace in the Middle East and expedited development of nuclear weapons, perhaps, the scariest aspect of Iranian policy.

The Iran-Libya Sanctions Act is so critical because Iran will become a net energy importer in the next 10 years unless it can get its hands on western capital and western technology to improve its aging oil fields and to develop additional ones. And I think the Iran-Libya Sanctions Act represents an outstanding step toward depriving them of that technology and capital.

We also ought to look at two other areas, one that you have mentioned, Mr. Chairman, and that is to make sure that the World Bank does not go through with its idea of perhaps lending \$750 million to the Iranian government and I might slightly disagree with my colleague from California and say that unless there is a change, and for the last year, there has not been any change for the better in Iranian policy, we have to look at rolling back the importation of caviar, carpets, et cetera, and other non-energy imports to the United States, especially when the worst elements of the Iranian government control those exports.

I thank you for holding these hearings.

Mr. GILMAN. Thank you, Mr. Sherman.

And now I am pleased to turn to our witnesses and I would ask our witnesses to try to limit their remarks as best they can and your full statements will be entered into the record without objection. Also without objection, the record will remain open for 10 days to receive any additional materials.

It is appropriate that we begin our witness comments with the author of this legislation, the gentleman from New York, Senator D'Amato. The Senator is appearing courtesy of facilities provided by our Department of State in New York City and we thank the department for their courtesy and cooperation.

Senator Alfonse D'Amato served three terms as our Senator from the State of New York. Senator D'Amato won a reputation as a tireless fighter for the people of the State of New York, but, beyond that, his main concern was always our national security.

The Senate Committee on Banking, which he chaired, was responsible for export control policies under the Senate rules and that brought him front and center on the issue of how to pressure Iran when we became aware of its depredations. Senator D'Amato also served with distinction on the Committees on Appropriations and Finance in the Senate.

Senator D'Amato, it is a genuine pleasure to welcome you to our Committee's hearing. You are the father of the Iran-Libya Sanctions Act. It was in an effort to make ILSA more acceptable that we included a sunset provision some 5 years ago, so here we are, looking at that deadline head on.

Senator, how should we evaluate ILSA? And I hope you will comment on whether it should be renewed for another 5 years.

Senator Alfonse D'Amato.

**STATEMENT OF THE HONORABLE ALFONSE D'AMATO,  
FORMER U.S. SENATOR**

Senator D'AMATO. Mr. Chairman, let me first commend you and the Committee for holding these hearings in a very timely way. Let me thank you for the great support that you and Members of the Committee 5 years ago gave, in a very meaningful way, so that we could pass expeditiously and continue the pressure to get that legislation signed. And, as you recall, it was not easy. It took a number of tragedies to finally move the Administration, notwithstanding that we had passed this legislation overwhelmingly, to have it signed into law.

I would like to take the opportunity of commending Congressman Cooksey for his straightforward presentation, because it seems to me that some of our allies like to have our support. But whenever the going gets tough, they are never there. They are just not there.

Let me also say it is a great honor to see my friend and former colleague Congressman Ackerman up and around, and he is looking as wonderful as ever with that wonderful boutonniere that he continues to champion.

Let me also say, so that we do not get into the business of repeating, because so much of what I have in my statement your Members have commented on, that, Congressman Sherman, you absolutely went in your remarks in a most cogent way to the heart of the issue.

The heart of the issue is that there are those who are lobbying against ILSA today and unfortunately I think our State Department, and I have the greatest respect for Secretary Powell, a great American, a great leader, a great patriot, but I have to tell you, the State Department never wanted ILSA. They fought it when it first came up, they are opposed to it now. It makes their job tougher. Our allies get annoyed because they have companies who want to invest in Iran.

The question of whether or not, and Dr. Cooksey raised it and Congressman Sherman went right to the heart, does ILSA work, absolutely. Billions and billions of dollars that would have been invested in making the money machine for Iran, which is their oil and gas production, have not been invested as a result of ILSA. And, indeed, they will talk to you, those who say, oh, it is ineffective. They will say to you do you know that X company and Y company is investing, and our own companies cannot, and we are being disadvantaged, and it has had no impact. That is a distortion of reality because the fact of the matter is there have only been seven deals as opposed to 50 different offerings with respect investment opportunities.

The investment opportunities over the past 5 years have only brought in about \$9 billion, much less than what would have been the case had we not had ILSA. Indeed, take the little tiny oil state of Qatar. It does not have nearly the great oil and gas fields that Iran has. During that same period of time, they attracted \$18 billion in foreign investment.

Let me say to you if one wants to examine the records clearly, there is absolutely no doubt that the legislation that you, Mr. Chairman, Congressman Ackerman and others, supported and brought into law is working. It is effective. That is why we have so many of the industrial oil people, some sadly, our own nationals, who are saying, roll this back, because they want to be able to invest there and they have deals that otherwise have not and would not take place.

Congressman Sherman absolutely went to center stage when he talked about the Iranian oil fields. They are old. They are failing. As a matter of fact, it is estimated that 90 percent of its oil comes from its oldest onshore fields, and their output is declining because they have not been rehabilitated with very expensive and advanced technology.

Iranian energy officials have had a dire warning that, since the mid 1990's, the output of some of these fields is in sharp decline. The CIA predicted in 1996, "Unless Iran starts making massive investments in oil field maintenance, it will become a net importer of oil by the year 2005."

As recently as January of this year, an Iranian expert warned that at the present rate Iran's oil exports would disappear due to domestic consumption.

My God, is this the time not to renew and to allow this to sunset?

Have we seen a real change in terms of Iran, in terms of its support of terrorism, in terms of its supplying over \$100 million to groups like Hezbollah and others?

What about the 19 U.S. servicemen who were blown up in their barracks and the 500 others who were injured in Saudi Arabia?

Let me tell you, it is our outgoing great patriot Louis Freeh, head of the FBI, who just recently, in an article in *The New Yorker* magazine, said that the attack was a well coordinated effort by the Iranian government which recruited the terrorists, provided the passports, training and explosives to perpetuate the crime.

Again, and I do not know Congressman Sherman, but I want to tell you you were right on when you said this myth, and you did not say it is a myth, but that is what we have created, about the leadership in Iran being more moderate. That is as it relates to their own internal political and domestic situation. But understand as it relates to the central core of what Iran is about, and supporting Hezbollah and other groups that have brought terror and death to American citizens and soldiers, they are one and the same. Make no mistake about it.

Mr. Chairman, I would like to submit the totality of my statement for the record, but suffice it to say this is not the time to abandon ILSA. This is the time to talk about the impact, the very beneficial impact, it has had in denying tens of billions of dollars that otherwise would have been invested, and help them increase

not only their production, but give them additional latitude to fund terrorist activities against this country and our allies.

I thank the Committee for giving me this opportunity to participate. I commend you for what you are doing and I say stay the course.

[The prepared statement of Senator D'Amato follows:]

PREPARED STATEMENT OF THE HONORABLE ALFONSE D'AMATO, FORMER U.S.  
SENATOR

#### INTRODUCTION

Mr. Chairman, I am proud that five years ago, I introduced and the Congress passed the Iran-Libya Sanctions Act (ILSA). I believed then that Iran represented a threat to the United States and our interests. And I believe this is still true today. That's why I'm willing, and proud, to testify today to urge my former colleagues to renew the Iran-Libya Sanctions Act, because today Iran remains a grave threat to the United States and our interests. Iran has done nothing to deserve this free gift from the U.S.

Iran was hit by American sanctions in 1995-96 the old fashioned way; they earned them, with support for terrorism, opposition to Israel and Middle East peace, and proliferation of weapons of mass destruction. According to people better informed than me, such as the U.S. government, Israel, Europe's intelligence agencies, and governments the world over, Iran is still doing the things that earned them the sanctions in the first place. And, in point of fact, these same sources agree that Iran is growing more dangerous and assertive, and is stepping up its support for terror activities and its pursuit of weapons of mass destruction, including ballistic missiles and nuclear bombs.

#### IRAN'S CONDUCT

##### *WMD*

Iran's proliferation of weapons of mass destruction (WMD) is not only a grave threat to the United States and Israel, but to all American allies throughout the wider Middle East. Some experts now believe that Iran could develop a nuclear device within the next five years. Iran in 1998 tested a missile, the Shihab-3, with the range to hit Israel, Turkey, Saudi Arabia and American bases throughout the region. The missile can potentially carry chemical or biological weapons, which Iran already possesses, and a nuclear warhead, which Iran is working to acquire. It is certain that within a few years, Iran will begin regular production of missiles with the range to cover much of the region and that sometime in next few years Iran will acquire nuclear capability.

##### *Terrorism*

Indeed, in the past few days we learned new information that only strengthens my support for this legislation and its renewal. Outgoing FBI Director Louis Freeh, a great public servant from New York, reported that Iran is responsible for the deaths of 19 Americans in the 1996 Khobar barracks bombing in Saudi Arabia, which also injured 500. In an interview with *The New Yorker* magazine, Freeh said that the attack was a well-coordinated effort by the Iranian government, which recruited the terrorists and provided the passports, training and explosives to perpetrate the crime.

The latest State Department Report on Patterns of Global Terrorism, issued just last month, affirmed "Iran remained the most active state sponsor of terrorism in 2000." The Report goes on to say that "Iran provided increasing support to numerous terrorist groups, including the Lebanese Hezbollah, HAMAS, and the Palestine Islamic Jihad," the very groups responsible for terrorist attacks against innocent Israelis. The Report notes that official Iranian agencies "continue to be involved in the planning and the execution of terrorist acts," that Iran's support for Hezbollah, HAMAS, and Islamic Jihad include "funding, safe haven, training, and weapons," and that this support "continued at its already high levels following the Israeli withdrawal from Lebanon in May and during the Intifada in the fall." Moreover, in the words of the Report, "Iran continued to encourage Hezbollah and the Palestinian groups to coordinate their planning and to escalate their activities against Israel."

A U.S. official told the *LA Times* this week that "Iran's behavior has taken a nasty turn for the worse . . . since last fall. The increase has been pretty steady and pretty intense." Iran now reportedly spends \$100 million annually on these groups. Iranian jetliners loaded with weaponry continue to land weekly in Damas-

cus, where their cargoes are unloaded and trucked to Hezbollah forces in southern Lebanon. Iran has recently begun supplying Hezbollah with long-range 240mm katyusha missiles capable of reaching as far into Israel as Haifa.

Iran's support for terrorism goes beyond Israel. Iran continues to fund, train, and provide logistical assistance to a variety of radical groups in the Persian Gulf, Africa, Turkey, and Central Asia, according to our State Department. And we know that Iran has used terrorism to force the U.S. out of the Persian Gulf.

#### *Anti-Israel*

One aspect of Iranian policy that is particularly egregious is their attitude to Israel. And there are no Iranian moderates on Israel; it is a consensus issue. Last December, Iran's Supreme Leader, Ayatollah Khamene'i, said, "Iran's stance has always been clear "this cancerous tumor of a state should be removed from the region." In February of this year, Khamene'i stated that, "It is the mission of the Islamic Republic of Iran to erase Israel from the map of the region." And Iran's "moderate" President, Muhammad Khatami, last year called Israel an "illegal state" and told Yasir Arafat that "All of Palestine must be liberated." On April 25—two weeks ago—Khatami called Israel "a parasite in the heart of the Muslim world."

#### *ILSA's Effectiveness*

It strikes me as the height of irony that the same State Department, that lobbied hard (and convincingly) for the Clinton administration to waive ILSA and render it ineffective, is now lobbying the Bush administration to allow ILSA to sunset because it is ineffective and makes the U.S. look foolish to pass a law that is ineffective. How do you say chutzpah in "diplomatese?"

Actually ILSA has been effective. The Congress acted to lower Iran's disposable income from selling oil in order to combat Iran's stepped up efforts to acquire weapons of mass destruction and support for terrorism, particularly terror against Israel and its peace efforts. And since ILSA was introduced in 1995, Iran has secured only seven contracts out of the more than 50 foreign investment opportunities Iran has offered to international energy companies since 1994, a success rate of 14 percent.

These seven projects netted Iran \$9 to \$10 billion, an average of \$2 billion per year and well below what Iran's own planners expected. Tiny Qatar, with much fewer resources, did twice as well, receiving \$18 billion in foreign energy investment over the same time period. International energy experts agree that Iran's crude oil productive capacity ought to be higher by now, a decade after the end of the debilitating Iran-Iraq war.

Foreign companies, with their access to capitol and technical expertise, are essential to Iran's plans to fix the many serious problems in its energy sector and increase income. This was the reason for ILSA. It did not target the Iranian people; nor does it affect food and medicine exports. It targets Iran's oil income, the source of 85 percent of its budget.

Iran's oil fields are aging; 90% of its oil comes from its oldest onshore fields and their output is declining output because they have not been rehabilitated by expensive and advanced technologies. Iranian energy officials have been warning since the mid-nineties that output at some aging fields is in sharp decline, after years of being pushed too hard. The CIA predicted in 1996 "unless Iran starts making massive investments in oil field maintenance, it will become a net importer of oil by the year 2005." As recently as January 2001, an Iranian expert warned that at the present rate, Iran's oil exports would disappear soon due to domestic consumption.

Iran now consumes over 40 percent of the energy that it produces, up from about 10 percent in the last year of the Shah's reign. These same experts cite requirements for \$20 billion in foreign investment over the next 25 years just to maintain Iran's current oil export levels, well above the \$2 billion average of the past five years.

Many companies cited the threat of U.S. sanctions when considering Iranian projects even before ILSA passed the House of Representatives in 1996. Investments by Shell, BHP, Elf Aquitaine, BP, Japan's JGC, Westdeutsche Landesbank, and Bow Valley Petroleum were delayed significantly or cancelled.

ILSA has also set back Iran's effort to attract foreign investment to develop its natural gas reserves, the world's second largest. Iran today remains a gas-poor country—its current production ranks only 17th. This is insufficient to meet its current domestic demand (and gas consumption is expected to rise 50 percent over the next five years). More importantly, its collateral impact is delaying Iran's oil recovery, since gas is used to refurbish aging oil fields. The gas shortage also means that Iran cannot supply gas to its neighbors through pipelines, nor substitute gas for some of the oil it consumes domestically. To offset this, Iran was forced in late 1997 to begin importing gas from Turkmenistan.

And the Iranians noticed its impact. A senior member of the Iranian parliament's oil commission in January 1997 conceded, "Despite widespread arrangements by the [oil] ministry, foreign contractors are not much interested in engaging in petroleum projects in Iran." Iran even complained to the UN about ILSA in 1998: They said it created difficulties in the petroleum and oil sector, such as "reduction in international investment, delays in . . . oil projects, cancellation of some tender contracts, technological shortcomings and increased negotiating expenses." President Khatami acknowledged later in 1998 that U.S. sanctions have "inflicted damages upon us."

I know that American oil companies are lobbying you to allow ILSA to sunset. They rightly note that while some foreign companies have concluded investment contracts with Iran, they are not allowed to follow them due to the Executive Order, affecting American jobs and these companies' bottom lines. Well I can report to you that in the months before ILSA passed the Congress, no oil workers unions or individual workers contacted me to ask me to not support ILSA. I only heard from management. I also note that American oil companies are doing quite well today, judging by the performance of their stocks, without investing in Iran. These companies benefit from the protection of the US flag throughout the world. On rare occasions, for serious national security reasons, the price of having that flag behind them is not doing business with a country that is acting against American interests.

Mr. GILMAN. Senator D'Amato, we cannot thank you enough for taking the time to be here and to give us your current assessment of the ILSA act. I hope you have some time to stay with us for a while. We may want to call on you for comment on any of the issues raised.

Do you have sufficient time to be with us?

Senator D'AMATO. I have a few minutes, Mr. Chairman.

Mr. GILMAN. How long do you have?

Senator D'AMATO. A half hour.

Mr. GILMAN. Well, then, let us do this. I am going to deviate and since it is only a half hour, we will allow our Members to question this witness and let me start off.

Senator, if ILSA were to lapse, how do you think Iran would react?

Will their hope that U.S. policy eventually will be driven entirely by commercial concerns be vindicated?

How do you think Europe will react if ILSA is not renewed?

Senator D'AMATO. Well, I think that there are two different propositions. Number one, Europe would love it. I mean, let us face it, the French will do anything—

Mr. GILMAN. We are having an audio problem.

You are back on. No?

I guess the French disconnection is one of our problems.

I do not know if the audio is still available. Bear with us a few moments and while we are waiting, let us allow our next witness to start until we get the audio reconstructed.

Mr. Howard Kohr is our next witness and we would like to welcome Mr. Kohr, Executive Director of the American Israel Public Affairs Committee (AIPAC).

AIPAC is a membership organization with a tremendous grassroots presence in nearly every congressional district in the United States. It is recognized as the prime voice for those Americans who value a strong relationship between Israel and the United States.

Howard Kohr has been with AIPAC—

I think we are back on.

Senator D'AMATO. Yes.

Mr. GILMAN. All right. We will interrupt, Howard, and we will get back to you.

Senator D'AMATO. Howard, how are you?

Mr. Chairman, as I was saying, some of our allies, let us be very candid, are more interested in economic impact. They are not nearly as concerned with taking on the terrorist tactics because in many cases they have been spared these kinds of terrorist attacks. It is not their citizens, it is not their troops on the line, and it is not their ally, the state of Israel. And to be quite candid with you, they might be relieved and, indeed, that is the sad part.

In addition, your first question was how would Iran take this. They would not decrease their fervor in supporting the Jihad. They would not decrease their efforts aimed at America, the great Satan that they portray us as. They would see this as a sign that they were winning the struggle and, indeed, that we did not have the wherewithal to continue sanctions which are really crippling their oil production.

Make no mistake about it, it is effective and, indeed, they will not be able to export oil. They will need it for their own domestic use. They are having great troubles with developing and maintaining even gas right now commercially within their country, and so we send the wrong signal for all the wrong reasons. The way to get their respect and earn it is to demonstrate that we keep our commitments, and that we are not going to be bowed and that we are not going to have economic interests by others take center stage.

Mr. GILMAN. Thank you, Senator.

Mr. Ackerman?

Mr. ACKERMAN. Thank you, Mr. Chairman.

Senator, during the early 1990's, Iran was spending over a billion dollars a year on their arms acquisitions. Between 1996 and 1999, it dropped dramatically to about \$300 million a year.

What, in your view, would contribute to the dramatic decline in their procurement and what implications are there in light of this for ILSA? Do we attribute the decline just to ILSA?

Senator D'AMATO. Yes, I think so. I am not going to stay that singularly, but I will say—let me give you a little statistic. Iran now consumes, Mr. Congressman, over 40 percent of the energy that it produces. Over 40 percent. That is because their production levels are declining. That is up from 10 percent last year, and the experts who watch this say that they need \$20 billion in foreign investments over the next 25 years in order to just maintain their current levels.

How is that translated? So that is well above the \$2 billion average that they have had these last 5 years.

That is translated in the fact that they do not have the hard currency to make those kinds of weapon acquisitions in the manner in which they did heretofore, and that is notwithstanding that they are getting more foreign oil now than ever before. So it just is an indication that ILSA has deprived them of billions of dollars that would be going into their war machine.

Mr. GILMAN. Thank you.

Dr. Cooksey?

Mr. COOKSEY. Thank you, Mr. Chairman.

I have a series of questions. Senator D'Amato, I am sorry I cannot pitch it up to you, you look great on the screen, but I cannot get you these questions. And it is good to see you again, too. But

I am giving these questions to the three witnesses and the gist of the questions are, first, does any individual country support these sanctions or have similar measures? What about U.N. support?

Are there any or have there ever been any other instances of foreign governments sanctioning American firms in a similar way?

How many foreign firms have actually been sanctioned?

What are foreign firms being allowed to do that Americans cannot do?

And how much are the U.S. sanctions costing Americans? What about American assets, particularly in Libya?

I would point out, and I just discovered this, that the author of the CRS report, Kenneth Katzman, is sitting right behind me. In his report on page 4 of the report, he says "The Clinton Administration wanted the ILSA through, but they sought to balance implementation." They put the sanctions on and then turned around and gave waivers for France, the Dutch and everyone else. So it looks to me as if it is somewhat of a charade, if you put the sanctions on, the only ones that end up being sanctioned are our American oil companies and we did not enforce the sanctions against France, and specifically Total S.A. of France, Gazprom of Russia, Petronas of Malaysia, who are all trying to develop Iran's South Pars gas field.

So my questions are do the sanctions work if you are giving a waiver to all of our "allies"?

Senator D'AMATO. Well, if you give waivers, blanket waivers, to all our allies and to everyone who comes to you, obviously you do not have nearly the impact that the sanctions can and were intended to have.

As it relates to the waivers with Total and Gazprom, absolutely disgraceful and they should never have been given.

But I would note, Mr. Congressman, that not withstanding that there have been very real attempts to circumvent ILSA, there are, I think, only seven projects with a total of about \$9 billion that have been invested or committed, and some of those projects have not even been started because they are concerned. The Japanese, for example, were very anxious to go in. They have been one of our great allies, as it relates to not charging in and putting money in where they had a very strong economic incentive to do so because we did express our concern.

Total, the French, you said it best—when planes are over—when it becomes important and when we have a mission and we strike out, you remember that Libyan situation.

Mr. COOKSEY. Absolutely.

Senator D'AMATO. We had to fly around them. And so theirs is a be damned attitude.

When you mentioned as it relates to their disgraceful support against the U.S. as it relates to the Human Rights Commission, that it is just the epitome. That epitomizes their kind of conduct and attitude toward us.

No, the Administration can be more forceful in seeing to it that the sanctions have greater strength and that we really mean it.

The fact of the matter is they have been less effective than they would have been, but still effective overall. And our oil companies,

you know, you will hear the drumbeat, you have heard it, you are just impeding us and you are letting our competitors go in.

Well, that is not the whole story, it is just a part of the story.

Mr. COOKSEY. Well, my closing comment is that if we can prove, and apparently the Director of the FBI has good proof, that the Iranian leadership is responsible for the bombing that cost the lives of our 19 airmen, when we can prove that these countries have carried out this terrorism, I believe that we should take the position of direct retribution on that leadership.

Now, that is not our law or our policy, but I think that would be probably more effective than these sanctions. I think the sanctions are another powder puff way of going about things, particularly when you had someone like Clinton that gives waivers to everyone.

Thank you, Mr. Chairman.

Thank you, Senator.

Senator D'AMATO. Thank you.

Mr. GILMAN. Thank you, Dr. Cooksey.

Mr. Sherman?

Mr. SHERMAN. I think we have talked about the waivers a bit. Do you have any insight as to how we could inspire the current Administration to not grant waivers, assuming we are successful in reauthorizing this bill?

Senator D'AMATO. You know, Congressman, I wish I could give you any insight. I was basically rather ineffective as it related to the question of Total. I was in the Senate then and had real go-arounds. And the same thing with the Russian oil conglomerate.

I am very much concerned that we are just going to continue that pattern and that it may even become easier than it was in the past to get these waivers and to really then just basically say, well, we have this law but we are not implementing it, so go ahead in.

Once you give to the foreign governments and to the investment community—see, right now, there is still a doubt out there. That is why the billions that otherwise would have flowed in, even in some of these deals, by the way, that have been consummated where there were waivers, the investment bankers have been somewhat reluctant to commit. They are not really sure. There is instability, et cetera. But if you almost make this a matter of course that we are going to give waivers, et cetera. I tell you then it becomes self-defeating, and that is something that the Congress, by going to the Administration and by raising the level of public interest—I think if the American people knew, for example, that which I was not aware of until Director Freeh just indicated, that indeed the Iranians financed, orchestrated, brought about that attack that killed 19 U.S. servicemen. Do we forget so quickly? Those are our sons. Those are our families whose lives were shattered. And we just fail to do anything?

I am not suggesting that we send over bombers and bomb the hell out of everybody, but I am suggesting that we do everything we can to make life miserable for them and, economically, we still have the power to do something. So let us use at least that power to protect our citizenry.

Mr. SHERMAN. I think you are wise to point out the need to publicize what happened at Khobar and to honor the 19 airmen who gave their lives.

I would like to yield at this point to my colleague from California, Mr. Berman.

Mr. BERMAN. I thank the gentleman for yielding.

I just want to make one point on the waiver. I share the Senator's chagrin and opposed the waiver at the time, but I think it is important to remember that was the only waiver granted and, if I recall correctly, Total had extricated itself from all its U.S. ties, so that none of the sanctions provided in ILSA would have actually been applicable to Total. Petronas had no such ties and I even think Gazprom at the end severed its ties. So that in the end, even had there not been a waiver, there were no relationships.

And I certainly agree that there are a lot of other deals that are thought of that that might have been commercially viable for companies that, because they did not want to sever their ties with the U.S., were not entered into.

Senator D'AMATO. Congressman, you are absolutely right and I am glad that you bring that back because now I have a better recollection because we had some bitterness over that.

The French finally made a decision that they had better pull out and they sold a bunch of their stations that they had. I forgot the group of retail stations, but it was a significant group and they severed that. So in essence, we are, in effect, saying that if you want to do business, and you want to invest in those who are our enemies, let us state it, the Iranian government as it exists, not the people, but the government and its policies, are counter to those of the United States and they have helped bring death and destruction to our people.

We are saying you want do business with them, you cannot do it here, there is going to be a penalty. That is basically what we are saying. You make the choice.

And I believe that it is a very cogent way to deal with the situation. This is not a situation where we can just go in and invade and take over, nor are we looking to do that or use our great military strength to subdue the aggressor. No one is suggesting that. But to be less than vigilant as it relates to sending out a clear message, we are not going to countenance business as usual with you, Iran.

Mr. GILMAN. The gentleman's time has expired.

Mr. Chabot?

Mr. Issa?

Mr. ISSA. Thank you, Mr. Chairman.

Senator D'Amato, Darrell Issa. Long time no see.

Senator D'AMATO. How are you, Congressman?

Mr. ISSA. I am doing great. Good to see you well.

Senator D'AMATO. Good.

Mr. ISSA. Over the years, watching you as a private citizen, the one thing that I remember is what a champion you were for the business community and for American companies working abroad. I wonder if you could comment for just a moment, as to whether the cup of coffee is 99 percent full or 1 percent empty. What is the relative size of the chunk of business that we are forsaking by not

selling to Iran versus the amount of business that we do on a global basis? Perhaps your perspective after years of being a very pro business legislator would help people understand just how little we are really giving up.

Senator D'AMATO. Well, Mr. Congressman, you have just said it in your concluding remarks or observations. It is nickels and dimes as it relates to the total energy investment that our multi-national companies are making worldwide in just about every area of the world that you can think about, with the exception of Iran and Libya. As a matter of fact, there is not an area that you can think of that we are not pursuing additional exploration, additional development, and the construction of pipelines. It is minuscule.

May there be an opportunity that might be lost that otherwise we would like to undertake? Of course. But it certainly is not hurting the bottom line of our oil companies. It is not disadvantaging them from really carrying out their business. If you said, well, you know, we really cannot do business, you are impeding us to that extent, that is not the case. Exxon-Mobil reported profits of \$5 billion this last quarter—\$5 billion for the quarter. By the way, last year, same quarter, it was \$1 billion. So, come on.

Would they like to maybe make a deal that otherwise they cannot and that one of their competitors—and who is Exxon-Mobil's great competitor that they have to fear might get a deal?

And, you know, taking a deal and making a deal, Iran is a rather risky kind of business proposition as well. So it is not all roses for even those who choose and even those who negotiate, whether it is Total or anyone else.

So I think it is a very, very infinitesimal portion of business that they may be putting aside and, indeed, if the barriers were down, I would not be a bit surprised if many of those who say they are losing opportunities would choose not to enter that area because of the risk factors involved.

Mr. ISSA. Thank you, Senator.

I yield back the balance of my time.

Mr. GILMAN. Mr. Schiff?

Thank you.

Mr. SCHIFF. Thank you, Mr. Chairman.

Senator, I am a new Member from Los Angeles. I appreciate all your work in this area.

You started to address one of the two questions I had, and I wonder if you could share a little more of your thoughts on it, is how can we determine to what degree ILSA is effective rather than simply companies determining that investment in Iran is a bad risk and a risk they are not willing to take?

And then, a second question, is if ILSA is only marginally effective—and I think, frankly, even if it is only marginally effective it is worth doing—are there ways that we can change ILSA to make it more effective?

Senator D'AMATO. Well, I think there is a way to make it more effective and that is to say to our allies that we are very serious about this, that we are not going to grant waivers, and that indeed you have to make choices and the choice here may be that that is an investment opportunity that you will have to put the side. But there are many more oil fields throughout the world, and, indeed,

in that region, that have great potential, and to hold it out, and to suggest that maybe this is the most critical area, and somehow our energy needs would be enhanced and our people would be better, or that we are going to change this government's attitude just is not the case.

Let me say this to you. Let me tell you how effective this is. Let us talk just about gas, and I have this in my prepared remarks, I am talking about natural gas.

Iran today remains a gas poor country. Its current production ranks only 17th. Now, here we hear about this great energy producer that they are, so understand they are having—and as a result of their not having the billions of dollars that go into developing and maintaining these fields, this is sufficient to meet its current domestic demands and gas consumption is expected to rise 50 percent over the next 5 years. More importantly, its collateral impact is delaying Iran's oil recovery. Since gas is used to refurbish aging oil fields, the gas shortage also means that Iran cannot supply gas to its neighbors through its pipelines, nor substitute gas for some of its oil consumers. To offset this, Iran was forced in 1997 to begin importing gas from Turkmenistan.

Now, if you follow the impact, what people would minimize is, oh, this is not working, it is. ILSA has had a devastating impact as it relates to the Iranians maintaining their oil fields, investing in modernization, and keeping them up. While their domestic consumption continues to increase, the aging fields produce less and less. They are now actually importing gas.

The fact of the matter, the U.S. sanctions have been—let me say this to you, here is what President Khatami says. In 1998, he said that the U.S. sanctions “have inflicted damages upon us.”

Now, they do not want to admit this, but every once in a while they will come out with their statement. It has had an absolutely profound impact, and that has kept probably 20 plus billion dollars that would have and could have been invested from being invested.

It has also discouraged even those who have made decisions to go in and invest. It has slowed their activity down dramatically.

Mr. SCHIFF. And, Senator, other than shedding light and discouraging the Administration from granting any waivers in this area, are there any legislative steps that need to be undertaken to strengthen ILSA?

Senator D'AMATO. I think ILSA basically is a very powerful weapon. It is a weapon for peace, and it is a weapon that basically can and should be implemented fully. Only when and if we see clear signs, and not just talk about moderation, but see real steps, should waivers be granted. The answer is I do not know how we could improve upon its effectiveness. It will take an Administration that lets Iran know and Libya know that we are serious about living in peace, but that we are going to protect our interests and we will see to it that we do everything we can to discourage others from normal investment in, of course, their oil fields, unless they change their attitudes. And not just that, in a meaningful way, lest we see it demonstrated, lest they stop sending \$100 million a year and that is what our intelligence reports estimate, they spend in funding just terrorist organizations.

We need to see an action program by the Iranians before we begin then to grant waivers and go in a different direction.

So, no, I think the legislation must give the Administration sufficient flexibility because we might see a change. I am hopeful. I am hopeful if we are strong and resolute now that maybe a year from now, when ILSA is still hopefully still the law of the land, and the President is exercising his leadership in the way he has by placing them on the terrorist list, that we are not going to approve business as usual unless you change. Maybe they will change their course.

I think we give Secretary Powell greater strength when he has met, whether it is the Iranian leadership or whether it is to say, look, I can recommend and may recommend suspension or waivers, but you are going to have to demonstrate a conduct that gives me the ability to do that.

So I would keep the waivers intact. I think it is necessary for the Administration—and I have great confidence in General Powell in that he will not use these waivers as a way to decimate the intent of ILSA.

Mr. SCHIFF. Senator, thank you.

Mr. Chairman, I yield back the balance of my time.

Mr. GILMAN. Thank you.

Mr. Chabot?

Mr. CHABOT. Thank you, Mr. Chairman, and thank you, Senator, for being with us this morning.

I have a three-part question. First of all, as you are well aware and we all are, for anybody who has gone to the gas pump lately, the price of gasoline, heating oil, and everything else has been going through the roof. Obviously we need to drill more domestically and conserve to some extent, but we need to deal with this problem and deal with it in the very near future. So one of the questions would be could you comment on the impact of this on the overall energy situation/crisis/problem that we have in this country.

Secondly, the goal of ILSA and the purpose, could you comment on how much of it is just to modify the Iranian behavior, which has obviously not been particularly successful thus far. One of the reasons that the renewal of ILSA is being urged is because they really have not changed, versus the idea that we are also doing it to keep them from getting additional resources to promote terrorism around the world. That is the second question.

And then the third, President Khatami has just announced, I believe last week, that he intends to run for another term, and he has obviously been in a somewhat of a battle or rivalry with the more hard line ayatollahs or leaders for some time now. Could you comment on whether there is any reason for us to hope that there may be some reason to be optimistic in the near future, or perhaps in the far future?

If you could comment on those, I would be very appreciative, Senator. Again, thank you for your leadership.

Senator D'AMATO. Thank you, Congressman.

Let me address the area of production. There have been those who have said, we have an energy crisis. If we can get more oil into

the system, obviously that should have a beneficial impact as it relates to the prices at the pump.

That is the way free markets basically work, but this not a free market. It is totally controlled. You have that cartel, the OPEC cartel. So consequently giving them the ability to produce more so that they can and will raise more revenues, will not drop the prices at the pump. They are still going to exercise that control.

The other problem is that it will ease their situation at home in terms of having the ability to put more out in the market so OPEC will just give them a greater share.

By the way, let me say this to you. I am tremendously disappointed in those who we have rescued and their short lived gratitude in terms of what the United States did, what former President Bush put on the line, and what our young men and women did in saving their skins. Because let me tell you, Saudi Arabia, you would be gone. You might be annoyed, and you have great economic power now, but you ought to get down on your knees and say we want to thank Allah that there was the great Nation of the United States, a great partner who came and saved us. What a terrible repayment they have given to us. Terrible. When they have yielded in so many cases and particularly when they keep these prices artificially inflated.

Now, I am not suggesting we should be able to buy oil at \$10 a barrel or \$12, and I am not suggesting they should not make a good profit. But I am saying to you that what is taking place now is disgraceful. Absolutely disgraceful.

So I do not see that having any impact in their additional production.

Modify a conduct? Yes, hopefully, I think what we are saying. We do not think that ILSA in and of itself is going to get a rogue regime, or a fundamentalist group that is so filled with hate and that they, I believe, have distorted the basic beauty of their religion. And it is a beautiful religion, but people, you have humans now who are using this in a manner which certainly Allah has never intended, to direct hatred and means of mass destruction at whether its Israel and/or its allies in the United States. That was never intended. So what we are doing is it is a hope that you will modify it, but we are going to punish you because you deserve to be punished for what you have done. So it is modify and punish, it is a combination of both, and so far—and that comes to your last point—we have not been successful in getting them to modify.

The question about whether or not you have a more moderate leader as opposed to one who is more hard line within does not amount to much. The differences are minuscule, and they are more internal politics than they are in terms of how they would reflect in the conduct of foreign policy with other countries, and the United States and Israel in particular. So I think it is good propaganda. I think they have milked the hell out of this moderate guy, but absolutely nothing has changed as it relates to what their conduct is.

Rhetoric is easy, but what is your conduct? What is the bottom line? What have they been doing? Have they really changed their actions? And they have not.

Mr. GILMAN. Thank you.

Mr. Berman?

Mr. BERMAN. Thank you, Mr. Chairman. I do not have a question for the Senator, but I just wanted to make a response to a comment by Mr. Chabot and Dr. Cooksey.

If ILSA has not been effective in deterring investment in the Iranian energy sector, then ending it will add nothing to our energy supply. I think there is a case to be made that it has been effective, but if the essential argument against renewing it is it has not been effective, then I do not think we can argue that its termination will now significantly increase our energy supply.

Secondly, Dr. Cooksey, if we ended ILSA tomorrow, American corporations and individuals would still be bound not to do business with Iran and not to develop economic relationships and trade with Iran based on unilateral presidentially imposed embargo that there seems to be a consensus of both the executive and legislative branches should be continued to so that ILSA, the irony is the ending of ILSA will simply eliminate whatever deterrent effect exists on foreign companies that want to do business with the United States and still pursue investment opportunities in Iran while still holding back the American companies from doing it. So I just wanted to make those points.

I would like to yield the remainder of my time to Mr. Sherman, who did the same for me earlier.

Mr. SHERMAN. As we explore this bill, and I hope the other speakers will address this, the simplest thing is to simply extend this, but we may want to take a look to see whether we should eliminate the waiver provision or at least upgrade it to a national security waiver.

We also ought to take a look at how heavy the sanctions are to those companies. We have already, I think, had sanctions that were strong enough. Total just decided that they wanted to do business with Iran and would stop doing business with the United States. But the current law only requires the President to impose two out of six identified penalties, perhaps we want six out of six.

I am a member of the Financial Services Committee. The day before yesterday I spent a lot of time with Nasdaq and the New York Stock Exchange and increasingly it is going to be critical for foreign oil companies to have access directly to the American capital market, to in effect be listed on Nasdaq or listed on the New York Stock Exchange and perhaps we could add that as a seventh punishment.

So while I think ILSA has been effective as proven by the fact that Iran, as the Senator points out, is importing natural gas, we could make it perhaps more effective and perhaps as we go through the process we will see if the Committee and the Congress is of a mind to make it more effective.

I think Dr. Cooksey is correct, that perhaps economic sanctions, no matter how effective, are not enough. Certainly if Director Freeh shows us that our 19 airmen were murdered, it may not be enough to deprive Iran of money. But I will tell you this, if we do not at very minimum extend ILSA, if we do not tell our corporations that their business as usual will have to be cut back, then we cannot turn to American servicemen and women and say go risk your lives on some mission or go undertake any harsher action

against Iran. Before we ask our men and women in uniform to engage in any other activity, whether it be covert or overt, temporary or permanent, for retribution or to interfere with the nuclear weapons program, before we risk an American lives, we have to be willing to tell our corporations that they have got to do their part.

Mr. GILMAN. Thank you, Mr. Sherman.

If there are no other questions, I want to thank Senator D'Amato for his time, his effort to be with us this morning and his cogent remarks. They will be of great help to us as we consider the reauthorization of ILSA.

If you would like to stand by, we will keep you on.

Senator D'AMATO. Mr. Chairman, thank you, and thank you for your graciousness. I consider it a great privilege and an honor that you asked me to participate and extended the invitation. I want to commend all of my colleagues for the cogency of their observations, the questions they raised, and urge you to continue the battle. Good luck to all of you and thank you again, Mr. Chairman.

Mr. GILMAN. Thank you, Senator D'Amato, and good luck to you and good health.

Senator D'AMATO. Thank you.

Mr. GILMAN. We will now proceed with our next witness. We are sorry we had to interrupt him earlier.

Howard Kohr, as I noted, is the executive director of AIPAC, the American Israel Public Affairs Committee. He has been with AIPAC for some 14 years and has been the executive director of that organization since 1996. He is a highly respected voice on Capitol Hill.

Mr. Kohr, you may proceed.

**STATEMENT OF HOWARD A. KOHR, EXECUTIVE DIRECTOR,  
AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE**

Mr. KOHR. Thank you, Mr. Chairman. I want to thank the Subcommittee, first of all, for holding this hearing on the renewal of the Iran-Libya Sanctions Act, ILSA, and for inviting AIPAC to testify before you this morning. I ask that my full statement be included in the record.

AIPAC strongly supports the efforts led by Chairman Gilman, Representative Berman, and the overwhelming majority of this Subcommittee, to extend ILSA for another 5-year period of time. All the conditions 5 years ago when Congress unanimously enacted ILSA remain. Congress enacted this legislation because Iran at that time was the leading state sponsor of international terrorism, because it opposed the Arab-Israeli peace process. In fact, it opposed Israel's very right to exist, because it was pursuing acquisition of weapons of mass destruction and the missiles to deliver them.

Libya for its part was under U.N. Security Council mandated sanctions for its role in the downing of Pan Am Flight 103.

Today, 5 years later, a Libyan intelligence officer has been found guilty of murder for his involvement in Pan Am 103 and Iran's objectionable policies and behavior have, if anything, gotten worse. In short, all of the factors which led Congress to act initially remain true today.

We have heard statements from the Members of the Committee and from Senator D'Amato about the comments that the leaders of Iran, both the religious leader and the political leaders in Iran, have said about Israel. Ayatollah Khameni said just a couple of months ago that the mission of the Islamic Republic of Iran is to erase Israel from the map of the region.

As for discussion about the moderate president of Iran, Khatami, just 2 weeks ago—this is the moderate leader of Iran—said that “Israel is a parasite in the heart of the Muslim world.”

Their actions have supported these words. As has been noted, the State Department report on global terrorism issued just last month and quoted by Congressman Ackerman affirmed that Iran was the most active state sponsor of terrorism in the year 2000, and they continue to be involved in the planning and execution of terrorist acts.

Iran continues to encourage Hezbollah and Palestinian groups to coordinate their planning and to escalate their activities against Israel. All this, by the way, quoted from the State Department report. They are spending now approximately \$100 million annually to support groups such as Hezbollah, Hamas and Islamic Jihad, with funds, safe haven, training and weapons.

Iranian jet liners loaded with weaponry continue to land weekly in Damascus, Syria, where their cargos are unloaded and trucked to Hezbollah forces in southern Lebanon. Just this week, a boat left Lebanon filled with mortars, Katyusha rockets and anti-aircraft missiles destined for Gaza. It was intercepted by the Israeli navy. I think when the investigation of the source of these weapons is done, it will lead us back to Tehran.

Iran's support for international terrorism goes beyond merely Israel, as has been stated here by Senator D'Amato and others. As the latest New Yorker article points out, FBI Director Louis Freeh believes that Iranian intelligence officials were directly involved in the 1996 Khobar Towers bombing. And most significantly of all, Iran continues to seek weapons of mass destruction.

Russia is helping Iran today build a nuclear power reactor in Bushehr, which provides Iran the cover for its clandestine nuclear weapons program. Iran, which is currently one of the richest countries in both petroleum and in natural gas, has absolutely no need to develop “peaceful” nuclear power.

China has also assisted Iran's nuclear weapon program and both these countries in addition to North Korea have aided Iran's missile program. As has been stated earlier, Iran has tested a Shahab-3 missile with a range of 900 miles, capable of hitting any point in Israel, as well as any of our armed forces in that part of the world. And they are openly developing long-range ballistic missiles that could threaten Europe and the United States directly.

The Iran-Libya Sanctions Act was designed to deter foreign investment in Iran's energy sector, and if we ask the question that has been asked today, has it been effective, I too would like to read some words directly from the Iranian government in a report that they submitted to the United Nations in 1998, where Iran stated that sanctions have “led to the disruption of the country's economic system, caused a decline in its gross national product, weakened

the country's ability to deal with its international lenders, and impeded credit transactions."

It went on to report that ILSA has created difficulties in the petroleum and oil sector, such as "reduction in international investment, delays in . . . oil projects, cancellation of some vendor contracts, technological shortcomings, and increased negotiating expenses."

These, by the way, are the words of the Iranian government, to answer the question whether this has been effective or not.

As has been pointed out earlier, the regime in Iran since the fall of the shah has not made any investments in its own petroleum and natural gas infrastructure and that has led to the difficulties that have been enumerated.

Keeping foreign investment out has prevented the reinvigoration of this crucial sector, which provides the wherewithal for the support for terrorism as well as its support for acquisition of weapons of mass destruction.

Over 50 foreign investment opportunities have been put forward by the Iranian government since 1995. As has been mentioned, only seven of them have been funded. And we have read about any number of potential imminent contracts that are about to be signed, but they have never come to fruition.

Yes, part of that is no doubt due to the difficulties that Iran has in attracting foreign investment, but there is no doubt that it is also because ILSA acts as a further complication for foreign corporations trying to decide where to invest in energy development.

And, yes, the French company Total has invested in Iran, but it made a conscious decision to divest itself of all of its holdings in the United States, and I would suggest there are not many other companies willing to do that in order to do business merely with Iran.

The point of ILSA is twofold: to raise the cost of Iran's dangerous policies and to delay the time for it to acquire weapons of mass destruction. And on that score, I would argue ILSA has been very successful. Raising the costs and delaying the time line may allow for political change in Iran. That day will someday come, and we in the meantime must do everything we can to delay Iran's ability to acquire weapons of mass destruction long enough so that political change may occur.

If Congress renews ILSA for another 5 years, it will send a strong message, a new message, particularly to those who eagerly await the demise of ILSA. It will reinvigorate the deterrent effect of ILSA and do so just at the start of a new Administration when everyone is watching to see how the United States will react.

If, on the other hand, we allow ILSA to expire, it will be interpreted by the Iranian regime and others as a weakening of America's opposition to Iran's programs that threaten our vital interests.

Mr. Chairman, Iran has done nothing to warrant such a reward.

The expiration of ILSA would provide Iran a potential windfall by allowing unfettered foreign investment in its petroleum industry, thereby securing its petroleum capabilities and its ability to fund its weapons program and support for terrorism indefinitely.

And, this is a critical point, it would secure the hard liners in power. It would be seen by the moderates and those inside Iran

who are seeing true change in Iran as a weakening of America's posture against the very regime they are seeking to change.

Thus, Mr. Chairman, I urge the Congress to renew the Iran-Libya Sanctions Act. Iranian behavior demands it. ILSA has met the test and proven its effectiveness over time. Its expiration now would be a major and totally undeserved victory for the Islamic Republic of Iran.

Thank you.

[The prepared statement of Mr. Kohr follows:]

PREPARED STATEMENT OF HOWARD A. KOHR, EXECUTIVE DIRECTOR, AMERICAN ISRAEL PUBLIC AFFAIRS COMMITTEE

Thank you, Mr. Chairman. I want to thank the subcommittee for holding this hearing on the renewal of the Iran-Libya Sanctions Act—ILSA—and for inviting me to testify before you this afternoon. The American Israel Public Affairs Committee strongly supports the efforts led by Chairman Gilman and Rep. Berman to extend ILSA for another five year period.

Five years ago, when Congress unanimously enacted ILSA, it did so because Iran was the leading state sponsor of international terrorism, because it opposed the Arab-Israeli peace process, and, indeed, Israel's very right to exist, and because it was pursuing the acquisition of weapons of mass destruction and the missiles to deliver them. Libya, for its part, was under UN Security Council-mandated sanctions for its suspected role in the downing of Pan Am 103. Today, a Libyan intelligence officer has been found guilty of murder for his involvement in Pan Am 103 in the words of the court "in furtherance of the purposes of . . . Libyan Intelligence Services," yet Libya continues to refuse to acknowledge its role and to pay compensation to the families of the victims. And Iran's objectionable policies and behavior have, if anything, gotten worse. In short, all of the factors which led Congress to act initially remain true today, and both Iran and Libya deserve to remain to remain subject to the sanctions outlined in ILSA.

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

IRAN'S THREATENING POLICIES

*Support for International Terrorism and Rejection of Israel's Right to Exist*

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

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

Late last year, Iran announced the formation of the International Anti-Zionist Movement, an eight-member alliance designed to undermine the peace process. The head of the organization is Mohsen Rezaie, the former head of the Iranian Revolutionary Guard and a close associate of Iran's Supreme Leader, Ayatollah Khamene'i. A statement sent by the new organization to the heads of all Islamic states said, in part, "

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

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

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

Iran's support for international terrorists goes beyond Israel, however. The State Department Report noted that Iran continued funding, training, and logistical assistance to a variety of radical groups in the Persian Gulf, Africa, Turkey, and Central Asia. An article in this week's *The New Yorker* confirms that Iran has been directly involved in terrorist activities against American targets. According to this article, the FBI has a long list of people—including Iranian intelligence officials—who it believes should be indicted for the 1996 Khobar Towers bombing in Saudi Arabia that killed 19 U.S. servicemen and injured 500 others.

#### *Iran's Pursuit of Weapons of Mass Destruction*

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

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

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

The study reported that Iran is eventually planning to develop intercontinental ballistic missiles that could threaten Europe and the United States directly. It added that "Iran is striving to indigenously produce ballistic missiles and become a supplier state." The report came to the not startling conclusion that were Iran to possess nuclear and missile capabilities, it would likely lead to increased intimidation of its Gulf neighbors and an increased willingness to confront the United States. Both American and Israeli intelligence are reported to believe that Iran could have such a capability within the next decade. The timing could be considerably shortened if Iran were to obtain the necessary fissile material from abroad.

One can only imagine what the United States and our friends in the region would confront were the clerical regime in Iran to obtain such capabilities. Imagine a nuclear-armed Iran sitting astride the Persian Gulf shipping lanes through which so much of the world's petroleum resources flow. Imagine what Israel would confront. Imagine how much more severe would be the dangers of Iranian-supported terrorist groups emboldened by the Islamic Republics new weapons capabilities and the likelihood of Iran sharing these weapons with these very same groups. Clearly, Mr.

Chairman, we believe the United States must do all it can—for our own sake and for that of our allies—to prevent such nightmare scenarios from becoming realities.

#### THE ROLE OF ILSA

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

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

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

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

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

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

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

Indeed, ILSA is a carefully balanced piece of legislation that is narrowly and effectively targeted *only* at foreign energy investments in Iran. The legislation provides our government with the necessary tools to stop or at least deter this investment. The menu of sanctions from which the President must choose ranges from the minor—such as prohibiting the Export-Import Bank from extending credit to sanctioned entities—to the major—such as invoking an import ban on these foreign entities. When Royal Dutch Shell, for example, with its hundreds of gasoline service sta-

tions in the United States, has to decide whether or not to invest in Iran, certainly ILSA requires consideration.

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

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

I have no doubt that the vast majority of Iranians would end clerical rule if they had the opportunity to do so. One reason so-called clerical "moderates" do so well in Iranian elections is that they are the most moderate allowed to run. They are, nevertheless, part of the clerical regime, and Iran has been experiencing considerable civil unrest over the past year in opposition to the regime. Unfortunately, we have seen no evidence whatsoever of any "moderation" in Iranian foreign or national security policy and the changes at home have been minor and are reversible. Witness the 9 Iranian Jews that have been falsely charged and imprisoned; the closing of Iranian dissident newspapers; and the arrest of dissident leaders.

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

Moreover, if Congress does renew ILSA for another five years, as I hope it will, it will send a new message to those now eagerly anticipating its demise. It will reinvigorate the deterrent effect of ILSA, and do so just at the start of a new administration.

#### IF ILSA IS NOT RENEWED

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

Over the past three years, the United States has made it abundantly clear to Iran that we wished to improve relations. We took several unilateral steps that were all rebuffed. We eased import restrictions on some Iranian products; we provided greater ease of travel between Iran and the United States and even encouraged Americans to visit; we sought to open a dialogue with the Iranian regime—all to no avail. Hard-line clerics shut down every initiative while continuing to pursue policies and programs inimical to our interests.

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

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

Mr. GILMAN. Thank you, Mr. Kohr.

The next witness that we will hear from is Dr. Patrick Clawson. Dr. Clawson is Director for Research at the Washington Institute for Near East Policy. The institute has served as a place where individuals on all sides of the issues in the Middle East have been able to gather and have informative exchanges. Many high officials of various Administrations are among its alumni, including former special Middle East coordinator Dennis Ross and former NSC official and American Ambassador to Israel Martin Indyk.

I would also welcome a recent arrival from the institute, Mr. Alan Wicovski, who recently joined the Democratic staff here.

Dr. Clawson is a recognized authority on Gulf issues and in the political economy of the Middle East and has appeared before the Committee many times.

Welcome, Dr. Clawson.

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

Mr. CLAWSON. Thank you very much for inviting me here this morning and I would like to submit a prepared statement for the record.

Mr. GILMAN. So ordered.

Mr. CLAWSON. Thank you. When Iran's reformers were doing well, those in Washington opposed to a tough line against Iran's unacceptable foreign policy behavior said that we should end the sanctions so as to strengthen the reformers. Now that the reformers are doing poorly, we are told that the U.S. Government should not make its Iran policy dependent upon domestic Iranian developments, but we should instead lift sanctions so as to encourage diplomatic dialogue. Both of those arguments are unsound.

In fact, victory by the reformers is in the United States' interest, if for no other reason than that the hard liners have made opposition to the United States a centerpiece of their policy. At the same time, there is little that the United States can do to encourage the reformers and much it can do to hurt them. Too close an embrace would fan hard line suspicions that the reformers are just front men for Washington. We should stick to proclaiming the basic principle of support for liberal democracy and we should look for ways to reach out to the Iranian people while at the same time maintaining or stepping up pressure on the Iranian government.

At the same time, we should have no illusions about the reformers' goals. They do not share our foreign policy perspectives. As has been noted, it is the reform minded Majlis and the reform minded president who are as bitterly opposed to Israel's existence as the hard liners, and also I am afraid to report that on the issue of weapons of mass destruction and missiles, the reformers are as committed as the hard liners to ignoring Iran's obligations under international arms control agreements.

So the appropriate United States stance is to continue its pressure on Tehran as long as Iran continues to sponsor terrorism and to ignore its arms control commitments and that is the context in which we should consider the renewal of ILSA. Were ILSA to lapse, the Iranian government would conclude that, as it is long hoped, the United States as well as Europe puts commercial interests ahead of national security, allowing normal business relations to proceed irrespective of support for terrorism and proliferation.

Let me address some of the objections to ILSA. Some complain that ILSA restricts investment in oil and gas at a time when there is a serious energy security problem. In fact, sanctioning investment in Iran's oil and gas industry is good for energy security. Energy security is enhanced when energy comes from reliable sources which do not play politics with oil or try to hold the west for ransom. Iran, by contrast, has a long history as an OPEC price hawk, frequently lobbying fellow oil exporters to restrain production to drive prices higher. U.S. interests are much better served when oil investment is in friendly countries, rather than in Iran.

Some U.S. oil companies have been unhappy about ILSA and have lobbied to gut it. That is peculiar. ILSA's end would leave foreign oil companies free to invest in Iran and Libya, while U.S. oil firms would be banned from doing so by the presidentially ordered sanctions which are independent of ILSA. I do not quite understand why those oil companies are lobbying for an action which would leave their competitors free to make profits while tying their own hands.

But there is a real issue here, the issue of how can we ensure a level playing field between foreign and U.S. oil companies? Congress has come up with an approach, namely ILSA. It would be appropriate to ask those who do not like this approach for their suggestions about how else to level the playing field, so long as they understand that the U.S. Government is not going to forfeit the game in order to level the field. That is, U.S. sanctions will remain, the question is what can be done to prevent European profiteering at U.S. expense. The onus is on ILSA's critics to come up with an alternative approach for leveling the field.

Another set of ILSA's critics have been those in European circles who say that ILSA is too intrusive on Europe's turf and, as Representative Cooksey noted, the Clinton Administration decided to issue waivers and in effect did little to implement ILSA precisely because it argued that ILSA would start a trade war with Europe.

Now, offhand, I do not quite understand why we are prepared to start a trade war with Europe over a matter like bananas and not over a matter like nuclear weapons, but be that as it may, the issue here is how can we craft ILSA in such a way as to show our European allies that we would like to work with them to stop Iranian terrorism and proliferation. And here I would say that we should look at the provisions which are already in ILSA about how a country waiver can be given. That is to say that if a country is adopting its own procedures to accomplish the purposes of ILSA, then there can be a waiver that says that any investment from that country is not subject to the provisions.

And we need to find some ways that we could craft those country waivers so as to encourage Europe to help work with us more

against Iranian terrorism and proliferation. And in my prepared statement, I offer some suggestions in those regards, things that we can do to help make ILSA into an instrument for pressuring Europe and our other allies to do more against Iranian proliferation and terrorism.

In short, ILSA is a good law and it could be made even better and I would urge its reauthorization, though perhaps with some changes.

[The prepared statement of Mr. Clawson follows:]

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

I wish to primarily address the Iran side of the Iran-Libya Sanctions Act (ILSA), to explain why ILSA should be renewed to and to raise some issues that may be worth examining when doing so.

#### ILSA'S PLACE IN OVERALL U.S. IRAN POLICY

When Iran's reformers were doing well, those in Washington opposed to a tough U.S. line on Iran's destabilizing foreign policy actions argued that the United States should end its sanctions so as to strengthen Iran's reformers. Now that the reformers are doing poorly, the argument is heard that the U.S. government should not make its Iran policy contingent on domestic Iranian developments, but should instead lift sanctions as a way to encourage diplomatic dialogue. Both arguments are unsound.

Victory by the reformers is in the United States' interest, if for no other reason than that the hardliners have made opposition to U.S. influence a centerpiece of their policies. At the same time, there is little the U.S. government can do to help the reformers and much it can do to hurt them: too close an embrace would fan hardline suspicions that the reformers are front-men for Washington. Better to stick to proclaiming the basic principle of support for liberal democracy: applaud the limited steps Iran has taken (allowing formal elections) and urge more substantial ones (opening the election to all rather than just supporters of the current theocracy, and making the elections count by vesting real power in the formal government rather than in the revolutionary institutions and vigilantes). When the reformers are advancing, symbolic measures—such as the very limited relaxation of sanctions in 1999 and 2000—can signal U.S. goodwill and interest in normal diplomatic dialogue. When the hardliners crack down, the appropriate response is to suspend initiatives; witness the European Union foreign ministers' April 2001 decision to set aside the commission's proposals for strengthening ties with Iran. At the same time, it would be appropriate for the United States to reach out more to the Iranian people while maintaining or stepping up pressure on its government. For example, the United States could end the practice of requiring the fingerprinting of ordinary Iranian visitors to the United States, while at the same time blocking travel throughout America of Iranian government officials as long as Iran continues to refuse visas to most U.S. applicants.

At the same time, the U.S. government should have no illusions that the reformers share Washington's perspectives. It was the reform-controlled Majlis which convened last week's conference on anti-peace-process terrorists under the chairmanship of the reformers' Majlis caucus chief (Ali Akbar Mohtashemi), who called for Israel's elimination; Khatami, in his speech, repeated his familiar strident denunciations of Zionism and descriptions of Israel as illegitimate. Similarly on the issue of weapons of mass destruction (WMD) and missiles, the reformers appear as committed as the hardliners to ignoring Iran's obligations under arms control treaties it has signed: none have complained about Iran denying its production of chemical weapons while loudly claiming to be compliant with the Chemical Weapons Convention.

So the appropriate U.S. stance is to continue its pressure on Tehran so long as Iran continues to sponsor terrorism and ignore arms control commitments. That is the context in which to consider the renewal of ILSA, which expires on August 5

cial interests ahead of national security, allowing normal business relations to proceed irrespective of support for terrorism and WMD proliferation. Ideally, ILSA should have been renewed before the June 8 Iranian election rather than immediately after, but Congress has had too much to do during the start-up of a new administration; so the second-best option is to create as long of a gap as possible between the election and the renewal, that is, to renew just before the August 5 lapse.

#### OBJECTIONS TO ILSA

Some complain that ILSA restricts investment in oil and gas at a time when there is a serious energy security problem. In fact, sanctioning investment in Iran's oil and gas industry is good for energy security. Energy security is enhanced when energy comes from reliable sources which do not play politics with oil or try to hold the West up for ransom. Iran, by contrast, has a long history as an OPEC price hawk, frequently lobbying fellow oil exporters to restrain production to drive prices higher. Its leaders would be delighted to have another instrument with which to pursue their long-standing goal to eliminate Israel, which Iranian reformers and hardliners alike describe as an illegitimate state. A country with a well-established record of pushing higher oil prices and demanding Israel's destruction is not a country to rely on for energy. U.S. interests are much better served when oil investment is in friendly countries rather than in Iran. Saudi Arabia and America have their differences, but the Saudis know how to keep disagreements within bounds without threatening vital U.S. interests. Therefore, U.S. interests are better served when the world's need for Persian Gulf oil is met more by Saudi Arabia and less by Iran. It is gratifying to see that Saudi Arabia has been expanding its oil production capacity much more rapidly than has Iran and that U.S. oil firms are playing an increasingly important role in that process.

Some U.S. oil firms have been unhappy about ILSA and have lobbied to gut it. That is peculiar for several reasons, not least of which is that firms are best positioned to benefit when oil investment goes to countries friendly to the United States like Saudi Arabia rather than to countries like Iran or Libya. Also, ILSA's end would leave foreign oil firms free to invest in Iran and Libya while U.S. oil firms would be banned from doing so by the presidentially-ordered sanctions which are independent of ILSA. Indeed, when some Conoco officials call for the end of ILSA, they are in practice recommending that Conoco's foreign competitors like Total be free to make higher profits while Conoco remains under restrictions. It seems peculiar for Conoco officials to spend their time and money lobbying for higher profits for Conoco's competitors.

There is a real issue here, namely, how to ensure a level playing field between foreign and U.S. oil companies. Congress came up with an approach, namely, ILSA. It would be appropriate to ask those who do not like this approach for their suggestions of how else to level the playing field—so long as they understand that the U.S. government is not going to forfeit the game in order to level the field. That is, U.S. sanctions will remain; the question is what can be done to prevent European profiteering at U.S. expense. The onus is on ILSA's critics to come up with an alternative approach for leveling the field.

If one set of ILSA's critics has been found among some U.S. oil firms, another set has been in European circles which regard ILSA as too intrusive on Europe's turf. I have never understood how the U.S. and the European Union (EU) decide which issues are sufficiently important that the two sides will risk a trade war. Offhand, I would have said that bananas are less of a threat to U.S. security and prosperity than are prospective Iranian nuclear missiles. But the United States and Europe have repeatedly gone toe to toe over bananas, imposing far-reaching sanctions against offenders, while Iranian proliferation and terrorism has not been seen as worth offending Europe. I beg to differ; indeed, I would be prepared to accept Europe's silly banana trade rules if Europe agreed to stop investing in Iranian oil and gas.

However, there is a real issue of how to craft ILSA in such a way as to give least offense to our European allies. This is an issue on which consultations should be held. Already, ILSA contains procedures for waiving restrictions on all investment from any country which adopts a program to use economic pressure to impede Iranian proliferation and terrorism. These procedures could be changed to increase the prospect that the EU countries would decide to cooperate. For instance, it would be very useful if the EU countries joined with the United States in applying pressure on Russia, China, and North Korea to stop the proliferation of dangerous nuclear and missile technologies to Iran. So long as only the United States is raising this matter, the Russians can dismiss the concerns as American exaggerations. The Rus-

sian reaction might be quite different if it were faced with concern from all the G-7 countries. And G-7 cooperation might make a difference not only to governments but also to businesses.

Similarly, if the EU, Japan, and Canada were to join with the United States in ferreting out and sanctioning Russian, Chinese, and North Korean firms that supply nuclear and missile technology to Iran, exporting such dangerous technology to Iran might look more risky and less attractive. Or, to take another issue, a number of European countries have had problems with Iranian-government sponsored terrorism, and it might be fruitful to cooperate on developing legal cases and strategies for bringing the accused before a court, especially if there is substance to news reports that the FBI is recommending seeking indictments against certain Iranian for the 1996 Khobar Towers bombing in Saudi Arabia which killed 19 Americans. It is worth considering making cooperation on some or all these matters the basis for exempting a country from ILSA restrictions.

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

#### ANNEX: THE PROSPECTS FOR CHANGE IN IRAN

Iranian president Mohammad Khatami is running for re-election in an election scheduled for June 8. He is sure to win. But the real issue for Iran's future is: will hardliners let the formal government rule or will they continue their crackdown through the revolutionary institutions they control? The answer will be key for U.S. policy options towards Iran.

It might seem that Khatami's re-election serves the interests of hardliners, since he gives hope to people who might otherwise turn to protest, while at the same time does little to slow the hardline crackdown—a crackdown that in the last year has shut forty newspapers and in the last month has incarcerated seventy reform politicians. But in fact the hardliners are unenthusiastic about Khatami. In an April 26 open letter, former Revolutionary Guard commander Mohsen Rezaei wrote that Khatami "would be well advised to retire in order to preserve his good image" (Rezaei is the key aide of former President Ali Akbar Hashemi Rafsanjani, a power-broker and a hardliner, but by no means a fanatic). But an effort to block Khatami's election is unlikely, given his popularity; indeed, Khatami went to see Rezaei the day after the open letter, presumably to seal a deal about the election.

The most likely outcome for the June 8 election is Khatami's re-election in a turnout much more modest than 1997's 88 percent participation. A similar pattern has been the case with Iran's last two presidents: Ali Khamenei, elected in 1981 and re-elected in 1985; and Rafsanjani, elected in 1989 and reelected in 1993.

One reason for Khatami's declining popularity is that he has no coherent program for addressing Iran's pressing socioeconomic issues. Khatami rarely speaks about, much less makes proposals to address, economic matters. Meanwhile, as a byproduct of the population boom after the 1979 revolution, at least 700,000 Iranians enter the job market each year, in a country that in the last decade created at most 300,000 jobs a year. It would seem as though 2001 would be a banner year for Iran's economy, thanks to the high oil price of the last two years which has allowed Iran to repay most of its foreign debt and to accumulate about \$13 billion in foreign exchange reserves, but in fact the Khatami government has done little to take advantage of these opportunities. And the indications about its priorities are not good: by far the largest commitment it has made for use of foreign exchange was the March agreement to buy \$7 billion in Russian arms.

Change will eventually come to Iran, but how? Four years ago with Khatami's surprise victory, reform seemed inevitable and violence unthinkable. Two years ago when young rioters filled the streets of Tehran, observers wondered if there could be violence on the road to change. Today, Majlis [parliament] members warn that blocking reform leaves violence as the only alternative. There is a trend here, and it will probably continue. The dynamic in Iran is that hardliners become increasingly repressive, while young people insist on change. That is not a recipe for stability. Today, the mood seems to be one of increasing desperation; e.g., Minister of Science Mostafa Mo'in estimated this week that 220,000 of Iran's academic and industrial elite emigrated in the last year. Meanwhile, the hardliners are (inadvertently, one assumes) creating the conditions for another revolution: closing one after another of the relief valves for expressing discontent, creating a new generation of national leaders with highly publicized trials for liberal journalists and politicians, and provoking students into creating national networks to plan protests.

In short, the prospects for progress in Iran are mixed: good in the long run, poor in the short run. 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. The most appropriate policy stance will continue to be reaching 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.

Mr. GILMAN. Thank you very much, Dr. Clawson.

We are confronted with a vote, but we will try to continue right on through. Dr. Cooksey went over early and will be coming back and we will continue right on through.

We are now pleased to have with us the Honorable William A. Reinsch. Mr. Reinsch served as Under Secretary for Export Administration in the Clinton Administration's Commerce Department. Mr. Reinsch was an able advocate for the Administration's positions on such issues as national security export controls—on which we worked together very closely.

Mr. Reinsch is appearing today as the President of the National Foreign Trade Council, an organization of over some 500 companies with an interest in trade policy and related issues. The NFTC is a valuable resource to this Committee on a variety of matters and we value its advice, although we have disagreed on several issues.

He also appears as the Vice President of USA\*ENGAGE, an organization concerned with what it characterizes as unilateral economic sanctions.

I should mention that the Committee staff was in contact with several other parties who could have provided additional critical views relative to the renewal of ILSA, but they could not attend this hearing for reasons of scheduling.

The record will remain open for their comments and the comments of others on all sides and they will print as many as feasible which comport with Committee rules.

Mr. Reinsch, please proceed.

**STATEMENT OF THE HONORABLE WILLIAM A. REINSCH,  
PRESIDENT, NATIONAL FOREIGN TRADE COUNCIL, INC.**

Mr. REINSCH. Thank you very much, Mr. Chairman. On that latter note, I have been asked by the Iranian Trade Association to submit a one-page statement from them and if you have no objection, I would like to ask that that be put in the record.

Mr. GILMAN. We will be pleased to make it part of the record. Thank you.

Mr. REINSCH. Thank you. It is a pleasure to be back here, Mr. Chairman. I appreciate your kind words about the NFTC, in particular. I must say in light of the comments today and remembering my previous appearances in this room on behalf of the Clinton Administration's position on satellites and encryption, I think I may be continuing my tradition of being on the short end of the vote on issues today, since I am in the opposite camp of most of you. But I appreciate the opportunity to appear. I also appreciate your efforts to obtain testimony from other witnesses who share the council's views, and I hope there will be other opportunities either in this venue or other ones to hear them.

The Council, as you said, is an association of more than 500 U.S. companies. It and USA\*ENGAGE, which is a broad based coalition of over 670 American companies and trade and agricultural organi-

zations that support sanctions reform, are here to make clear that we oppose extension of the Iran-Libya Sanctions Act of 1996 or ILSA. My comments will focus primarily on ILSA, but I also will have some words to say about U.S unilateral sanctions as well.

Let me be clear that we support ILSA's goals, preventing proliferation of weapons of mass destruction and the means to deliver them and acts of international terrorism, and we support full compliance by Libya with U.N. Security Council resolutions regarding Pan Am Flight 103, and we certainly are not here to defend either government.

However, we believe that ILSA has been ineffective in that it has not changed the Iranian behavior we were targeting when the law was enacted and that it has been counterproductive to American interests and has no chance of achieving its goals. Instead of renewing a failed approach, we support the Administration in its thorough review of U.S. policy toward Iran and Libya and urge the Congress to wait for that, as well as for the outcome of the June 8th Iranian presidential election before taking any action.

We also urge Congress to continue its review of the utility of using unilateral sanctions as an instrument of foreign policy.

We believe that a review of the record of ILSA will conclude that it has not achieved its objectives and that it has created collateral damage to U.S. interests. The reality is that it is the world price of oil and the ability to produce it that determines Iran's and Libya's income from oil and gas production, not U.S sanctions, and it is that sustained and rising price level that is encouraging exactly the investment that ILSA sought to block.

There is no evidence that ILSA can permanently deter foreign investment in Iran or Libya's energy sector. We believe it is Iran that is controlling the pace of investment in this sector in that country and that there is no shortage of bids.

Having ILSA on the books strains U.S. diplomatic relations with our allies because of their resentment of its secondary boycott characteristics. Further, if ILSA waivers are not granted, the economic costs for U.S. firms would multiply because of retaliatory actions by other countries.

Finally, ILSA's attempt to target the oil and gas production of two key energy producing countries runs counter to U.S. long-term energy security requirements. U.S. and worldwide demand for oil and gas is rising rapidly. Under these circumstances, we believe it is shortsighted to try to diminish Iranian and Libyan energy production capabilities.

In March, the Congressional Research Service, in the study that has been alluded to previously, reported that \$10.5 billion of foreign investment has gone into Iran's oil and gas sector since 1997. Iran expects \$1.5 billion to be invested in its petrochemical sector after this year.

These investors are from France, Canada, Italy, the Netherlands, the U.K., Japan and Norway, companies from our closest allies and most important trading partners, which have not joined our sanctions nor been deterred by the threat of ILSA. The only "success" of our sanctions policy has been ceding those markets to our foreign competitors. Let me cite some specifics.

Libya and Iran are now ranked numbers one and two for new petroleum exploration projects by 85 international oil firms polled in March by a British research firm.

Royal Dutch Shell announced last month that it will begin pumping oil in November from its \$800 million investment in two Iranian oil fields that will yield 190,000 barrels per day in 2 years.

sanctions on Iran have not had their intended effect of changing Iranian behavior and that ILSA in particular has not been effective in isolating Iran or Libya. To prolong its life may provide the illusion of action but nothing more. This is the opposite of the smart sanctions policy that the Secretary of State is trying to develop. We believe the choice is clear and that allowing ILSA to expire is the wisest course.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Reinsch follows:]

PREPARED STATEMENT OF THE HONORABLE WILLIAM A. REINSCH, PRESIDENT,  
NATIONAL FOREIGN TRADE COUNCIL, INC.

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

We support ILSA's goals—"preventing proliferation of weapons of mass destruction and the means to deliver them and acts of international terrorism"—and we support full compliance by Libya with U.N. Security Council resolutions regarding the destruction of PanAm flight 103; however, we believe ILSA has not been effective in achieving those goals but has, in fact, been counterproductive. Simply maintaining it in place for an additional period of time will not increase its prospects of success. Instead, we urge Congress to work with the Administration as it develops its policy toward Iran and Libya and to await the outcome of the June 8 Iranian presidential election before taking any action. We also urge Congress to continue its review of the utility of using unilateral sanctions as an instrument of foreign policy.

The theory of ILSA in 1996 was that the U.S., acting unilaterally, could deny Iran the capital it needed to develop its most lucrative exports, oil and gas. That, in turn, was expected to reduce resources available for development of weapons of mass destruction and support for terrorism. In the case of Libya, the objective was primarily to gain leverage for compliance with the U.N. resolutions on the terrorist attack on PanAm flight 103.

Now, five years later, any objective review of the record will conclude that ILSA has not achieved its own objectives. We are strongly convinced that ILSA has been entirely ineffective and that it is counterproductive for U.S. interests.

That latter point is crucial, because the Committee should view action on ILSA in light of our national interests. If the law were achieving our policy goals, we would be here testifying in support of it. However, it is not advancing its stated purposes; it is creating collateral diplomatic damage to U.S. interests for essentially symbolic purposes. In short, it does not meet a national interest test.

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

The reality is that it is the world price of oil and the ability to produce it that determines Iran and Libya's income from oil and gas production, not U.S. sanctions, and it is that rising price level that is encouraging exactly the investment ILSA sought to block. There is no evidence that ILSA can deter foreign investment in Iran or Libya's energy sector.

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

Exclusion of U.S. firms from Iran and ineffective sanctions against foreign firms will not determine how Iran uses its oil revenues. The desire of either Iran or Libya to support terrorism or pursue development of weapons of mass destruction is a national interest calculation, not a function of their oil and gas revenues. These issues are important, but they require a more sophisticated and targeted approach than ILSA, which is a very blunt instrument.

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

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

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

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

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

- World oil prices are a powerful incentive to foreign oil firms to invest in Libya and Iran, which are now ranked numbers one and two for new petroleum exploration projects by 85 international oil firms polled in March by a British research firm;
- U.S. efforts to isolate Iran are creating distortions in the development of the considerable petroleum resources of the Caspian region and putting U.S. firms at a disadvantage there;
- Iran Air and Libyan Arab Air have reportedly signed contracts worth several billion dollars with Airbus;
- In 1999 Caterpillar lost a major turbine contract in Turkey to its European competitors because of U.S. government uncertainty over whether ILSA sanctions applied.
- As a result of the ILSA and the 1995 Executive Orders, Caterpillar has been forced to cede its Iran market to Europe. Hardest hit has been its subsidiary,

Solar Turbines, Inc. in San Diego, which lost its market to Novo Pignone in Italy.

- Royal-Dutch Shell announced last month that it will begin pumping oil in November from its \$800 million investment in two Iranian oil fields that will yield 190,000 barrels a day in two years;
- Iran is the largest automotive market in the Middle East with 172,000 new motor vehicles being sold in 1999 and with vehicle sales of 500,000 a year forecast by 2003. Iran's huge growth potential as a market for vehicles will be met by European, Japanese and Korean automakers;
- Unilateral sanctions hurt American farmers, who are effectively excluded from Iran's \$2-3 billion agricultural market by strict U.S. licensing and the strong EU relationships built up before last year's legislation exempting food and medicine from sanctions programs.

Mr. Chairman, the Bush Administration is currently conducting a review of all U.S. unilateral sanctions policies, including Iran and Libya. That review will not be completed before Iran's presidential election on June 8. That election is an important event in the ongoing power struggle in Iran, which itself is taking place in a volatile social context. A majority of the population has been born since the 1979 revolution. The ultimate direction of the country's policies is very much in doubt. It would be unwise in the extreme for Congress to continue sanctions or impose new ones before the Iranian election and before the new U.S. Administration has developed its policy.

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

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

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

Mr. GILMAN. Thank you very much.

We are going to take a slight recess until Dr. Cooksey returns. He should be back momentarily and then we will continue with the hearing as Members are coming back.

The Committee stands in recess.

[Recess.]

Mr. COOKSEY [presiding]. The Committee will come to order.

I had distributed copies of my questions to all of you and would like to have been able to give them to Senator D'Amato.

And I will tell you this, I told the Chairman, I said when you asked me to sit in as chair, you in effect muzzle me so I am going to have to be under control now. But I would like to get your response to these questions.

Mr. Kohr, would you like to respond to them?

Mr. Reinsch, I missed your testimony because I was trying to get over there and back in a hurry, but I would like for all of you to give your responses to these questions.

Mr. REINSCH. It was brilliant, Mr. Chairman. I am sorry you missed it.

Mr. COOKSEY. Your testimony? I am sure it was.

Mr. REINSCH. I am happy to respond to the questions.

Mr. COOKSEY. I am sure it was brilliant and I am sorry I missed it.

Mr. KOHR. Let me respond to a number of the issues that you have raised. Some of these have been addressed already, for example, the question about investments into Iran despite this legislation. I think as has been indicated here, since 1995, there has approximately \$10 billion of investments that have taken place, despite ILSA, which is a relatively small amount. Qatar, for example, with far fewer resources, have had more than double that kind of investment.

Now, there is a variety of reasons, of which ILSA is a very significant one. Companies, as Senator D'Amato laid out, are presented with a choice of continuing to do business as usual in the United States or doing business in the oil and gas sector in Iran. This dimension is critical to this sanctions policy. This is a very targeted sanction. Food and medicine are exempt. The fact of the matter, it goes to exactly that sector that does the most to, no pun intended, fuel their efforts to support terrorism and weapons of mass destruction.

The fact that other European countries have not joined us in this effort I think is more reflection of leadership on the part of the United States and our willingness to tell our allies around the world that this matters to us, this is important to us.

As Patrick Clawson has indicated, we are willing to engage in very significant trade discussions with Europeans over bananas. It seems to me that if we were serious we could make an effort with our European allies to say that what goes on in Iran affects them and us together.

Mr. COOKSEY. Are you referring to the waivers that were given by former President Clinton?

Mr. KOHR. Not just the waivers. The waivers are a piece of this and obviously that sends a contradictory message about the importance we place on this. I am saying that the ongoing diplomatic efforts that need to accompany ILSA, that we indicate to—in the first instance, the Europeans that this really matters to us, that our relations with Iran and their relations with Iran are of great concern to us, so long as the Iranian behavior in these areas continues the way it does.

In addition, the conversations we have with the Russian government about their ongoing support for both the nuclear program as well as their conventional weapon support of Iran matters to us, that this is of the highest priority for the United States. That requires a serious and sustained diplomatic effort that I suggest has not been the case and is something we hope to see with the new Administration.

Mr. COOKSEY. So are you saying then that the lack of a serious and sustained diplomatic effort was the previous Administration? Or have you seen the same pattern with the current Administration?

Mr. KOHR. Well, it is too early to tell at the moment with the current Administration. As you know, they are undergoing review of our policy toward Iran. We have been encouraged, both by the statements Secretary Powell has made and President Bush has made to the Russians directly and the conversations with President Putin of Russia, that this is important to us, as well as President Bush's most recent statements that he believes in light of both Libyan and Iranian behavior that the imposition of sanctions should remain. So we are encouraged, but there needs to be an accompanying diplomatic effort, in our conversations with the Europeans, the Russians and our other allies, that this is an important matter to us.

Mr. COOKSEY. Well, let me ask you—you gave a general answer to my questions.

Mr. Reinsch, you gave an opposing view. Would you like to give a general comment to these questions? And then I am going to go back and ask specific questions.

Mr. REINSCH. Yes. If I may, Mr. Chairman, I would like to run down several of them. I appreciate the opportunity.

The first one was about whether anybody else supports these and, as far as we know, the answer is no. These are extraterritorial sanctions under ILSA. This is a secondary boycott. Most countries in the world do not support that device and they certainly do not support this one.

Ironically, the other classic example of a secondary boycott today is the Arab boycott of Israel, which, of course, we have laws against compliance with. What we are effectively doing in ILSA is asking other countries to do exactly the same thing with respect to Iran that we preclude by law Americans doing with respect to the Arab boycott of Israel.

Mr. COOKSEY. Would you elaborate on that?

Mr. REINSCH. Sure. We have a law that precludes American compliance with the Arab boycott of Israel. When the Arabs ask you as a condition of doing business in their country whether you are doing business in Israel, it is against U.S. law to respond to that question unless the question is phrased in a way that is consistent with the law. It is against the law to stop doing business in Israel in order to start doing business in an Arab state. That is a secondary boycott. So is this. We are telling third countries that we will punish them if they engage in trade with a fourth country, or investment in this case.

Mr. COOKSEY. You are basically saying we want to tell these other countries what they can and cannot do, but we do not want them to do the same thing to us.

Mr. REINSCH. Yes. Exactly. And that is one of the reasons why you are not going to find support for these sanctions.

Your second question was, have there been other instances of foreign governments sanctioning American firms in a similar way? Well, aside from the Arab attempt that I mentioned, I am not aware of other ones, and our response to that was blocking legislation, which will probably be the EU's response if we ever end up not waiving under ILSA.

In fact, I believe some countries have already undertaken blocking legislation which then puts their companies in the impossible

position of violating our law if they invest and violating European law if they do not invest.

This has happened before, by the way, in the early 1980's when the Reagan Administration attempted to block the creation of a natural gas pipeline across Europe that went into the Soviet Union. That Administration attempted to stop third parties from entering into contracts for that pipeline, and the French government, among others, responded with blocking legislation that created exactly the dilemma that I have described.

With respect to how much investment has gone into Iran, I think we have touched on that in several different statements in the CRS report. I do not think there is disagreement about that.

How many firms have actually been sanctioned under ILSA? None. There is one case that has been waived. I think it is worthwhile spending a brief word on the waiver issue, though. There are an unknown number of cases that are under review right now by the State Department for possible sanctions or possible waivers. They have been under review for, depending on which one, 2 or 3 years.

Now, I assume that at some point, if not already, Members of Congress among others are going to tell the Administration it is time to stop reviewing and make a decision. There is only so much you can learn and you either have to waive or you have to sanction. And I think that creates a dilemma here. We are not in an equilibrium situation with respect to the statute. We have a lot of cases under investigation. The new Administration is going to have to come down one way or the other.

If they waive, they essentially make the statute irrelevant. If they do not waive—

Mr. COOKSEY. And that is basically what the Clinton Administration did.

Mr. REINSCH. Well, in one case. Yes. The others, they investigated.

Mr. COOKSEY. The Total—

Mr. REINSCH. The Clinton Administration granted one waiver in the South Pars case that was mentioned. Several companies, but one waiver.

Mr. COOKSEY. Several companies. Okay.

Mr. REINSCH. The other cases, they investigated through the remaining life of their Administration, and they left that one flopping out on the table like a dead fish for the new Administration.

Mr. COOKSEY. They were not as efficient with that as they were with the pardons.

Mr. REINSCH. I am not going to comment on that. Let us just say it took them a long time to try to uncover the truth and I am sure that you will have to ask the new Administration if it is going to take them equally long, but this poses a dilemma. If you waive, the statute is irrelevant; if you sanction, then you have all the problems that I have described in my testimony. You can hold a hearing and invite EU witnesses, and others, to tell exactly what they are going to do if sanctions are imposed.

I think you have asked an important question here, Mr. Chairman, which is how much have the U.S. sanctions cost Americans, and I cannot give you an answer to that in dollar terms. As far as

ILSA is concerned, ILSA by itself, the answer is not a whole lot because the executive orders already preclude any American activity in either of these two countries, so ILSA on top of that does not make a lot of difference directly to Americans.

On the other hand, there is—if you examine all the sanctions, including the executive orders—a significant cost, particularly over the long term. There has been a lot of talk today about investments.

I think given where you are from, Mr. Chairman, you understand that the oil business is a long-term affair; investment is long-term, it is not an immediate turnaround, there is a significant capital investment up front. The companies that are engaged in these activities spend a lot of time thinking about where they are going to invest, and these things stretch out over a long period of time, not only through extensive negotiations, but just the investment itself is prolonged. We are in the process of taking our companies, out of these countries over the long term, and the consequences of that will be felt for a generation, not just for the next 2 or 3 years.

Are the sanctions consistent with the trade commitments that the U.S. made in the WTO? I would not want to put the Administration in an awkward position on this. I have no doubt that if we sanction anybody and we are taken to the WTO, the Administration's position will be to defend what we have done. The last Administration was in that situation in one case. But I think if you were to ask the Europeans if this law is WTO consistent, they would say clearly no and that it would be their intent to challenge it, either sooner or later, if action is actually taken.

Mr. COOKSEY. Two of my colleagues have returned and I want to give them an opportunity to ask questions.

Mr. CLAWSON. Sir, could I address very briefly your last two questions?

Mr. COOKSEY. Yes.

Mr. CLAWSON. First, on the question of how much have U.S. sanctions cost Americans: The answer is that they have saved Americans billions of dollars because if we did not have the sanctions, Iran would be able to spend a great deal of money and would spend a great deal of money on its arms programs and we would have to spend a lot more to beef up our presence in the Persian Gulf. And we are already contemplating spending billions of dollars on a missile shield which is, in part, designed to protect against this kind of program. It might not be necessary to engage in that expenditure of billions of dollars if we have more cooperation in stopping Iran's proliferation and missile programs. So the sanctions cost a whole lot less than the alternatives.

The second one about the sanctions being consistent with trade commitments, I am afraid Mr. Reinsch misspoke. ILSA has nothing to do with trade. ILSA has to do with investment. And ILSA was specifically written by some trade lawyers who know—or advice was provided by some trade lawyers who know—a lot about these trade matters to say that ILSA was targeted at investment, and that makes it entirely different from the Arab boycott.

Now, there was a lot of effort under the Clinton Administration to come up with a multilateral agreement about free investment flows. They were not successful because the Europeans were unpre-

pared to give up their right to impose restrictions on other countries who had investments and, frankly, we are not either. So ILSA is a law which is designed to target investment. It has nothing to say about another country engaging in trade with Iran, only about engaging in investment in Iran.

Mr. COOKSEY. Thank you.

Mr. Cantor had returned first.

Mr. Cantor?

Mr. CANTOR. Thank you, Mr. Chairman.

I would like to ask Dr. Clawson, specifically on this issue of smart sanctions because we hear a lot about that now, and I think the act allows for some tweaking by the Administration to perhaps increase effectiveness.

Can you speak a little bit to the idea of smart sanctions and what we could do to increase their effectiveness if Mr. Reinsch's claims are valid?

Mr. CLAWSON. I think finding ways to make the sanctions smarter is something that is going to probably require quite a bit of negotiations with our allies, and I would urge that the law provide flexibility for the Administration to help to make the sanctions smarter. However, it is going to be awfully hard here in Congress to micro-manage that process because I think the key of it is going to be the negotiations with the European allies. So urging the Administration to make use of the full flexibility, which is provided in the law, might be one way to go on this, and exploring, in fact, with the Administration if there are other kinds of flexibilities that they need. For instance, other penalties could be added just to make the mix a little tougher or perhaps a little more flexibility on what kind of conditions are required for a country waiver. Then the Administration could engage in these negotiations with the Europeans to find ways to get their cooperation to accomplish ILSA's goals. I think we all agree that we do not want to see ILSA's sanctions imposed; what we want to do is secure cooperation from other countries to advance ILSA's goals.

Mr. REINSCH. If I could comment on that, Mr. Cantor, I agree with that. He is basically saying smart sanctions are multilateral sanctions and I think that is right.

Mr. CANTOR. If I could, Mr. Chairman, just follow up on that to Mr. Reinsch.

I mean, this bill has been held out to be sort of a model sanctions bill, that the Administration has a lot of flexibility. There are cooling off periods here. There is a tremendous ability for the Administration to issue waivers. I think that there were a lot of folks in the camp that traditionally may have been opposed to sanctions, but participated in the drafting of this bill, given the nature of the regime over in Iran. I would just ask you is there ever going to be a sanctions bill that you or your association would support?

Mr. REINSCH. Well, USA\*ENGAGE's campaign is, in general, against unilateral sanctions. We believe unilateral sanctions do not work and end up biting, more often than not, the companies in the country that imposes them. So I cannot think offhand of a unilateral sanction that you would find the National Foreign Trade Council or USA\*ENGAGE supporting. We support multilateral sanctions, no question about it.

Mr. CANTOR. And you do recognize that, under this act, this can be accomplished through the tremendous flexibility inherent in the act.

Mr. REINSCH. Well, if the flexibility is to negotiate multi-lateral sanctions, sure. You do not need a law to allow you to do that in this area, and that is fine. If by flexibility you mean that the President can waive, fine. I guess from our point of view, the more waivers, the better. But that then leads you to the question that if the statute is going to be waived every time the issue comes up, what is the point of having the statute?

Mr. CANTOR. Under the circumstances you have the leaders in Iran characterizing the United States and Israel as one of the principal enemies of that country. Given these circumstances, and the danger to our national security, is it your position that we should never have such an act or ability to impose this sanctions act?

Mr. REINSCH. Our position is that we should do those things that work, and we should have a test of effectiveness. There has been a lot of discussion back and forth and with Senator D'Amato about whether these have been effective or not. I would submit that some of that discussion has been about the wrong thing. The test of effectiveness is not whether or not more or less money is going into Iran. The test of effectiveness, it seems to me, is whether the Iranian government has changed its behavior. That was the goal of this statute, to get them to do something differently.

Most of the testimony presented today by Senator D'Amato and by my colleagues has suggested that they have not changed their behavior.

Well, it seems to me if you are going to argue that they have not changed their behavior, it is an uphill argument to then assert that the statute has been effective.

Mr. CANTOR. And so you do not subscribe at all to the fact that it could be much worse? The example was given by the Senator that tiny little Qatar, with much less oil reserves than Iran has, and the tremendous amount of investment pouring into that country and the fact—juxtapose that with the fact that Iran's oil fields are aging and there been findings on the part of just about every agency involved in this issue—that they need a tremendous infusion of cash, you do not see the effect of such a sanctions act on at least impeding their ability to renew their cash cow so they can continue to engage in sponsoring terrorist activity?

Mr. REINSCH. Our judgment is that, on the economics of it, the utility or the deterrent effect of ILSA is fast eroding. To the extent that you can identify or assert that there were projects that were delayed, deterred or stopped, I think that most of that evidence is in the early years. What we see now, particularly as the economics of the energy sector has changed somewhat in the last year, as far as supply and demand and price is concerned, is essentially a crumbling of any effectiveness that these sanctions had, and I think that is only going to continue. You are going to see more of our allies going into these countries, and I think they will be able to get the money they need.

One of the comments I made earlier, I will elaborate just a bit. My understanding is that while there have been relatively few of these deals consummated, the reason they have not been, if that

is the proper term, is because the Iranians are still trying to decide, you know, which way they want to go. My understanding is that every time the Iranians have put a block out for bid, there have been bidders, which means the Iranians have resources and have options. Whether or not they choose to exercise them in the near-term is, as I said earlier, up to them. It is not being dictated by the statute.

Mr. CANTOR. Mr. Chairman, if I could just have one more follow-up question to Mr. Kohr.

If I could just ask you, Mr. Kohr, to comment on the fact that some have said that if we allow ILSA to lapse, it might enure to the benefit of the moderate factions in Iran and help them with their battle against the hard liners. Can you comment?

Mr. KOHR. Yes. As I mentioned in the statement, there are elements within Iran, as I said, who would like to see change, not just domestic change that we have heard something about, but also foreign policy, the thing we ought to be most concerned about. If we allow ILSA to expire and foreign investment is allowed to go in unimpeded, it will only reinforce those that are currently in power and give them no incentive to try and change. So it has just the exact opposite effect we would like to see happen here.

I just want to make a comment also about a comment that bill made earlier that had to do with what is the goal of the legislation.

The goal of the legislation is, yes, we would all like to see a change Iranian foreign policy and their behavior toward the United States and our allies, but the immediate goal of this legislation is to make it more difficult for them, more difficult to get the foreign investment, to help their oil and gas sectors to grow, that actually funds these kinds of activities. And I think as we have tried to indicate, there is ample evidence that we have succeeded in slowing it down.

The fact of the matter is could it be more successful? I would argue yes, and we have to take a look at ways, as Congressman Sherman and others have suggested, of taking a look at the range of options that exist, possibly adding some additional penalties, maybe raising the threshold to send a message again to everyone that we are serious about this.

Mr. COOKSEY. If I could beg the permission of my colleagues to my left, the Chairman has two other Committees to go to and he would like to ask his question. Then I will give all the remaining time to my colleagues on my left.

Thank you.

Mr. GILMAN. Thank you, Mr. Chairman. I regret I am being called to two other appointments.

I wanted to thank our panelists for being here with us today and for really giving us a sound analysis of the reauthorization of ILSA.

Mr. Kohr, you stated in your testimony that Iran is supporting terrorism beyond Israel. Can you elaborate a little more on that?

Mr. KOHR. Well, I think the best example is the evidence apparently that is coming together having to do with Iranian involvement in Khobar Towers. I think there will be some new information, hopefully, from the FBI that will become public about certainly an Iranian intelligence officer's involvement in the actual

terrorist act that took place several years ago against American servicemen in Saudi Arabia. That is the most active one.

The Mykonos bombing as well, where Iranians were actually convicted of the Mykonos bombing in Germany. The German court held Iranians guilty in that instance. And there are probably some others as well Patrick that may want to add, but the most significant one in recent time is Khobar Towers.

Mr. GILMAN. Thank you.

Dr. Clawson, U.S. policy seeks to deter the building of pipelines through Iran. Has ILSA succeeded in deterring those kinds of investments?

Mr. CLAWSON. ILSA has certainly deterred it. The Iranian government's inappropriate actions have also deterred it and the combination has been quite successful so that all we have had is some minor investments in some, so far, barely functional small pipelines.

Mr. GILMAN. Thank you.

Mr. CLAWSON. If you will let me just add one comment?

Mr. GILMAN. Please.

Mr. CLAWSON. There have been suggestions that perhaps we have not been sufficiently able to deter investments with ILSA. That is my understanding of what Mr. Reinsch was saying, that in fact in many cases investments have proceeded.

I would have thought that is an argument for making the penalties in ILSA tougher and for making the application of the law easier. I think it is rather peculiar to use that as an argument for saying that therefore we should do away with the law.

Mr. GILMAN. Right.

Dr. Clawson, is it not true that energy dollars go to the Iranian leadership in the government and not to the private sector?

Mr. CLAWSON. Absolutely correct. There is no effective private sector involvement in Iran in the energy sector. And when the income goes up, one of the first things they think about is spending it on arms.

Mr. GILMAN. Thank you.

Mr. Reinsch, you stated in your testimony that about \$10.5 billion in investment has taken place in Iran's energy sector since 1997. But does that not represent only signed contracts? Is not the amount of foreign direct investment actually spent much less than that? Does that not suggest that it is very difficult for foreign energy companies to move forward on implementing their deals?

Mr. REINSCH. Well, I think with respect to the first part of the question. I would defer to CRS from whom that statement comes. I gather that is correct, that your statement is correct, Mr. Chairman. From my point of view, I do not think that means your conclusion necessarily follows. To me, it is just an example of the attenuated nature of investment, construction and production in the sector. It takes a long time to bring these things to fruition.

Mr. GILMAN. How do you explain the difference in investments between Qatar and Iran?

Mr. REINSCH. I will have to think about that, Mr. Chairman. I do not have the data on Qatar in front of me.

Mr. GILMAN. All right. I understand you do support our trade sanctions with respect to bananas, or section 301 sanctions, which are unilateral.

Mr. REINSCH. I do?

Mr. GILMAN. How about the Sherman Antitrust Act, which is also considered extraterritorial by Europeans?

Mr. REINSCH. Having been on the job for a month, Mr. Gilman, I cannot attest to every single position that USA\*ENGAGE has taken over the years. The National Foreign Trade Council supports a rules-based economy and a rules-based trade system. To the extent that bananas reflect a violation of WTO, multilaterally agreed-upon rules, then we favor the appropriate action and that goes back to the point I made earlier with respect to Mr. Cantor's comment.

We have generally supported the kinds of actions that are on the table here when they are multilateral because that is when they work. The bananas case would be an example of that, the EU's protests notwithstanding.

Mr. GILMAN. Thank you very much.

And thank you, Mr. Chairman.

I thank my colleagues for allowing me to go ahead.

Forgive me for having to go on to another hearing. I again cannot thank our panelists enough for your time today. Thank you.

Mr. COOKSEY. Thank you, Mr. Chairman.

The Chairman has been a great mentor of mine. It is always great to have him here. He has a lot of wisdom. I think that goes with the color of our hair.

Mr. Sherman?

Mr. SHERMAN. Or perhaps the absence of hair could also reflect wisdom.

I think, Mr. Reinsch, that the glaring contradiction in your organization's position was just exposed by recent comments. The sanctions that we would use against Europe on the bananas issues are unilateral sanctions, but you support them, as soon as you learn your organization's positions, because they are there to enforce multilateral rules of conduct.

Is there anything about killing our 19 servicemen in Arabia, as Iran may have done? Or explosions in Germany or support for Hezbollah? Is that in any way not in violation of much more important multilaterally agreed conducts and rules for behavior? Or do you really believe that the international rules against killing people are far less significant than the international rules about discriminating against Chiquita bananas?

Mr. REINSCH. Those were all horrible incidents. There is no question about that and—

Mr. SHERMAN. Are they as big a violation of internationally established rules as stopping bananas?

Mr. REINSCH. I think what we have tried to do and what I have tried to in my testimony is focus on what is the best way to make sure that those things do not happen again. And—

Mr. SHERMAN. And the best way to prevent the happening again of illegal discrimination against our bananas is unilateral sanctions against the Europeans? That is the position of your organization, is it not?

Mr. REINSCH. Well, I think that is a case that has been settled via multilateral negotiations—

Mr. SHERMAN. If the Europeans discriminate against any one of the 700 companies you are here to represent.

Mr. REINSCH. Once the WTO permitted the imposition of sanctions, then it was appropriate for any interested party, including the United States, to impose them. One of the biggest fights we had—

Mr. SHERMAN. But the unilateral sanctions worked with bananas, did they not? They discriminated against our bananas—

Mr. REINSCH. Oh, I do not think that that would be a fair statement entirely.

Mr. SHERMAN. So you think that the agreement, with regard to bananas, achieves nothing to benefit the American companies involved?

Mr. REINSCH. I think that the banana—we are getting way far away from—

Mr. SHERMAN. No, what is being illustrated—

Mr. REINSCH. I think the banana—

Mr. SHERMAN. If I could interrupt here because it is my time—

Mr. REINSCH. I think the banana agreement was not a product of sanctions or—

Mr. SHERMAN. But those sanctions were supported by your organization.

Mr. REINSCH. The sanctions were permitted by the WTO—

Mr. SHERMAN. So you support sanctions to help bananas, and then you say they were not effective, but you supported them.

Mr. REINSCH. I said that the outcome of the case was, I think, a product of the realization of the two major parties, the EU and the United States—

Mr. SHERMAN. But you did support the sanctions.

Mr. REINSCH [continuing]. That the time had come to settle these things and get them off the table in order to get a new trade round started.

Mr. SHERMAN. Let me move on to another issue. Whenever I find an organization that opposes a bill and they do not have very good arguments to stop the bill they always ask for delay. In your testimony, you say let us wait for the June 8th Iranian elections. Is that not rather absurd since we already know that President Khatami is going to win them? And can you point to the slightest shred of evidence that President Khatami opposes the development of nuclear weapons at the fastest possible rate by his country?

Mr. REINSCH. Well, I think, Mr. Sherman, you are much more expert on the details of the Iranian government than I am. I—

Mr. SHERMAN. But you are asking us to delay.

Mr. REINSCH. Well, first of all, asking you to wait until June 8th is not a particularly long delay, Mr. Sherman. I would be surprised if the Congress were able to act in that time period, given your recess schedule.

I think the point was simply that we ought to let that process unfold over there if the incumbent is going to win by 70 percent, and I think that would be a better thing than some of the opponents, and that we ought to not do things that might make that more complicated.

Mr. SHERMAN. Mr. Clawson, would a huge victory for President Khatami cause a slowing down of the nuclear weapons program of the Islamic Republic of Iran?

Mr. CLAWSON. There is no evidence that Mr. Khatami opposes that program and considerable reason to believe that he supports it.

Mr. SHERMAN. If the chair will indulge me for just one more second.

Mr. Reinsch points out that we have not been able to change the policy of the government of Iran. It remains committed to nuclear weapons development and I think Mr. Kohr pointed out that the real purpose here is not to change the policy of that government, but to interfere with the government's ability to carry out that policy.

I would point out that we had sanctions against Nazi Germany that were somewhat more severe than these imposed by ILSA. We bombed them, we invaded the territory they controlled, and we never ever got them to change their policy. We simply interfered with their ability to carry that policy out.

To say that we have to make people change their minds with our foreign policy ignores the other approach, which is to make it impossible for bad minds to do bad things or to make it more difficult.

With that I yield back the time I do not have any more.

Mr. COOKSEY. Mr. Sherman, the chair would be glad to give you additional time because you are obviously very informed on this issue and very articulate, if Mr. Berman will allow you to have more time.

We can let him have his time?

Mr. SHERMAN. Why don't we let Mr. Berman take the floor and then we can have another round.

Mr. COOKSEY. Fine. That will be great.

It is all your show.

Mr. Berman?

Mr. BERMAN. Just a side note on that, the legislation that we are seeking to reauthorize does establish a whole process for multilateral negotiations in an effort to deal with these fundamental questions of Iranian support for terrorism and Iranian efforts to develop independent weapons of mass destruction and delivery system capability.

The point has now been made several times that I do not think any of us who were involved in the original bill supported the sanctions because we thought they would change Iranian policy. We thought it would in some fashion, to some degree, impede Iran's ability to acquire the foreign currency to develop their weapons of mass destruction. Obviously—

Mr. REINSCH. And you think that has happened?

Mr. BERMAN. Yes. I think that it has impeded their ability to develop weapons of mass destruction, just as I think our efforts to deal—the Clinton Administration of which you were a part—to deal with after too long a time, but then to deal with Russia's proliferation to Iran of missile technology and other exports of both goods and technology, our efforts there have impeded Iran's ability to develop their capability. It has not ended it, not stopped it, but impeded it. And my own view is our whole non-proliferation efforts

are all really efforts to try and slow down and degrade the quality of these countries' programs. They are not foolproof, they are not themselves sufficient, but they in additive and cumulative basis play a useful role in doing it.

Mr. REINSCH. May I comment on that, Mr. Berman?

Mr. BERMAN. Sure.

Mr. REINSCH. I do not want to interrupt.

Mr. BERMAN. Sure.

Mr. REINSCH. I certainly agree with that. In fact, as you know, my job until March 30th was to try to impede—

Mr. BERMAN. That is right.

Mr. REINSCH [continuing]. And to try to stop that from happening and one of the things, of course, that I had access to, as do you, was a lot of information, some classified, some not, about the degree of success that we were having in that regard. And, of course, as you know, there is a whole panoply of government efforts in that direction. It is not simply ILSA.

Mr. BERMAN. Absolutely.

Mr. REINSCH. It is export controls and diplomatic efforts and a whole wide range of things, all of which I think make perfect sense. I am inclined to say that—and we cannot really argue about this, I think, in open session, but I am inclined to say that my sense of the situation is that we were not all that successful in our efforts to impede the kinds of developments of WMD that you are talking about.

Now, it is hard to prove what did not happen, and I am sure there are things that did not happen as a result of some of the various efforts we are talking about. I certainly would not argue, nor have you, that we have shut them down.

Mr. BERMAN. No, I have not argued that. On the other hand, I would believe, as has been reported in newspapers, that kicking some Iranian scientists out of some Russian institute of technology probably had some negative impact on their ability to move ahead on any one of a number of their programs. It certainly did not stop it. In fact, this effort continues as we talk, but you must concede it impedes. We may differ on the degree, and you may be right about the degree, but let me move to another area that I want to focus on.

You were testifying and the vote came and so I forgot to mention it, but I thought I heard you talking about some investment deals that sounded like, at least on the surface, without any particular investigation, sanctionable activities that seem to be going on now with respect to investment in Iran's energy sector. I heard you mention Royal Dutch Petroleum. If I am right—did you not talk about—

Mr. REINSCH. I mentioned—yes, I referred to some ongoing—yes. I subsequently referred to—in response to one of Mr. Cooksey's questions—a number of these matters that are under review for potential sanctioning by first the Clinton Administration and now the Bush Administration.

Mr. BERMAN. All right. Tell me about a couple of them. What is the Royal Dutch Petroleum deal?

Mr. REINSCH. Well, I think they are addressed in the CRS report. I think it might be simpler just to refer to that, Mr. Berman.

Mr. BERMAN. All right. I will take a look at that.

Mr. CLAWSON. Representative Berman, if I may add to that, I think you will find that a lot of companies have put a lot of money into lawyers who advised them on how to keep just below the ILSA threshold until the expiration date and that if ILSA is renewed. There are going to be a lot of deals that suddenly we have a problem with because companies have been hoping to stay below the threshold until the expiration date. By not actually making the expenditures in Iran, making all the plans and getting ready and so on, but not actually spending the money until September.

Mr. BERMAN. We know, as I think perhaps Congressman Sherman or Senator D'Amato mentioned, that given the choice between dealing with Iran or dealing with the United States, it just makes sense that somewhere executives of some of these foreign firms made decisions, whatever the other risks were, again, additive and cumulative, we do not want to have to choose in that situation and did not pursue items that we may have investigated, we may have responded to, we may have actually started negotiations on but never consummated simply because of our potential vulnerability in our dealings with the U.S. in a whole variety of ways. But I will look at the CRS report to get more specific information on that. But the final point, I guess, is your position on unilateral sanctions.

You have confirmed this notion that you could eliminate ILSA tomorrow and you still have taken members of your association and not freed them up one bit to engage in commercial activity with Iran. What is the association's agenda with respect to the unilateral embargo that now exists on Iran?

Mr. REINSCH. Well, USA\*ENGAGE's view, as I said earlier, has been to oppose unilateral sanctions, unilateral actions, and we would favor the removal or repeal, whatever the appropriate word is, of those executive orders. That is not today's venue, and we think that it would be not sensible to argue for removal of the executive orders and extension of ILSA, so from our point of view, this is a sequence, but there is no question that if ILSA were to go away, which we favor, I would say now and I will say then, that we would prefer to see the EOs go away as well.

Mr. SHERMAN. Mr. Reinsch, assuming it is established in the minds of most Americans that our 19 servicemen in the Khobar Towers were indeed killed as a result of decisions made in Tehran at the highest levels, are you calling for us to invest in trade with Iran under those circumstances?

Mr. REINSCH. It seems to me that the appropriate response in a situation like that—I mean, there are appropriate diplomatic responses but it seems to me that an appropriate response is what happened in the Lockerbie—in the Pan Am 103 case—which is to try to engage on a multilateral effort to force the allegedly culprit government to cough up the perpetrators and have justice be done.

Mr. SHERMAN. Well, assuming that, say, France or some other countries do not care enough to join us in that.

Mr. REINSCH. Well, let us hope that is not so. They cared enough in the other case.

Mr. SHERMAN. Since this is a hypothetical question, let me add an element to it and say that economically important countries are

not willing to join with us in extremely harsh sanctions, perhaps they will have read your testimony here today and decided that no kind of sanction could ever work. So assuming that these multilateral sanctions are not available, would your organization, under those circumstances, urge that we buy Iranian oil, and invest in Iranian oil and gas fields?

Mr. REINSCH. Well, I am afraid I cannot help you with that by going down that road, Mr. Sherman. I think those are assumptions about other countries that we are not prepared to make at this time, and were that scenario to play out the way you have described then we would address that issue when those circumstances arise.

Mr. SHERMAN. Is there any circumstance in which hundreds or thousands of American servicemen are brutally murdered, where the only possible response is a unilateral response, where you would urge that we go forward with that unilateral response? Or is it your position that the brutal murder of dozens or hundreds of American servicemen cannot be avenged without the support of other countries? If they refuse to support, then we cannot do anything.

Mr. REINSCH. Well, I think the seed to the answer is contained in your question. If the question is, is there a circumstance in which there is no alternative but unilateral sanctions, then, if that is the only alternative, we would support the alternative.

Our general view has been that there are other alternatives and going back to what I said previously, the question ought to be—and that we have tried to focus on—is what is going to work.

Now, I think there is some disagreement between us as to whether ILSA in particular has worked—or is working might be a better term. It is a work in progress, but we would like to focus on what is working. Our experience has been that unilateral sanctions generally do not work. They may make us feel better, but they do not work.

Mr. SHERMAN. I assume, then, that—are you saying we might be in a position where we are bombing Iran, but you think your members should be investing in Iran at the same time? And then is it the obligation—

Mr. REINSCH. Well, if you are going to move away from a diplomatic effort into a military effort, the question of investment becomes moot.

Mr. KOHR. Mr. Sherman, may I address the issue of unilateral sanctions and whether they work or not?

Mr. SHERMAN. Yes.

Mr. KOHR. I think there are historic precedents that we need to take a look at. The immediate one that comes to mind is the issue of South Africa where the United States did impose unilateral sanctions against South Africa that had a marked impact in terms of sending a message to the rest of the world and began a process in South Africa of seeing some change which we see today. But of even more direct interest is the evidence that we see from unilateral American sanctions against the governments of Chile, Argentina and Brazil, who had active nuclear programs under the previous military regimes. And our unilateral sanctions did two things: they impeded their efforts and, this is the critical element

from our point of view, bought us time until we saw a regime change in these three countries. Those three countries now are under civilian control and they no longer have these nuclear programs, so there is ample evidence of unilateral sanctions by the United States in combination of diplomatic efforts as well, that have brought around some desired results.

Mr. COOKSEY. Our colleague Mr. Crowley has arrived and then Mr. Berman has another question, too.

Mr. Crowley?

Mr. CROWLEY. Mr. Chairman, thank you very much. I will be very brief. I am going to ask that my statement be submitted into the record, but just for the record I would state that I am deeply concerned and troubled about any movement to weaken ILSA. I am concerned about the message it sends to other sanctioned regimes around the world.

And just to follow up on what you were just talking about, the countries we are talking about specifically in this bill, in my opinion, are beyond the pale. Any weakening of the sanctions by this country just sends the wrong message, almost to the point that I am not so concerned as to whether they are actually fully working or not. They are simply beyond the pale and we should not be negotiating trade with those countries when they continue to fund terrorism throughout this world.

So, Mr. Chairman, for the record, I just wanted to state that and also offer my statement to be inserted into the record.

Thank you.

Mr. COOKSEY. Without objection.

Mr. Berman?

Mr. BERMAN. One last item I would like to pursue. We may disagree about how effective the sanctions have been, but I am curious, and I would be interested in Dr. Clawson and Mr. Kohr's response to this as well, let us examine the effectiveness of the European philosophy on this issue. I have had a lot of meetings with the Europeans since ILSA passed and discussed this a lot.

They have a different notion. They have critical dialogue, that is their policy. We meet, we trade, and we raise these issues that we are concerned about. We agree with you on the issue of Iranian support for terrorism, it is there, it is wrong, we are against it, and we let them know that. We certainly agree we do not want to see Iran developing intermediate range missiles and nuclear weapons and chemical weapons and we raise that issue with them.

Let us talk about the effectiveness of critical dialogue as the alternative to unilateral sanctions or, if you want to call them extra-legal sanctions, because whatever you want to debate about how effective we have been, I would make an argument that at least there is some level of impeding, some obstacles we are throwing up, some cause for companies to think twice about providing foreign currency to the Iranians.

I cannot understand what has come from the critical dialogue that the Germans, the French, other Europeans, and the Japanese have claimed is the superior alternative strategy.

Mr. REINSCH. Well, I certainly—I think I have taken enough of these things on, I am not going to argue with you about that one, Mr. Berman. I recall the critical dialogue point, I recall thinking

this was hypocritical when it came out, the EU was being hypocritical when it came out with its critical dialogue approach. I did not think it was going to work, and I am not going dispute you about whether it has or not.

And let me be clear, the right answer here, I think, is to go and model out a route and let us all act in concert. And, as Mr. Kohr said, in the South African case, which some of you worked on, as I recall, as well as I did, there was at the time the leadership argument—that somebody needs to be first, and if you go first then other people will follow, and I can understand that point. There also comes a time, you know, when you are leader, you have to look around and if there are no followers at all, it is time to wonder whether you are leading in the right direction. And I think that is where we are with ILSA.

What I see here is something that had some deterrent effect early. What we see now is crumbling, and I think if you extend and then you have this hearing next year or whenever you have the next one, in economic terms there is going to be more investment than there is now. But I would certainly agree with you, that the first thing we ought to be doing is trying to get the Europeans and us to march in the same direction at the same time, the same way. The last Administration was not successful in that regard. I hope this new one will be.

Mr. COOKSEY. Mr. Cantor, the police are asking us to vacate, but if you will be quick and everyone will be quick—

Mr. CANTOR. Mr. Chairman, I am going to give Mr. Reinsch a break, so that is fine.

Mr. COOKSEY. Oh, I would not do that. He is having fun.

Well, the Committee stands adjourned until further notice, until they put the fire out.

[Whereupon, at 2:54 p.m., the Subcommittee was adjourned.]

## A P P E N D I X

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### MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE JOSEPH CROWLEY, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF NEW YORK

Thank you, Mr. Chairman.

The renewal of the Iran-Libya Sanctions Act is an issue that could have tremendous implications for other sanctions regimes around the world.

Today we have a very distinguished panel comprised of regional experts and the author of the original version of this bill.

It is an honor having you all with us today.

If we are to assess whether or not we should renew the Iran-Libya sanctions act, I believe it is essential to lay out why it was necessary in the first place.

Both Iran and Libya possess extensive oil and natural gas resources that have the potential to yield tremendous wealth for these nations.

The concern then became what would this considerable wealth be spent on.

The desire to produce weapons of mass destruction and to abet, train, and fund terrorist organizations was a serious threat in 1995.

Therefore, a policy of punishing foreign companies wishing to invest in these nations seemed to be a reasonable one.

Though there have been some breeches of the sanctions by several companies, I would suggest that on the whole, these sanctions have been fairly successful in deterring Asian and European investment in Libya and Iran's energy sectors.

So the question now becomes, does the situation in Iran and Libya in 2001 warrant the extension of ILSA.

Unfortunately, the answer is yes.

According to the 2000 State Department report on Patterns of Global Terrorism, Iran, Libya, and several others continue to be nations that the Secretary of State has designated as state sponsors of international terrorism.

Iran remained the most active state sponsor of terrorism in 2000.

It provided increasing support to numerous terrorist groups, including the Lebanese Hezbollah, Hamas, and the Palestine Islamic Jihad, which seek to undermine the Middle East peace negotiations through the use of terrorism.

Though Libya has taken some steps to improve its international image, these steps are merely cosmetic.

According to the same State Department report, Libya continues to have contact with groups that employ violence and terror as a tool to oppose the Middle East Peace Process, including the Palestine Islamic Jihad and the Popular Front for the Liberation of Palestine-General Command.

Five years after the enactment of this legislation, these nations remain a threat to their neighbors and to regional stability.

With the Bush administration's decision to revise the sanctions against Iraq, the extension of this act becomes even more critical.

A rejection of the ILSA extension would destroy all credibility of a U.S. decision to enforce sanctions against nations who violate international law and engage in acts of terror.

It sends the signal that it is permissible to break the law, as long as you have the ability to endure the consequences for a limited time until the policy unravels.

I believe that we need to send a different message.

Again, I thank you for joining us here today, and I eagerly await your testimony.

PREPARED STATEMENT OF THE HONORABLE JO ANN DAVIS, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF VIRGINIA

Mr. Chairman, I wish to thank you and the committee for holding this hearing on such an important issue. As a member of both the House International Relations Committee and the House Armed Services Committee, I remain concerned about our national security. Therefore, I fully support the renewal and enforcement of the Iran-Lybia Sanctions Act (ILSA). ILSA has been effective at deterring Japan and possibly some European investors from investing in the energy sectors of Iran and Lybia. Additionally, stricter enforcement of ILSA may be effective at reducing the amount of foreign investment in these energy sectors by European nations that currently look to these nations as a legitimate energy source.

Mr. Chairman, ILSA has been viewed by some members of the European Union as an extraterritorial application of U.S. law. It has been described by Iranian hardliners as hostile toward Tehran. These views are held by those who seek financial profit by exploiting the energy resources of countries with records of supporting international terrorism against unarmed, innocent targets. ILSA is not only about U.S. interests. ILSA is about protecting world peace by encouraging Iran to cease its weapons-of-mass destruction and missile programs. It is about encouraging Iran and Lybia to stop providing money, weapons, and training to Islamic radical movements and ceasing its support of terrorist activities abroad.

Mr. Chairman, I do not take lightly the issue of imposing sanctions on other nations. However, the ILSA is a valuable tool in promoting world peace when properly enforced. Iran and Lybia have the power to end these sanctions and be accepted into the international community by implementing policies that decrease their weapons-of-mass destruction programs and no longer supporting organizations that conduct terrorist activities.

Thank you, Mr. Chairman.

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PREPARED STATEMENT OF THE HONORABLE DARRELL E. ISSA, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF CALIFORNIA

Thank you, Mr. Chairman.

The decision to support the extension of the Iran-Lybia Sanctions Act until 2006 is not a decision I have made without careful consideration. While I support this legislation, I am left with several concerns as to its overall effectiveness and the impact it has had on some American businesses. In the end, however, I must weigh my economic concerns against the fact that Iran and Lybia continue to be major sponsors of global terrorism.

Two weeks ago, the State Department released its annual report, "Patterns of Global Terrorism" for the year 2000. According to this report, Iran remains the world's primary state sponsor of terrorism for its continued support of groups that violently oppose peace between Israel and its Arab neighbors. Contrary to many of our hopes with recent elections in Iran, which handed over victories to moderates, it is become increasingly clear that hard-line conservatives continue to dominate the government. In addition, according to the State Department, Iran remains committed to providing funding, training, and logistical assistance to extremist groups all over the world.

Lybia is also cited in the State Department's report for its refusal to comply fully with UN Security Council requirements related to Pan Am Flight 103. Lybia remains the primary suspect in several past terrorist operations, including the 1986 Labelle discotheque bombing in Berlin that killed two U.S. servicemen, one Turkish civilian, and wounded more than 200 people. In addition, Lybia continues to have contact with several terrorist groups that use violence to oppose the Middle East Peace Process.

It is for these reasons that I support the extension of sanctions, if only to send a message to terrorist nations that the United States remains committed in its efforts to combat terrorism. This includes our commitment to isolate and apply pressure to states that sponsor terrorism to force them to change their behavior.

It cannot be overstated that true global commitment and consistency in enforcement is necessary to make these sanctions more effective. We cannot ignore the impact sanctions have had on some American businesses, which lose out on valuable contracts due to their compliance with ILSA provisions. I agree with many who say that this region is a compelling future capitol goods market and it is my hope that all Middle East countries will one day be open to global investment. For now, however, I regret that both Iran and Lybia appear to be open, rather, to the spread of terrorism.

Again, I thank the Chairman for this opportunity to address the Subcommittee and I look forward to listening to the testimony of our distinguished panel.

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PREPARED STATEMENT OF ARCHIE W. DUNHAM, CHAIRMAN, PRESIDENT AND CEO,  
CONOCO INC.

Mr. Chairman and distinguished Members of the Subcommittee, thank you for your invitation to me to provide testimony on behalf of Conoco, Inc., concerning an important piece of legislation that affects a region of vital interest to the United States.

I am grateful that you have given me the opportunity to address this Subcommittee on the issue of the Iran-Libya Sanctions (ILSA) Extension Act, and that the Members are devoting such appropriate consideration to the contents and the consequences of this proposed legislation. Both this Congress and the new Administration have undertaken their responsibilities at a time of intensifying threats and appalling violence in the Middle East. These circumstances add urgency to the imperative of shaping a framework for U.S. policy in this region that protects and defends America's national interests and those of our allies.

Speaking on behalf of Conoco and its employees and shareholders, I want to emphasize the deep and abiding concerns that we in the business community share with you in determining that policy and advancing U.S. interests. We are, of course, private organizations with commercial objectives. But first and foremost we are patriots, and we profoundly believe that the American spirit of free enterprise has an integral contribution to make towards promoting peace and prosperity around the world.

Not only do we uphold common values, but we also endorse common interests, particularly in the critical area of the Middle East. The United States has vital national interests in this part of the world: to promote peace among all the people of the Middle East; to assure the stability and security of the Persian Gulf; and to protect and expand the world's energy supplies. America's private sector shares these priorities, because we recognize that the advancement of U.S. geostrategic objectives around the world will generate the most advantageous environment for U.S. companies. Nowhere is this more true than in the Middle East, where efforts to resolve historic tensions can only enhance the climate for American capital and technology. Here our vital national interests and our commercial interests go hand in hand.

My remarks will primarily address the subject at hand, the proposal to extend ILSA. However, I want to highlight from the outset our profound concerns about the broader problem of unilateral American sanctions on trade and investment with these two countries. Through Executive Orders issued by President Clinton with respect to Iran, and by President Reagan with respect to Libya, U.S. companies are barred from any meaningful involvement in the economies of either Iran or Libya, while our foreign friends and competitors have become increasingly active there, as I will describe below. This unilateral embargo is both inequitable to our own citizens and ineffective in its impact on the target countries. In the deliberations over this specific piece of legislation, this context is critical. Our decision on the future of ILSA can and should signify a renewed American readiness to work with our allies, to engage with our adversaries, and to address the dilemmas that Iran and Libya pose for U.S. national security.

#### CONOCO AND THE POWER OF ECONOMIC DIPLOMACY

American economic strength is a central factor in advancing our nation's foreign policy. Commercial interactions among peoples help develop closer political and strategic ties, and they are even more powerful in cases where governments have long been estranged. In Russia and across the former Soviet Union, American businesses have strengthened fragile new democracies by transforming the controlled economy of the past into a free market of the future. As one of the first and one of the largest foreign investors in Russia's oil industry, Conoco has played a valuable role in that transition. In Vietnam, U.S. companies helped pave the way for political normalization and the process of post-war reconciliation, and here again, Conoco is the largest foreign firm in the energy business. Commercial cooperation has been an essential instrument in America's foreign policy arsenal throughout our history, and in today's increasingly interdependent world, trade serves as a powerful force for inducing domestic liberalization and international moderation.

Six years ago, some envisioned such a future for the Islamic Republic of Iran. Conoco spent months negotiating a \$600 million contract to participate in the development of the Sirri offshore oil and gas fields. We understood the sensitivity of the rift between Iran and the U.S., and so we were careful to keep the State Depart-

ment informed every step of the way. Tehran's decision to award Conoco this contract—Iran's first exploration and production deal with a foreign company since the revolution—was specifically intended to signal the government's willingness to chart a new course in its relationship with the U.S. Here in Washington, however, the decision produced the opposite effect, a campaign for the economic isolation of Iran. As a result, a series of Executive Orders and Congressional actions, including ILSA, severely restricted economic ties between our countries, and we were required to walk away from the Sirri contract.

Regrettably, U.S. policy has also required Conoco to sacrifice substantial business in Libya as well as in Iran. With our two U.S. partner firms in the Oasis Group, Marathon and Amerada-Hess, Conoco operated successfully in Libya from the 1950's until 1986, when an Executive Order issued by President Reagan barred any further activity in that country. At that time, the Libyan National Oil Company assumed control of our operations and, of course, their revenues, although the Libyan government continues to honor our claim to the properties. The embargo developed into a multilateral effort in the aftermath of the 1988 Pan Am 103 tragedy, and the co-operation of the world community with United Nations sanctions helped secure Col. Qadhafi's acquiescence to a judicial resolution. Since the suspension of the UN embargo, however, virtually all our international competitors resumed business with Libya, while American companies alone remain sidelined by unilateral U.S. sanctions. Even more incongruously, our foreign competitors are eyeing the properties owned jointly by Conoco in the Oasis Group, and our continued absence makes those attractive potential offerings for the Libyan government.

At its inception, the Iran-Libya Sanctions Act appeared to provide a key element of the intensified U.S. embargo—a means for persuading Iran and Libya's alternative trade partners to participate in a multilateral effort via the threat of secondary sanctions. Unfortunately, ILSA in practice has proved not to be the linchpin of a successful strategy of economic pressure, but the fatal flaw in an ineffective framework, one that has had a highly adverse impact on both American national interests and commercial interests. ILSA has failed in each of its primary objectives, and this failure has come at the expense of American businesses, American workers, American farmers, and American consumers. Even more dangerously, ILSA has proven to be a paper tiger in combating the serious challenges, such as terrorism and proliferation of weapons of mass destruction, that US interests face today in the Middle East and around the world.

And so while we in the business community wholeheartedly support American policy, from our position on the front lines of the global marketplace, we must voice our serious differences with the choice of ILSA, and unilateral economic sanctions in general, as a tool to advance that policy. Fortunately, the choice is not in fact between ILSA and nothing. Rather, we have at our disposal an array of policy options, many of which can be far more effective in contending with the menace of terrorism and weapons proliferation. For these reasons, we strongly oppose any extension to ILSA. In the place of this hollow threat, the Congress should adopt smarter sanctions that target the perpetrators of violence rather than the people of those countries, who we are encouraging to embrace more democratic processes. Smarter sanctions would provide much greater influence over the foreign policy calculations of Tehran and Tripoli, and coupled with other measures that directly address the roots of proliferation and political violence, would send a much clearer message to these governments of American determination and resolve. The U.S. has serious national interests at stake, which can be better protected and advanced through engagement and deterrence than through attempted isolation.

Let me address the specific ways in which ILSA has fallen short of the objectives set out by its drafters and, in practice, has been counterproductive. Deactivated by its own provisions and unenforceable prescriptions, ILSA represents the worst of all possible policies—an embargo that has backfired to punish not its target, but its sponsor. The legislation sets out to punish and prevent any threat from Iran or Libya, but its primary impact has been to place all American interests at a severe disadvantage in an increasingly competitive and globally integrated political economy.

#### ILSA HAS FAILED TO DETER INVESTMENT IN IRAN AND LIBYA

First and foremost, ILSA has failed in its most basic premise; it simply has not halted foreign investment in the energy sectors of Iran or Libya, nor reduced that investment in any material way. The Sirri contract in Iran, relinquished by Conoco in 1995 in compliance with U.S. policy, is an emblematic case in point. In the aftermath of our withdrawal from this project, the French company Total quickly stepped into our place. Total was undeterred by the limited likelihood that Washington

would risk a major trans-Atlantic trade war over this project; in fact, the company was encouraged by the French government, which along with many of our friends and allies, took great exception to this perceived attempt by Washington to mandate a lockstep approach toward Iran. Total's risk proved wise when in 1998 President Clinton issued a waiver, citing national interest considerations, that freed Total of any fear of secondary sanctions against its much more substantial investment in the South Pars development project.

This waiver effectively opened the floodgates for investment in Iran, and since the passage of ILSA, foreign companies have committed \$18 billion of investments in Iran's petroleum industry and have signed \$13 billion in contracts. In not one of these cases has the US Government chosen to implement the penalties mandated by ILSA. If it was intended to shut off the lifeline of foreign exchange for these regimes, ILSA has been a very leaky faucet.

Much of this investment has flowed from our friends and allies. The Europeans—including our closest NATO partners—and now even the Japanese have decisively broken ranks with Washington on this approach, and their massive investments in Iran have repeatedly resulted in exemptions or inaction by the U.S. Government rather than the implementation of the ILSA-mandated penalties. They increasingly disregard the threat of these punitive measures, because it is clear that our government will dismiss them.

As a result, Total, the company that assumed the 1995 deal meant for Conoco, has been joined in Iran's congested energy sector by the Italians, the Dutch, the Norwegians, the Austrians and the Canadians, and it is only a matter of time before the British are awarded, and accept, a major new contract. And it is not only our friends and allies who are investing here; our strategic competitors in Russia and China, as well as emerging regional powerhouses such as Malaysia, Indonesia, and South Korea, have taken full advantage of the opportunities presented by ILSA and America's self-imposed absence to move into dominant positions in Iran.

Not only are they investing in development of Iran's oil and gas resources, the Europeans, the Japanese and a host of other countries have also become heavily involved in other aspects of Iran's energy sector—extending trade insurance, expanding the petrochemical industry, and building power plants. Meanwhile, despite the expectation that ILSA would deny Iran opportunities to participate in the establishment and expansion of regional energy infrastructure, deals with Turkey, India, and several Persian Gulf states for natural gas exports remain in various stages of negotiation.

Libya has attracted a similar level of investor interest, although the effective deterrent of multilateral United Nations sanctions—principally the travel ban—deferred Tripoli's opening until only two years ago. But a host of firms, representing a veritable atlas of the international oil industry including the UK, the Netherlands, France, Italy, Germany, Spain, Sweden, Canada and South Korea, remain active there. And the suspension of UN sanctions in 1999 has produced a frenzy of international activity, with at least fifty companies at the table and more than 130 blocks potentially on offer.

The magnitude of actual investment and potential interest in Iran and Libya since the enactment of ILSA and the accompanying U.S. embargo vividly illustrates the inefficacy of unilateral American sanctions. U.S. sanctions on their own have had no demonstrable effect on the income available to these governments, and the effort implicit in ILSA to extend the U.S. boycott to our allies as well as to our adversaries has collapsed under the weight of our own waivers. The global nature of the oil industry means unilateral sanctions have relatively little impact on government coffers in Iran and Libya—in fact, far less than the impact of a rise or fall in the price per barrel by single dollar, or even one penny. Since we have not convinced or compelled the other major industrial countries of the world to join us—and there is no way to do so—American sanctions only constrain our own competitiveness. They should be discarded without any further cost to American citizens.

Its proponents argue that while it has not curtailed all investment, ILSA has had some modest impact in dissuading foreign companies from Iranian and Libyan petroleum projects, citing as evidence the potential for both countries to attract and absorb even greater amounts of capital. While it is true that neither country lived up to its investment potential over the past five years, it is misleading to attribute this shortfall to the threat of secondary sanctions. The main deterrent to investment has not been ILSA, but the near-term internal difficulties of both governments to absorb the interest of major international energy companies. Today, many of these hurdles have been removed, and through improved contract terms and important legal and regulatory enhancements to the overall climate for foreign investment, Iran and Libya are poised to move much more quickly and dramatically in securing international financing for energy projects. In addition, the past five years have pro-

vided a generous head-start for their potential trade partners in Europe, Asia and Russia to build the relationships, acquire the data, and develop the intense familiarity that is essential to the massive investments involved with the energy sector. These factors, along with the currently high price of oil, mean that the next five years will witness an intense amount of economic activity in both countries, with projects worth tens of billions of dollars on the offing. This will transform ILSA's steady leakage into a flood of new economic ties between Iran, Libya and our allies and competitors.

Our friends recognize the power of economic links to transform security relationships, and they understand that oil is fundamentally a strategic commodity. As a result, senior government officials—indeed, heads of state, foreign ministers, trade and commercial ministers from our closest NATO allies—have provided energetic support to their business communities in securing long-term contracts in Iran and Libya, especially in the energy sector.

#### ILSA HAS FAILED TO PROMOTE A MULTILATERAL APPROACH TO IRAN AND LIBYA

In addition to its failure to stem the flow of foreign capital into the Iranian and Libyan energy sectors, ILSA has missed its mark in a second key respect: it has not produced greater cooperation with our allies in confronting the challenges posed by these two governments. The legislation specifically calls for efforts to ensure multilateral support for its provisions, but this has not occurred. In fact, rather than assembling a united front, ILSA's original enactment seriously antagonized our friends and allies, who consider its secondary sanctions to violate international law and the agreements to which we are party as members of the World Trade Organization. Renewal would cause further friction with the very governments whose cooperation is essential, both for stemming the flow of proscribed technologies and combating terrorism and for pressuring Iran and Libya to take responsibility and compensate for their violent pasts.

Moreover, ineffective sanctions such as ILSA erode America's influence and perceptions of our integrity around the world. When sanctions don't work, it looks as though America has failed. And when America fails, it loses its ability to influence, let alone lead. We risk isolating ourselves rather than our targets, and not simply on the question of engagement with Libya or Iran, but on the wider array of issues that require coordination with our allies. As we mobilize a more cohesive coalition against the enduring threat of Saddam Hussein's Iraq, we can ill afford greater tension with our allies, and we must not squander our influence on economic threats against our friends that will never work.

And that is of course the crux of the ILSA dilemma: this law has not been effective because its penalties have never been applied, but these penalties cannot be enforced because they would trigger a serious trade war with our most important allies. We have a lot at stake with our European partners, and such a dispute would be devastating, especially coming at a time of economic uncertainties and changing strategic priorities. A trade war would ripple throughout the U.S. economy, hurting businesses, farmers, workers and consumers in every Congressional district, and it would immensely complicate efforts to build greater European support for critical cooperative security arrangements, such as missile defense. ILSA renewal would jeopardize these fundamental American interests.

#### ILSA HAS FAILED TO MODIFY IRANIAN AND LIBYAN FOREIGN POLICY

Finally, perhaps the most tragic element of ILSA experience has been the failure of this legislation to produce any appreciable impact on the behavior that it is intended to halt. The increasing reintegration of both Iran and Libya into the world community and their massive resource wealth provide access to the sufficient benefits, irrespective of American restrictions. There is absolutely no evidence that the sanctions regime, or ILSA specifically, has brought about the slightest modifications in the conduct that is considered inimical to American interests abroad. We must identify and implement more effective measures for combating offensive policies, rather than relying on rhetorical threats or disengaging from the consensus of the world community.

Sanctions have also failed to contribute in any positive fashion to the uncertain political transformation that has taken place in both Iran and Libya in recent years. In fact, American efforts to apply economic pressure have worked to the advantage of those who hate the U.S. The ILSA threat of secondary sanctions plays into the hard-liners' obsessive fears of international conspiracies against their government and arouses nationalist passions and anti-American mistrust. This serves the purposes of the small minority of Iran's population who remain hostile to progress, and enables them to retain their dominant positions and enhance their considerable eco-

conomic interests. But more than two-thirds of the Iranian population are under the age of 25, with little or no memories of the revolution itself. These young Iranians, along with so many of those from all generations whom I've met on my trips there, are eager to embark on a new phase of relations between our countries. Our sanctions disregard their aspirations for a government more responsive to its citizens and more responsible in the region, and enable those aspirations to be deferred for another day.

The Iran-Libya Sanctions Act and our other unilateral sanctions have failed to achieve any of their stated objectives. However, a full accounting of this legislation must not only consider its negligible part in advancing U.S. interests, but its high collateral costs to those interests.

#### ILSA HAS REDUCED U.S. ENERGY SECURITY

First, ILSA has diminished American energy security at time of soaring demands and shrinking supplies. Constraints on US investments in new production have substantially reduced America's diversity of energy supplies—while constraining no one else's, making consumers in the United States more dependent on fewer sources. Growing demand in the U.S. and in developing economies has been met by an all too inflexible supply of oil, resulting in shortages and skyrocketing prices. Today, prices have doubled from their mid-1990s' level that facilitated the rapid economic growth of that period. Any disruption to the worldwide supply of oil in this period of limited spare capacity and regional tensions would have an immediate and severe impact on American prosperity.

The rolling blackouts that have darkened homes and offices in our nation's most populous state in recent months call needed attention to this neglected priority. The government Task Force under the able leadership of Vice President Cheney, as well as several independent studies released in recent weeks, are calling for a more comprehensive U.S. effort to ensure our nation's energy security. These studies have highlighted the need to tap into new sources of energy supply, both at home and abroad.

This simply cannot be accomplished if we cordon off major producing states. Iran and Libya possess petroleum resources of a magnitude that makes them impossible to eliminate from the global energy market. Iran alone has proven oil reserves that are more than twice the size of those in this country, and on par with the entire Central and South American continent. As OPEC's second largest producer, Iran boasts nine percent of the world's oil reserves and 15 percent of its gas resources—percentages that could soon double with new discoveries that Iran is making—on its own. Libya's high-quality reserves and low-cost transportation routes to Europe mean that Tripoli too is a key producer. Both countries will expand their production capabilities substantially over the next decade, and US participation in identifying and developing these resources today will guarantee an adequate, diverse supply of energy for future generations.

Other than to allow Iraq to produce flat-out, there is simply no single act that will do more in the short term to increase energy supplies and lower energy prices for Americans than to lift these sanctions, as soon as possible. The energy business has an inherently long lead-time on project developments, and investments in new production from either Libya or Iran will not yield production on the market for at least three years. The expanding American and world economies cannot afford any further delay in new energy developments imposed by legislative fiat.

In addition, investment in Iran and Libya can generate a more cooperative approach on the part of OPEC. Iran, for example, now possesses little to no spare capacity, and because it cannot benefit from the short-term expansion of supply, the government tends to adopt hawkish positions within OPEC on price and production policies. Development of new fields and redevelopment of mature reservoirs will mitigate this pressure, and make it easier for the oil producers to agree on increases in daily output, which in turn will ease price pressure on consumers.

In addition to impairing our interest in expanding and diversifying the global supply of energy, ILSA sanctions have also come at the cost of significant commercial opportunities for U.S. companies. This cost is spiraling upward even more quickly today, and any extension of ILSA would mean billions of dollars lost to American workers and industries.

A previous section of this testimony enumerated some of the investment that has already taken place despite the intended impediments of ILSA. But it is even more important to consider the future scope and scale of potential investment in Iran and Libya. In a survey of 85 multinational oil companies conducted just a few months ago, these two countries were ranked as the most attractive opportunities for new investment (*Citation: Survey by Robertson Research, UK, published 3/27/01*). The

Iranians estimate that at least \$60 billion is needed over the next decade to maintain their current petroleum production and to ensure even modest expansions in their output. In Libya, more than 70 percent of the known oil reserves have yet to be exploited. The ILSA waivers to date have granted our foreign competitors a tremendous advantage in terms of positioning, relationships, and accessibility in securing this new business.

In Libya, the restrictions on American return—while the suspension of multilateral sanctions invites the rest of the world back in—may well lead to the appropriation of U.S. assets in favor of European competitors. Iran offers different, but equally urgent, opportunities. In Iran, recent discoveries are of strategic and historic magnitude—the Azadegan field alone contains somewhere in the order of 26 billion barrels of recoverable oil, meaning that production from this single field alone could provide three to four hundred thousand (300–400,000) additional barrels of oil per day. Billions of dollars will be spent on its development, now under the leadership of a consortium of Japanese companies.

Other reserves in Libya and particularly in Iran tend to be found in mature fields that have already experienced a long and productive history. This does not suggest that further investments are unnecessary or uneconomical; rather, it is quite the opposite. Older fields in both countries urgently need rehabilitation and secondary development to maximize their current output and future potential. This is an area where American expertise and technology offers a particular advantage. However, here, as in the case of the historic Azadegan field, ILSA extension would paradoxically provide an upper hand to non-American companies.

ILSA entails significant costs to our economic competitiveness, energy security and alliance relationships, and yet it has proven wholly ineffective in deterring investment or modifying unacceptable behavior. Still it remains on the books, and even with such a dismal record, some support its extension.

#### IRAN, LIBYA AND US SECURITY: ISOLATION VS. ENGAGEMENT

I understand the reason for this support, even if I do not agree with it. Politicians and policymakers here in Washington are justifiably frustrated by the rising tensions and enduring violence in this region. We must be concerned about the degeneration of the Middle East peace process, which has cost hundreds of lives on both sides of the conflict between Israelis and Palestinians, as well as the decades of hope that had been invested in pursuit of an enduring settlement. This violence has generated an equally dangerous derivative trend, the partial rehabilitation of Iraqi dictator Saddam Hussein on the streets and, even more ominously, within some governments of the Arab world. Confronting these two challenges rightly rank at the top of American priorities for the Middle East.

These circumstances rightly dismay and outrage many here in Washington, and I share that frustration. But such urgent and intractable dilemmas demand real solutions, not rhetoric on sanctions such as ILSA that can never be properly implemented. Real solutions would entail more judicious use of economic pressure, as well as more generous investments in the programs that have been successful in combating the challenges that these governments pose through better training, intelligence gathering and analysis, and technical capabilities. The United States has a remarkable set of military assets designed specifically to deal with terrorists, and investing in those capabilities will do far more to combat violence than any sanction can accomplish. We did not allow the rash of airline hijackings in the 1980s to shut down international air traffic. We should not allow a very small group of individuals involved in supporting terrorist activities to keep us from developing better relations with Iran, which will enhance our security in the region, advance our commercial interests, and over time will do the most to encourage positive changes in Iran's government and political climate.

This is a period of subtle but significant changes in both Iran and Libya, as their young populations come of age and their developing economies come on line. Isolation is not the answer to the security dilemmas we face. Rather, we should pursue engagement with Iran and Libya and expand their dialogue with the world community through commerce, culture, and diplomacy. Building linkages with these governments will require flexibility and perseverance, but just as in Vietnam, Russia, and China, these linkages will provide a foundation for peace and prosperity. Economic incentives have a major contribution to make in creating common interests. The broader reintegration of these two countries into the world economy will invite moderation and balanced responsibility. Whether it is membership in the World Trade Organization, acceptance of international finance, or participation in the multinational oil business, today's global market imposes stringent restrictions and es-

chews provocative actions. Any gains from this reintegration for the governments in question will only give them more to lose if they endeavor to upset the system.

Representatives of Conoco have spoken frequently on the issue of unilateral trade sanctions. Our position reflects our proud corporate history of blazing new trails, a history that began in the American frontier states and today extends our activities throughout the global market for energy. This history has provided us with a unique vantage point on the challenges for the U.S. government in difficult parts of the world, such as Iran and Libya. We look forward to the day when we can once again serve as proud corporate diplomats, and help begin the long, slow process of rapprochement between unnecessary adversaries. Allowing ILSA to expire on schedule is the first step.

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PREPARED STATEMENT OF SHAHRIAR AFSHAR, PRESIDENT, IRANIAN TRADE ASSOCIATION

I am deeply concerned over the proposal of Senators Gordon Smith (R-OR) and Charles Schumer (D-NY) to reauthorize the Iran Libya Sanctions Act of 1996, due to expire in August 2001, for another 5 years.

As an Iranian American, I oppose any further US sanctions against my homeland. ILSA reauthorization is not just about the use of foreign oil monies; it's about the winds of change in Iran, ordinary people seeking prosperity, and the future of two great nations. US sanctions on Iran have an inseparable tendency to endorse negative perceptions of Iranians in the US, when in fact, sanctions are supposed to be aimed at certain policies of the Iranian government. With over one million Iranians in the US, we cannot sanction Iran without impacting the lives of Iranian Americans, because we cannot separate Iran from Iranians any more than we can separate America from Americans.

Reauthorizing ILSA for another five years will not help our relationship, dialogue, and exchanges with the Iranian people. It is time for the US to consider the benefits of building a bridge to Iran based on trade and trust. Further, the new Administration needs more time to develop its own cohesive Iran policy. We should at least wait on the ILSA debate until after the June 2001 Iranian elections. In the past, the US has responded positively to democratic developments in Iran. Renewing ILSA, irrespective of the Iranian elections, preempts a tremendous diplomatic opportunity that leaves Iran to conclude: If the US policy has not evolved since 1996, then why should we?

ILSA was erratically applied, nonetheless it also damaged the EU-US relationship and led its proponents into believing that it would get Iran to play ball. None of it worked as planned. The EU considers extraterritorial legislation to be unacceptable both in law and in principle. Iran and Libya are still among the most popular destinations for foreign oil investment.

There is also an agricultural effect to renewing ILSA. The US is still trying to recapture its \$500 million agricultural export market to Iran that it once enjoyed in 1979. In today's dollars that would be well over a billion dollars in lost sales. According to the US Labor and Commerce Departments, each one billion dollars in US exports creates some 17,000 jobs in this country. That's just one industry. US manufacturing and heavy machinery makers like Caterpillar and Boeing have the ability to export billions to Iran every year. Don't we want Iran to spend its hard currency on US goods rather than less desirable items?

There are a number of problems with ILSA. Why is Iran joined with Libya? Why renew for another five years instead of a sunset in August or an annual review? Why renew before the Iranian elections? Why not take measure of the EU and US company objections? And most importantly, why are we trying to isolate Iran, when the Iranian people, in the US and Iran, are clearly trying to reach out to us? I believe that ILSA hurts Iranian Americans, US farmers/companies, and the fragile course of dialogue between the US and Iran. Please do not cosponsor ILSA reauthorization and let it sunset in 2001.

Thank you for your leadership on this important issue.

