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The Iran Counter-Proliferation Act of 2007

By Danielle Pletka

On April 8, Iran announced that it was expanding its plans to enrich uranium, despite demands from the United Nations (UN) Security Council that it halt the program. Iran will start installing six thousand more centrifuges in addition to its three thousand existing ones. In testimony before the Senate Finance Committee, AEI vice president Danielle Pletka reviewed recent U.S. and UN policy toward Iran; examined the evidence on sanctions, arguing that they are taking a toll on Iran's economy; and looked at what other options we now have for dealing with Iran.

The question of what to do about the Islamic Republic of Iran's nuclear weapons aspirations has challenged the United States through several administrations. Indeed, the discussion about how to confront Supreme Leader Ali Khamenei, President Mahmoud Ahmadinejad, and their predecessors has so entered the rote of foreign policy debate that arguments for and against a particular set of policies have become cliché. Worse still, the familiarity of the threat set—for how long have we warned of Iran's nuclear ambitions?—has had the effect of robbing Iran of its menace.

Yet the reality remains: Iran is driving toward a nuclear weapon and self-sufficiency in the production of highly enriched uranium. The international community is convinced of Iran's intentions. I have met with officials from each of the five permanent members of the Security Council, and each has averred bluntly that it is their government's private view that Iran seeks nuclear weapons. And while International Atomic Energy Agency director general Mohamed ElBaradei has suggested he is not convinced, his deputies—to a one—are persuaded of Iran's intentions.

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That leaves the civilized world with the question of what to do. Some have already announced that we can live with a nuclear Iran, speculating that when Ahmadinejad and others proclaim their commitment to the destruction of Israel and America that they are not serious. Others have come to the reluctant conclusion that a military strike will be the only effective means of slowing Iran's nuclear program. Still others believe the Tehran regime can be removed if there is enough support for the majority of Iranians who loathe their system of government and leadership.

This is not a new debate. In November of 1808, Thomas Jefferson mused in a letter on the question of an embargo of Great Britain, then threatening the United States and harassing shipping: "Three alternatives alone are to be chosen from: 1, embargo; 2, war; 3, submission and tribute. And, wonderful to tell, the last will not want advocates."

Some will suggest that submission and tribute are not options for the United States and its allies. I would argue that the modern day equivalent contemplates accepting what was heretofore unacceptable: allowing Iranian enrichment (sometimes described as "limited enrichment"), "containing" an Iranian weapon, tolerating Iranian domination of its region, ignoring Iranian support for terrorism, bribing Iran to take steps that will not verifiably end its program, and worse.

The other option, war, is not very attractive for a variety of reasons that have been ably debated in other forums. Certainly, serious analysts are not persuaded that there is any silver bullet in a military conflict or limited strike on the Islamic Republic. Those who rule out war in any circumstance, however, should recognize that the prospect of military action is what prompts Iran's leadership to take seriously the sanctions now on the table. More importantly, it is obvious that the limited multilateral sanctions now in effect will not have their desired effect. Then what? If war is off the table, submission and tribute will remain. This leaves us with the hope that harsher and more effective economic sanctions can raise the cost to Iran of pursuing nuclear weapons and change the calculus of decision-makers in Tehran.

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There are three UN Security Council resolutions now in effect addressing Iran's nuclear program and its violations of its safeguards obligations. Depending on your viewpoint, these resolutions are either a triumph of international solidarity in the face of an outlaw or a lame attempt to discover the least common denominator that will unite a divided council. The truth is probably somewhere in the middle.

Without U.S. leadership, it is unlikely the Security Council would have acted. And without pressure from France and the UK, it is unlikely that the Security Council would have agreed upon a third resolution, particularly in the face of Russian and Chinese apologia for Iran. Yet, against some odds, we have three resolutions and a moderately robust set of international sanctions. In addition, the European Union has used the authority of the resolutions to impose a set of slightly broader sanctions on Iran. And the United States has also imposed its own set of unilateral sanctions, some of which have been in place for many years.

Although there seems little doubt that the mood in Congress has shifted since the Iran-Libya Sanctions Act (ILSA) first passed in 1996, it is important to underscore that the U.S. Congress has always been at the forefront of confronting Iran (as it has been in confronting the

worst state sponsors of terrorism and the worst proliferators). It is a principled position that should be a source of pride for members of both parties. I have no doubt that legislation like ILSA (now the Iran Sanctions Act), the Iran Nonproliferation Act (now the Iran, North Korea and Syria Nonproliferation Act), and the Iran-Iraq Arms Nonproliferation Act has slowed Iran's ability to attract capital, material, and technical support for its programs.

Over the years, as different pieces of legislation have been introduced and passed, there have been some who have continued to suggest that sanctions do not work in general and that unilateral sanctions are particularly ineffective. I agree that multilateral sanctions are always more desirable than ad hoc or unilateral sanctions. The argument that unilateral sanctions are wrong, ineffective, and otherwise to be avoided, however, is also incorrect, and offensive in the sense that such arguments too often come from self-serving members of industry whose sole interest is in making the world safe for untrammelled trade.

On consistency grounds alone, those who oppose unilateral American foreign policy sanctions against terror sponsors and proliferators should be challenged also to oppose economic sanctions against foreign companies dumping cheap goods into the U.S. market. After all, if sanctions are good enough punishment for making a cheap television set, presumably they are good enough for terrorists trying to make a nuclear weapon.

More importantly, even the threat of unilateral sanctions has been effective as recently as last year. As state after state has ramped up efforts to divest pension funds from companies invested in Iran, and as S 970, the Smith-Durbin Iran Counter-Proliferation Act, has garnered support in Congress, American companies like General Electric, Halliburton, and Baker Hughes with subsidiaries operating in Iran have rethought the wisdom of doing business with one of our nation's most dangerous enemies. And as the United States has contemplated additional unilateral banking sanctions on Iran, banks across Europe have ratcheted back their exposure to the Islamic Republic, with some pulling out entirely.

Reviewing the impact of sanctions to date, it is clear that both unilateral and multilateral sanctions are taking a toll on Iran's economy, much of which is state controlled. The sanctions in effect today have done a better job than many previous sanctions regimes in targeting leadership elements and sources of income without imposing a heavy burden on the Iranian people. Even a brief glance at the impact reveals that Iran is now having difficulty underwriting its oil products (and the regime's

own oil minister admitted as much). Financing is hard to come by, and the cost of money has gone up significantly. The Organisation for Economic Co-operation and Development has lowered Iran's credit rating. Letters of credit are now difficult to obtain, and as a result, investors have pulled out of a variety of important oil and gas deals. In other words, what Congress is doing works. We may not all agree on the exact provisions, but congressional leadership in the use of means other than war to persuade the Iranian regime to slow down its nuclear program has undoubtedly had a positive effect.

Could life be more difficult for Iran's leaders? Certainly. Could our friends and allies, particularly in China, Russia, and the Persian Gulf, do more to isolate Tehran? Without a doubt. I would like to see the various emirates shut down the Iranian bank accounts that have flourished since Iran's banking sector came under pressure. I would also like to see nations like the United Arab Emirates do more to ensure they are not the pass-through of choice for Iranian imports and exports, legal and illegal.

We could also do more to reassure those in Iran's neighborhood that we are serious about the threat Iran poses to the region. Last year's disingenuous and politicized National Intelligence Estimate undercut America's position and worried the very leaders we have sought to reassure about America's constancy in the fight against terrorism and proliferation.

Overall, however, we should remember Jefferson's admonition. There are only a few choices before us: imagination, perseverance, pressure, and vigilance are the watchwords that should guide us. Submission is unacceptable, and war only a last option when no other offers the hope of preserving our national security.



Regarding the specific provisions of S 970, and without speaking to every section, one of the key provisions is Section 6 on Russian nuclear cooperation. Last July, presidents George Bush and Vladimir Putin initialed an agreement for nuclear cooperation, a so-called 1-2-3 agreement, launching a new era in nuclear cooperation between Moscow and Washington. While Russia has long been eager for such an agreement, successive administrations had refused to move forward, arguing that Russia's willingness to cooperate with Iran and build reactors for the Islamic Republic has precluded cooperation with the United States.

The Bush administration reversed its own previous position and that of the Clinton administration, which

had refused to begin negotiations on a 1-2-3 agreement while Russia continued to assist the Iranian nuclear program. It is not clear to me why the Bush administration made its move. The benefits of the administration's decision are hard to pinpoint, as Russia has been the main roadblock in toughening UN sanctions on Iran.

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Section 6 of S 970 will take the initiative away from the executive branch and underscore the fact that nuclear cooperation with the United States—and the vast attendant potential profits—will not be available to Russia for as long as Russia continues to work with the Iranian nuclear program and supply advanced conventional weapons to the Islamic Republic's military.

Section 7 closes the loophole, which was reopened by former secretary of state Madeleine Albright, that allows U.S. import of Iranian goods, particularly carpets and pistachios—important foreign exchange earners for the regime. That decision sent an unhelpful mixed message to Iran's leaders and underscored American weakness in confronting Iranian threats. There is no demonstrable evidence that the step was anything other than a PR move.

Section 8 closes a loophole that has been exploited by a number of U.S. companies to use subsidiaries in foreign countries to do what would otherwise be prohibited work in Iran. The companies in question did so in full awareness of the fact that their actions undermined the spirit and intention of U.S. law and executive orders. And while most have now, to the best of my knowledge, ceased doing new business in Iran, I have little doubt that in another climate that work would quickly resume.

Regarding the World Bank and its lending to Iran, the facts are simple. Since 2000, the World Bank has extended more than \$1.2 billion in loans to the Islamic Republic. And other than a December 2005 Multilateral Investment Guarantee Agency credit line of \$122 million, which clearly aids Iran's petrochemical sector, the

loans are hardly remarkable in and of themselves. Each penny, however, frees up millions then available to the regime to use as it sees fit. And we have a good idea what Ahmadinejad sees fit.

The lending is a political disgrace. From an economic standpoint, Iran is one of the most mismanaged economies in the Middle East. It is the only OPEC nation that has defied the spike in crude prices to run a budget deficit. Economic rationalism alone should dictate that the World Bank hold Tehran at arm's length. In addition, a nation that expends untold billions fueling an insurgency in Iraq; sponsoring the dictatorship in Syria; underwriting Hezbollah, Hamas, and other terror groups; and arming itself with the best conventional weaponry and missiles available from Russia and North Korea, not to mention funding an expensive clandestine nuclear program, does not bear scrutiny as a responsible fiscal custodian.

The United States, the single largest World Bank contributor, is forced by World Bank rules to subsidize the regime. No new loans have been extended since 2005, but existing loans are still being paid out. The U.S. taxpayer should not bear a penny of this cost, and this bill remedies the problem.

There are several other important provisions to this bill, including reporting requirements about federal thrift savings investments related to Iran, companies operating in the United States that do business with Iran, and more. These reports will shine a much needed light onto Iran's friends, suppliers, and enablers. At that point, it will be unnecessary to mandate particular steps. People and governments will begin to vote with

their pocketbooks, investing in companies that choose to do business in less threatening parts of the world. In this instance, choice is key, and information makes such choices possible.

Finally, a brief comment on the creation of an international fuel bank. I am happy to defer to those who have more knowledge of the details of uranium enrichment, reprocessing, and safeguards on the basic question of the wisdom of such a fuel bank. The provision, however, demands some logical scrutiny: What kind of country needs a nuclear fuel bank? Presumably a country that depends on foreign sources of nuclear fuel and is worried that it may be cut off by its suppliers. Why would a country worry about being cut off by its suppliers? In the nuclear area, the most likely reason would be because it has misbehaved—for example, by detonating a nuclear explosive device. So are we going to set up a fuel bank that addresses this concern by promising to deliver fuel even to countries that do such things as engage in nuclear proliferation? I certainly hope not. But if the fuel bank does not address that concern, what makes anyone think that a country like Iran is going to be satisfied to give up its ongoing nuclear enrichment program in order to join the fuel bank?

My point is not that a fuel bank is a bad idea. It is simply that I think it gives undue credit to the professed concerns of a country like Iran. We should be under no illusion that this is a tool that is likely to induce Iran to give up nuclear enrichment. President Bush once suggested that as threats gather, responsible leaders cannot sit idly by. This bill ensures that Congress is leading our nation to confront one of the most potent threats facing us.