

Toward An Economic Warfare Strategy Against Iran

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AMERICA'S STRATEGY TOWARD IRAN IS FALTERING. Nearly seven years after the disclosure of the Iranian regime's nuclear program, and a year-and-a-half after the start of "engagement" on the part of the Obama administration, Washington has yet to see a substantive diplomatic breakthrough in the deepening international impasse over the Iranian regime's nuclear ambitions. To the contrary, mounting evidence suggests that Iran's rulers have used the strategic pause afforded by American outreach to forge ahead with their nuclear endeavor, adding permanence to Iran's increasingly mature and menacing atomic effort.

Multilateral efforts at sanctions, meanwhile, have failed to keep pace with these advances. Between 2006 and 2008, three rounds of international sanctions were authorized and enacted by the United Nations Security Council, with little perceivable impact on Iran's nuclear decisionmaking. A fourth round of sanctions has just been finalized by the United States and other Permanent Security Council members. Yet already, there are clear signs that this effort, like its predecessors, will fall far short of applying the broad, comprehensive economic pressure necessary for Iran to begin to rethink its nuclear drive.

As a result, the United States and

its allies in the international community will soon be confronted by the stark binary choice best outlined by French President Nicolas Sarkozy several years ago: an Iran with the bomb, or the bombing of Iran. If it hopes to avoid such a state of affairs, the United States will need to marshal a comprehensive economic warfare strategy toward the Islamic Republic—one that leverages the latent vulnerabilities inherent in the Iranian economy to ratchet up the cost of the regime's nuclear endeavor. Such an approach starts by focusing on six discrete areas of economic activity that could be used to alter the Iranian regime's behavior.

OIL AND NATURAL GAS

Energy is the lifeblood of the clerical regime that rules Iran. With oil production currently at some 3.9 million barrels a day and with 981 trillion cubic feet of proven natural gas reserves, Iran today is a *bona fide* energy superpower. But its inefficient, centrally-planned economy—and the regime’s attendant array of latent economic vulnerabilities—make it an ideal target for coordinated financial pressure from the international community.

Iran’s most glaring dependency is refined petroleum. Because of its limited refining capabilities, Iran is deeply dependent on foreign sources; the Islamic Republic currently ranks as the world’s second largest importer of gasoline, importing approximately 30 percent of its annual domestic consumption from outside the country. For the United States and its allies, this heavy dependence represents a signal opportunity.

U.S. efforts to ban international energy investment in Iran began in 1996 with the passage of the Iran-Libya Sanctions Act (ILSA), which authorized sanctions against foreign firms which traded with Iran (and Libya) and which specifically invest more than \$20 million in one year in developing the energy sector of both countries. ILSA, however, has been honored entirely in the breach; since it was enacted, no U.S. president has sanctioned any company found in violation of the legislation. The same now holds true for the Iran Sanctions Act (ISA), the amended version of ILSA passed in September 2006, when Congress elected to remove Libya from the U.S. list of State Sponsors of Terrorism.

This does not mean that this legislation has been without effect, however. While no administration yet has been willing to sanction violators, the threat thereof has hung like a “Sword of Damocles” over the energy industry and, in the words of one expert, “constrained

Iran’s energy sector significantly.” During Mahmoud Ahmadinejad’s first four years as Iranian president, foreign investment in the Iranian energy sector plummeted by 64 percent—from \$4.2 billion to \$1.5 billion—as a result of the threat of sanctions and the replacement by Ahmadinejad of more competent industry technocrats with regime loyalists, many of whom lacked energy industry experience. Iranian energy officials now say that without an annual investment in the Iranian oil industry of at least \$25 billion, Iran could become a net importer of oil.

More recently, Congress has focused its energies on targeting Iran’s vulnerability to interruptions of its gasoline supply from abroad. On December 15, 2009, the U.S. House of Representatives overwhelmingly passed the Iran Refined Petroleum Sanctions Act (IRPSA). The Senate companion bill, sponsored by Senator Evan Bayh (D-IN), was rolled into the Dodd-Shelby Comprehensive Iran Sanctions, Accountability, and Divestment Act and passed on January 28, 2010. These measures cumulatively authorize sanctions on any entity that provides, or helps Iran obtain, refined petroleum, including suppliers, shippers, banks, insurance and reinsurance companies, as well as companies that supply equipment to Iran that could be used to expand or construct oil refineries. They also expand punitive measures against firms that violate the above restrictions.

Yet despite their popularity in Congress, gasoline sanctions, like broader energy sanctions, have yet to gain significant traction in the U.S. government. During the 2008 presidential election, then-candidate Barack Obama twice endorsed the idea of targeting Iran’s gasoline supplies as a way of dissuading Tehran from proceeding with its nuclear program. Yet today, his administration has backed away from the idea of such “crippling” measures in favor of more “targeted” sanctions that would strike specific economic actors within the Iranian regime, chief among them Iran’s clerical army, the Islamic Revolutionary Guard Corps (IRGC).

In doing so, the White House risks forfeiting valuable and compelling leverage over Iran's economy.

Iran, meanwhile, is acutely aware of its vulnerability to gasoline supply interruption—and actively working to eliminate it. It is doing so through a series of steps intended to increase its energy “independence” and reduce its reliance on foreign suppliers.

- Over the past three years, the Iranian government has imposed a strict rationing plan limiting the availability of refined petroleum to ordinary Iranians. Under the current rationing system (amended in March 2008), each motorist is entitled to 120 liters of gasoline per month at a cost of about 11 cents per liter; Motorists can now also purchase additional fuel for the higher price of approximately 44 cents per liter.
- Simultaneously, Iran's oil ministry is working to increase domestic refinery capacity. It has outlined an ambitious plan for upgrades to seven of Iran's nine existing refineries (Bandar Abbas, Arak, Esfahan, Abadan, Tehran, Lavan and Tibriz) and the construction of seven new plants (Abadan, Shiraz, Tabriz, Kermanshah, two in Bandar Abbas and one on the Caspian)—moves that are cumulatively expected to make Iran a net gasoline exporter by 2015.
- Iran has begun harnessing its vast natural gas reserves as a countermeasure against its gasoline vulnerability. To this end, the Iranian government is implementing a program to retrofit its passenger and commercial fleets to run on compressed natural gas instead of gasoline. In 2007, the regime mandated that all cars manufactured in Iran have dual-fuel capacity, to run on either gasoline or compressed natural gas (CNG)—potentially unlocking an abundant and vastly cheaper fuel source to Iranian consumers. Today, an estimated 1.7 million of the 10 million cars on Iran's roads meet this standard.
- Iran has signed major deals with China and Venezuela, both not likely to abide by U.S. sanctions, to supply it with gasoline.
- Iran is negotiating with Brazil to import

sugar cane ethanol, of which Brazil has a surplus, in order to blend this alternative fuel in its fuel supply and hence weaken the impact of the sanctions.

The pace and effectiveness of these steps remains in dispute. What is not in dispute is that Iran's efforts at energy independence, if allowed to proceed without a serious strategic response, will ultimately undermine Western efforts to bring the Islamic Republic to heel. Simply put, the effectiveness of U.S. energy sanctions will depend upon the United States and its allies exploiting the window of opportunity created by Iran's dependence on gasoline from abroad before that window closes.

RECOMMENDATIONS

Put gasoline sanctions in context. Over the past two years, the efficacy and legitimacy of gasoline sanctions has become the subject of intense public debate in Washington. They have been characterized by some as a silver bullet that would cripple the Iranian economy and inflict a mortal wound upon the clerical regime in Tehran. Others have deplored them as a pinprick measure that would fall short of causing serious economic damage while enriching Chinese and Russian mercantilists at the expense of their European and American counterparts.

In proper context, gasoline sanctions are neither. While they may not be a silver bullet by which the West can disarm Iran, pressure on Iran's gasoline dependency could serve as “silver shrapnel” that severely wounds a regime already suffering a crisis of economy and legitimacy. The effectiveness of such measures rests upon a sober understanding of their potential impact upon the Iranian regime—and the political will to use them promptly in order to compel a change in Iran's behavior with regard to its nuclear program.

Implement and enforce all energy sanctions. Consistent with its preference for more “targeted” measures, the Obama administration now is

reportedly seeking to weaken existing sanctions legislation to preclude major violators from being sanctioned. Congress should reject any amendments to the final legislation that reduce its effectiveness (including providing “cooperating country” exemptions to any country, even U.S. allies). Failing to implement legislation approved by such overwhelming bipartisan support, at such a critical time, would signal a lack of commitment on the part of the Administration to its own pledge to stop a nuclear-armed Iran. With this new legislation, and with authority given under ISA and numerous executive orders, President Obama has ample power to sanction international companies that are conducting business throughout Iran’s refined petroleum, oil and natural gas supply chains.

“Red Team” alternate suppliers, and stop them. A serious gasoline embargo against Iran will, by its nature, be a moving target. If Iran’s current gasoline suppliers exit the market, either voluntarily or because of pressure, other companies can be expected to pick up the slack. Indeed, a number of companies have already done so. Over the past several years, Iran’s gasoline has been supplied primarily by six companies: the Swiss-Dutch energy trading giants Vitol and Trafigura, the Indian multinational Reliance Industries, the Swiss trader Glencore, the Dutch-British energy firm Shell and the French energy firm Total. With the exception of Total, all of these companies—many with long standing ties to Iran—have reportedly terminated, or announced that they will be terminating, their sales of gasoline to Iran. In addition, most Western banks have stopped underwriting gasoline shipments to Iran. Two insurance companies, Munich Re and Allianz, reportedly have exited the market, and a third—Lloyd’s of London—indicated its willingness to stop underwriting the gasoline trade after sanctions legislation is signed into law.

In their place, however, other suppliers have arisen, among them Kuwait-based IPG, Russia’s LUKOIL, Malaysia’s Petronas and three state-run Chinese companies: the Zhuhai Zhenrong Corp., ZhenHua Oil, and the China

National Petroleum Corporation. Without exposure to U.S. sanctions, still other suppliers will emerge. Even those companies which have already left Iran might decide to work through third and fourth parties to hide their role in supplying gasoline unless punitive measures are applied. The key to preserving gasoline pressure on Iran is to identify future potential suppliers—and then to put those firms on notice that they will risk considerable reputational and financial consequences for entering into energy trade with Iran.

Direct Brazilian ethanol away from Iran. Iran’s growing trade relations with the government of Luis Inacio Lula da Silva in Brazil have the power to significantly impact Iran’s gasoline vulnerability, and Western efforts to target it. The thaw in ties between Tehran and Brasilia potentially has provided Iran access to billions of gallons of Brazilian sugarcane ethanol—a substance which, if blended into its fuel mix, would significantly reduce the amount of gasoline Iran would need to import. With its bumper sugar crop, Brazilian ethanol alone can displace almost all of the gasoline currently imported by Iran, thereby neutering gasoline sanctions. This outcome can be avoided if Brazilian ethanol were diverted to the U.S. market. Currently, however, a 54 cent-per-gallon import tariff keeps Brazilian ethanol off U.S. shores. That tariff is bound to expire in 2011, but legislation calling for its extension by an additional five years is now pending before Congress. If Congress is serious about fighting Iran economically, it should refrain from extending the tariff, thereby creating an alternative market to Iran for Brazilian ethanol.

Modify existing legislation to focus on technology and services for Iran’s natural gas and oil sectors as well. The threat of refined petroleum sanctions legislation already has begun to persuade numerous gasoline suppliers, insurance and re-insurance companies and banks to terminate their business ties to Iran. Little corresponding attention, however, has been given to Iran’s natural gas sector, either publicly or legislatively. The Iran Sanctions Act prohibits investment

of more than \$20 million in one year in Iran's energy sector, both natural gas and petroleum, but it excludes the sale of technology, goods, support, services and specialized information for energy-related projects. The Iran Refined Petroleum Sanctions Act specifically includes the entire refined petroleum supply chain, including suppliers, insurers, reinsurers, shippers, technology providers, and other service providers. It therefore closes a gap in ISA with respect to technology, goods or services—but only for refined petroleum. The provision of technology and services for Iran's natural gas and oil sectors is still largely unregulated, and unpunished.

This is a critical error. As serious sanctions on Iran's oil economy begin to bite, the Iranian regime can be expected to shift its attention and resources toward alternative and more sanctions-resistant sectors, chief among them natural gas. Iran's natural gas technology and service providers therefore need to be held to the same level of scrutiny and accountability as the country's suppliers of refined petroleum. In addition, Iran's wealth and political leverage is dependent on its ability to continue to exploit its enormous oil wealth. Steps should be taken to deny the regime the key technology and services necessary to fully develop these resources. To this end, Congress needs to amend current legislation being deliberated by the House and Senate to punish firms for sales of goods, services, technology, support and information that assist Iran to develop and maintain its oil and natural gas infrastructure, not just those who make "investments," as current law provides.

Designate major IRGC entities active in the Iranian energy sector and persuade international companies of the risks associated with doing business with these entities. The links between Iran's Islamic Revolutionary Guards Corps (IRGC), blacklisted by the U.S. in 2007, and the Iranian oil and gas sectors are well documented. In 2006, for example, the IRGC's main construction arm, Khatam ol Anbia (Ghorb), received more than \$7 billion in contracts—including a \$2 billion contract to oversee the development of the South Pars gas project, and a

\$1.3 billion no-bid contract for a gas pipeline running from a port near South Pars to the border with Pakistan. Given the strategic importance of gasoline to the Iranian economy and military, and the lucrative nature of the gasoline trade (estimated at \$6 billion to \$9 billion annually), IRGC entities are likely involved, either directly or through affiliated entities. The U.S. Treasury Department should follow up on its 2007 action by designating other IRGC entities which are dominant players in the Iranian energy industry. It should pay particular attention to Kala Naft, the overseas procurement arm of the National Iranian Oil Company, which is on British and Japanese watch lists for its connection to proliferation activities, and the Pars Oil & Gas Company, a major player in the Iranian energy industry.

Tighten governmental restrictions on multinational firms doing business in Iran's energy sector. When Congress passed the Iran-Libya Sanctions Act in 1996, it did so with a clear aim in mind: to compel a choice among foreign companies between trading with the United States and trading with Iran. Yet, over the past fourteen years, repeated failures to enact ILSA (and later ISA) have sent the unmistakable message to foreign companies that they could conduct business as usual with Iran. The results have been profoundly negative; according to a recent exposé in the New York Times, the U.S. government has "awarded more than \$107 billion in contract payments, grants and other benefits over the past decade" to foreign and multinational American companies while they were doing business in Iran, despite Washington's efforts to discourage investment there. That includes nearly \$15 billion paid to companies that have had business ties with Iran and have received contracts with the U.S. government.

Such a state of affairs is unacceptable. Simply put, continued commerce with an increasingly intransigent Iranian regime cannot continue to be perceived as "cost free" by the international community. By enacting—and then actively enforcing—steeper and more severe sanctions on those firms involved in busi-

ness in the Islamic Republic, policymakers in Washington have the ability to force Iran's trading partners to choose between doing business with Iran and conducting commerce with the United States, and to provide them with the political rationale necessary to make the proper choice.

PIPELINE POLITICS

While Washington and its allies are mulling over what to do next in order to weaken Iran economically, the regime in Tehran is bolstering its economic and geopolitical posture by positioning the country as an indispensable energy supplier to hundreds of millions of people. This strategy is based on a series of pipeline projects aimed to connect Iran with its neighbors and create long-lasting, new economic dependencies that are difficult to break. In this, the Islamic Republic hopes to not only generate new wealth but also reap the diplomatic benefits that energy dependencies provide.

I. Iran-Pakistan-India Pipeline

In March 2010, after nearly 15 years of negotiations, Iran and Pakistan signed a deal to connect their economies via a 1,300-mile natural gas pipeline. The so called "Peace Pipeline" will initially transfer 30 million cubic meters of gas per day to Pakistan, but will eventually increase the transfer to 60 million cubic meters per day, generating a hefty income for Tehran. Both Iran and Pakistan hope to eventually also extend the pipeline into India—a move that would give Iran a foothold in the Asian gas market and ensure that hundreds of millions of Indians are dependent upon its gas. To date, the Indian government has been reluctant to join the project, but India's rapid economic growth and its mounting energy demands could soon bring about a change of heart.

Even if India decides not to join the project, Pakistan may still not be the final destination for Iran's gas. Even as they court India, Iran and Pakistan are working to recruit China as partner in the pipeline project. To date, Beijing has been understandably non-committal; constructing the pipeline through the difficult terrain of Pakistan's Gilgit region and the politically-unstable Chinese region of Xinjiang are not easy challenges. Joining the pipeline, on the other hand, could offer China strategic benefits in connecting it with Central Asia, and linking it more closely with the rising economic hub of

the region, the Pakistani port city of Gwadar.

II. Iran-Turkmenistan Pipeline

In January 2010, Iran and Turkmenistan, Central Asia's largest gas producer, launched a new 20-mile gas pipeline that will transfer 700 billion cubic feet of natural gas annually from the Dovletebad gas field in southeastern Turkmenistan to Iran. This pipeline supplements the existing Korpeje-Kurtkui pipeline that already brings 282 billion cubic feet of gas to Iran each year from Turkmenistan.

The reason gas-rich Iran is so keen to import natural gas from Turkmenistan is that Iran prefers to use Turkmen gas to supply its northern provinces and by this free up more of its own gas for exports. This means that Iran prefers to export its gas and hence use it as an instrument of national power instead of consuming it domestically.

Iran is also positioning itself to become a major contributor of gas to the Nabucco pipeline which is currently under consideration by several European governments as well as Turkey. The 2000-mile pipeline, which aims to ease Europe's dependence on Russian gas, is designed to carry gas from Central Asia via Turkey and the Balkan states to Austria. In recent weeks the project enjoyed a significant boost when Turkey, a key transit state, ratified the accord to build the pipeline and the European Commission pledged funding to the tune of \$273 million. (This commitment should be put in perspective. The total cost of the project is estimated at \$10.9 billion, which is 40 times more than the money pledged by the Commission.)

Iran knows well that making Europe beholden to its gas is the best insurance for the regime and that Nabucco would enable Iranian gas to reach the heart of Europe. As a conduit for Turkmen gas, Iran will be able to become an indispensable gas supplier to the project, which currently suffers from lack of gas sources.

III. Pars Pipeline or Iran-Europe pipeline

This planned 2,100-mile pipeline would run from Bazargan in northeastern Iran through Turkey and Greece to Italy, where it will branch

off on two routes: the first to Spain; and the second to Austria and Germany via Switzerland. If built, this pipeline will be expected to deliver 37 billion cubic meters per year. The construction cost is estimated at \$4 billion. This pipeline is an alternative route to the Nabucco project which is backed by a number of European countries but strongly opposed by Russia. Thus far, however, the Iranian government has not secured the necessary funding to move forward with the project.

IV. Iran-Armenia Pipeline

As of 2007, Iran has been exporting natural gas to Armenia via an 87-mile pipeline from Tabriz. In February 2010, Iran and Armenia agreed on the construction of a 220-mile pipeline to carry roughly 70,000 barrels of oil per day. These pipelines enable Iran to extend its influence in the Caucasus.

RECOMMENDATIONS

Ensure that the Iran-Pakistan pipeline does not extend into India. While the U.S. is limited in its ability to dissuade China from joining the Iran-Pakistan pipeline, it should work to convince India that the project is not in its interests. This requires the U.S. to intensify its energy relations with India and provide alternative ways to alleviate energy poverty on the Indian subcontinent. There is more than one way to supply natural gas to India. India and Oman are examining the possibility of constructing a sub-sea gas pipeline; the Bangladeshi government is considering a pipeline to deliver gas from Myanmar to India, and perhaps the most significant rival gas-pipeline project—the Turkmenistan-Afghanistan-Pakistan-India (TAPI)—could carry gas from Daulatabad in Turkmenistan via Herat and Kandahar in Afghanistan to Multan in central Pakistan, and from there to the Indian border. U.S. diplomatic support and financial participation in projects like these could make them serious challengers to the Iran-Pakistan-India pipeline. Another way to ensure India's gas supply is liquefied natural gas (LNG). Con-

struction of LNG terminals along the Indian coastline would allow India a diversity of supply rather than dependence on a single source.

In addition, there are ways to alleviate India's energy poverty beyond natural gas. It is in the interest of the U.S. to help India curtail the share of natural gas in its electricity portfolio, using more nuclear power, renewable energy and, despite recent rhetoric to the contrary, coal. Pressuring India to reduce the use of coal for power generation without providing suitable alternatives, as the Obama administration did in the Copenhagen Climate Summit, may help reduce carbon dioxide emissions but, if heeded, could force India to shift to cleaner burning natural gas and hence drive it right into the welcoming arms of Iran.

Build the case for TAPI. The U.S. should engage with the government of Pakistan and discuss the possibility of giving the TAPI project a higher priority. From Pakistan's perspective, both TAPI and the rival IPI pipeline are equally challenging, as both would have to run through dangerous areas (Baluchistan in the case of IPI and Afghanistan and Baluchistan in the case of TAPI). But in terms of cost, diplomatic support and potential income from transit fees, TAPI actually offers a better deal for Pakistan. TAPI, which is supported by the Asian Development Bank, could also provide non-trivial benefits for the Afghan economy.

Reconsider U.S. support for Nabucco. To date, the U.S. position toward Nabucco has been supportive, with the caveat that no Iranian gas should supply the pipeline. But the notion that Iranian gas can be excluded from the project is unrealistic. Even if the 10-15 billion cubic meters of gas per year projected to be tapped from Azeri fields were to become available, considerable gas would still be needed to meet the pipeline's capacity of 31 billion cubic meters of gas a year to make the project economical. The remainder of the gas can come only from Turkmen and Iranian reserves. The U.S. should view Nabucco for what it really is: an economic lifeline for Iran. This means that the U.S. posi-

tion on Nabucco should be reassessed, taking into consideration that U.S. interests do not necessarily correlate with European interests. Significant as well, while U.S. withdrawal from supporting Nabucco would not be welcomed by a number of European governments, it will no doubt be welcomed by Russia and therefore contribute positively to U.S.-Russian relations.

Highlight the threat of dependence on Iranian gas in the Trans-Atlantic dialogue. Concerned about their dependence on Russian gas, many of America's allies in Europe have come to see Iran as a viable alternative. But shifting from Russian gas to Iranian could make Europe more vulnerable to coercion and extortion—if not from Moscow, then from Tehran. Just recently, a senior commander of the Islamic Revolutionary Guard Corps warned European countries considering sanctions against Iran that the Islamic Republic has the power to cut energy supplies to Europe whenever needed, especially in the cold season. The U.S. should highlight the risks to European energy security of dependence on Iranian gas as well as the broader risks to international security should a nuclear Iran emerge as a global energy superpower.

FINANCIAL SERVICES

In today's interconnected, globalized economy, access to financial services is critical to business and trade. Denying rogue regimes access to the global financial system, or to the U.S. financial system alone, has proven an effective means of disrupting illicit activity. Whether such actions can also impact the cost-benefit analysis of regimes to continue pursuing rogue behavior, however, is largely dependent on how comprehensive the measures are themselves and how many countries support and enforce them.

In the case of Iran, financial sanctions are intended to advance the following four goals: (1) to disrupt the Iranian regime's illicit activities; (2) to deter third parties from knowingly or unintentionally facilitating Iran's illicit activities; (3) to increase the transaction costs and deter needed trade and foreign investment in Iran more broadly; (4) to damage Tehran's liquidity position and cash flow, thus making it harder to service debt; and (5) to impact Iran's decision-making process, so that the continued pursuit of illicit activities is reconsidered. To date, financial sanctions against Iran have primarily consisted of the special designation of banks that have supported Tehran's sponsorship of terrorism or its nuclear and/or ballistic missile programs. These designations are made unilaterally under U.S. presidential authority and, multilaterally, under newly-enacted United Nations Security Council Resolutions. Leveraging these designations diplomatically is another core component of financial sanctions strategy (i.e., ensuring compliance within the UN and, importantly, urging voluntary compliance with unilateral U.S. measures).

At the international level, the center of gravity for financial sanctions has resided in the four resolutions passed by the United Nations Security Council against Iran since 2006. Cumulatively, these measures have imposed a range of economic penalties on the Islamic Republic for its failure to comply with international demands

over its nuclear program.

- UNSCR 1737, passed in December 2006, was the first UN resolution to create an annex of Iranian entities for which member states were required to freeze assets, funds and other resources. (No financial institutions were included in the initial list, however.)
- UNSCR 1747, passed in March 2007, took a number of additional steps that included the addition of Bank Sepah and Bank Sepah International to the list.
- UNSCR 1803, passed in March 2008, called for vigilance by member states concerning all Iranian banks operating on their territories, particularly Bank Melli and Bank Saderat, though with no required asset seizures or other financial sanctions.
- UNSCR 1929, passed in June 2010, strengthens and expands restrictions on blacklisted Iranian banks, and authorizes greater efforts to identify and restrict commercial entities affiliated with Iran's Islamic Revolutionary Guard Corps (IRGC).

To date, however, financial sanctions implemented unilaterally by the United States have preceded and exceeded steps taken by the UN and by U.S. allies. U.S. financial sanctions implemented thus far derive mostly from Executive Order (EO) 13382, signed by President Bush on June 29, 2005. Pursuant to that order, the Treasury Department has designated 14 Iranian banks, prohibiting them from any financial transactions with U.S. persons. Although these designations officially freeze assets and transactions that take place in the United States, very few such assets or transactions likely exist, due in part to comprehensive sanctions already in place. Their primary purpose is the signal they send to foreign financial institutions, putting those entities on notice that the U.S. government is aware of their support for—and complicity in—Iran's sponsorship of terror and the development of its strategic programs. Underpinning them is the deterrent threat to others contemplating the same course of action; that their engagement with Iran could result in them being similarly designated by the U.S. govern-

ment. These unilateral measures also have helped to focus the attention of the UN and allies and have introduced, in an official setting, potential candidates for future “listing” at the UN and elsewhere.

The effects of these efforts are already being felt. While there are a number of factors contributing to Iran’s current economic difficulties, including declining world oil prices and President Mahmoud Ahmadinejad’s mismanagement of the country’s economy, the response of international financial institutions to the Treasury Department’s outreach has been a contributing factor. A number of global financial institutions have either terminated or added new restrictions to their business with Iran. More surprisingly, it appears that banks in the United Arab Emirates and China are also beginning to exercise greater caution in their business dealings with Iran.

The unilateral and multilateral measures taken thus far admittedly have stopped short of altering Iranian regime’s nuclear calculus. Nevertheless, the other goals of financial sanctions—constricting the operating environment and making it more difficult for Iran to engage in illicit activities by disrupting their finance, banking, insurance, shipping and business dealings; and deterring others from partnering with Iran—remain important objectives that can be furthered by employing these financial tools alongside diplomatic efforts.

RECOMMENDATIONS

Seek international consensus on tailored multilateral sanctions through the United Nations. As important as identifying and publicizing Iranian entities with ties to terrorism or its nuclear program is attaining unanimity of decision to impose sanctions on such entities. Accordingly, the administration’s robust diplomatic engagement with China and Russia is very important. New multilateral designations should seek to internationalize the ban on those entities already designated unilaterally by the United States.

Provide more public emphasis and information on the reputational risk associated with conducting business with U.S.-designated entities. Supporting actions should be considered to enhance what is a market-driven phenomenon and one of the most successful aspects of unilateral U.S. sanctions: the concern among foreign corporations that maintaining ties with these banks could expose them to legal scrutiny of their own and potential damage to brand and share value worldwide.

Tighten legal restrictions on banking with Iran. The U.S. Congress should consider expanding U.S. financial sanctions to restrict access to the American economy for financial institutions that conduct business with a U.S.-designated entity. By doing so, these companies and banks have supported—either directly or indirectly—Iran’s sponsorship of terrorism or its development of nuclear weapons. Resulting restrictions on their ability to access the U.S. market would send a tangible signal to current offenders, and to institutions contemplating such trade, of the costs of failing to take enough precaution in dealing with Iran.

Actively support the efforts of multilateral technocratic bodies to coordinate and enforce anti-money laundering initiatives. These include the Paris-based Financial Action Task Force (FATF), which seeks to set global standards on combating money laundering and terrorism financing. The FATF has put out multiple warnings on Iran – the first in October 2007 and the most recent in February 2009. In these warnings, FATF instructed its members to urge their financial institutions to use “enhanced due diligence” when dealing with Iran. In the second warning, the FATF president also urged Iran to address the “shortcomings” in its anti-money laundering and terrorist financing regimes immediately. The most recent warning instructed countries to begin developing “countermeasures” to deal with Iran’s illicit financial activities – an indication of how concerned the international body was with Iran’s behavior in

this arena. Such recommendations should be amplified and supported diplomatically by the United States.

Develop a more systematic approach for dealing with Tehran's efforts to transfer technology and arms to radical allies in the Middle East and elsewhere. Earlier this year, Cyprus impounded the Iranian-chartered freighter *Monchegorsk*, a vessel laden with war materiel bound for Syria (and perhaps beyond). The episode highlighted the shortcomings of current UN and European Union sanctions on Iran, and underscores the need to fill the gaps in the available policy tools to deal with Iranian arms transfers to its allies and surrogates. Sanctions policies, particularly in multilateral settings such as the UN, should be flexible enough to stimulate action by member states when it is apparent that Iran is making these sorts of transfers through international or foreign venues.

Encourage foreign companies and banks to be increasingly alert to what is now termed "global security risk": the risk to share value and corporate reputation stemming from business ties to Iran and other terrorist-sponsoring states. By the Administration and the Congress highlighting this legitimate fiduciary concern, state public pension systems and other large institutional investors will become more reluctant to hold companies with such ties in their investment portfolios. And as companies experience divestment of their stock, they in turn will be more likely to exit Iran to preserve their standing in the U.S. capital markets.

DOMESTIC ECONOMIC TRENDS AND INTERNATIONAL TRADE

Iran is an emerging economy with a wealth of natural and human resources. If its economy was properly managed, it could become an economic powerhouse within a decade. A country of some 70 million people, Iran had a GDP of nearly \$300 billion in 2008. Its economy grew considerably from 2005 to 2009, thanks in no small part to the unprecedented windfall in oil prices. Iran's industrial sector amounted only to 20.4 percent of the Gross National Product in 1988 at the end of the Iran-Iraq war. In twenty years, that figure more than doubled—today, industrial production amounts for over 45 percent of Iran's economic activities, though only 5.9 percent of its manufactured exports are high tech products.

In human terms, Iran is a dynamic and promising place to invest. It has the highest rate of Internet users in the Muslim Middle East, a high rate of adult male and female literacy, and a young, dynamic and largely educated population. Its population today is mostly urban (68 percent), at least compared to the rest of the region (56 percent). Moreover, its natural resources make Iran, at the crossroads between the oil and gas rich Persian Gulf to the West and South and the Caspian basin to the North and East, an extremely attractive partner for energy hungry advanced economies seeking to diversify their sources and that can trade their expertise and their advanced technology in exchange for access to oil and gas.

And yet, Iran is also a country in the grip of deep economic turmoil. Iran's inflation has been consistently in the double digits in recent years—reaching 25.6 percent in 2009. This is partly caused by spiralling debt, as well as enormous government subsidies designed to alleviate poverty and, presumably, tackle the potential for social unrest; the latter currently

eat away 30 percent of Iran's GDP (10 percent alone goes to energy subsidies). The government has announced that it will progressively reduce these subsidies until they are finally eliminated. Such a step could contribute to long-term improvement of macroeconomic factors. Socially and politically, however, such a plan will not be cost-free, although subsidies were devoid of social targeting and thus ended up benefiting the wealthiest sectors of society disproportionately more than the poorest ones.

The economy is largely dominated by a large public enterprise sector and quasi-public foundations which enjoy considerable privileges. Efforts to privatize the economy have not met with success—except insofar as many previously publicly-owned companies and interests have now been acquired by Iran's Revolutionary Guard Corps (IRGC) and companies affiliated with it. The parallel systems created in the economy by the country's large (and largely-unregulated) socio-economic foundations, known as bonyads, and now the IRGC, adds a level of unpredictability that is not conducive to sound and solid long term foreign investment. A salient example is the case of the Turkish company TAV Holding, which won the tender to build Tehran's new Khomeini airport, but could not even start the job as it was literally chased away from the grounds by the IRGC, which took it upon itself to carry out the contract.

The bulk of Iran's trade with the outside world is concentrated in one sector: energy. Nearly 90 percent of Iran's current \$17.5 billion exports to the European Union are estimated to be in oil and derivatives. (By contrast, Europe's sells Iran a broader range of products—but the bulk of Europe's sales to Iran is made up of industrial and transport equipment—more than fifty percent.) A similar breakdown characterizes Iran's relations with China—which in 2009 for the first time surpassed the EU as Iran's first trade partner—their trade volume is reportedly worth over \$36 billion. China is thirsty for energy—and in exchange for buy back projects it sells Iran anything from arms to tractors.

Russia, another key economic partner of Iran, has a much smaller trade volume than the EU and China—in 2008, Russia was the fifth import partner and the sixteenth export partner for Iran—but it is a critical ally and supplier, alongside China, of arms and nuclear technology.

A brief glance at this lopsided economic picture highlights key areas of vulnerability that the international community could choose to target in order to increase the level of economic stress on the financial and economic system of Iran and of social and political distress inside the country that would result from it.

RECOMMENDATIONS

Cut key Iranian economic players off from international trade. Iran's economy is effectively run by a small number of individuals and institutions, which dominate key economic sectors and financial life within the Islamic Republic. These include key leaders (such as former President Ali Akbar Hashemi Rafsanjani); Iran's powerful clerical army, the Iranian Revolutionary Guard Corps (IRGC) and Iran's sprawling bonyads, which are estimated to account for as much as one-third of the country's non-oil GDP. Systematic exclusion of these individuals and entities from international commerce can thus be expected to have a pronounced effect upon regime decision-making.

The first step in this regard would be the creation of a comprehensive blacklist of relevant Iranian officials and companies. This would be followed by a freeze of their foreign assets, denial of entry permits and visas to countries willing to join in these measures (in particular European Union members), denial of permission to their families to travel for purposes other than strictly humanitarian ones (such as the treatment of life-threatening illness), and so forth. These and similar restrictions should be extended to state-owned enterprises, the bonyads and the companies they own and control, and companies with known affiliation to

the Revolutionary Guards.

Take measures to push Iran outside the “Eurozone.” For Europe, trade with Iran has remained a matter of “business as usual,” despite the regime’s human rights abuses and its nuclear ambitions. For Iran, meanwhile, Europe has become a critical lifeline; two-way trade between the Islamic Republic and EU states is set to surpass \$10 billion this year, and Iran is estimated to import nearly 40 percent of its high technology from Europe.

It should not be. Serious curbs on this commerce could have a devastating effect on Iran’s already-flagging economic fortunes, dramatically ratcheting up the costs to Iran’s ayatollahs of their nuclear endeavor. Some positive steps have already been taken by EU members in this regard, most notably the Dutch parliament’s November 2009 decision to blacklist the IRGC, and Britain’s contemporaneous decision to ban the Islamic Republic of Iran Shipping Lines (IRISL). Much more can be done, however. America should make it a point to pressure its European partners to put their money where their mouths are, and limit Iran’s freedom of action within the Eurozone and the EU more broadly. Practical steps to this end include restrictions on Iranian aviation and banking activities.

Consider a blanket ban on the export of technology, know-how and spare parts. Key areas of Iran’s economy are critically dependent on the supply of Western technology and expertise, the cessation of which would be ruinous to the country’s economic fortunes. These areas include: refineries and refined oil products; the production of liquefaction terminals and LNG tanks and carriers for LNG; extraction technology for oil and natural gas; spare parts for the energy industry and petrochemical complex; and CNG technology in its three key components—production plants for the fuel (compressing stations), fuel pumps and tanks at gas stations around the country, and fuel tanks for cars to refit them and make them compatible with the technology. Restrictions on the provi-

sion of supplies and expertise to those sectors should be contemplated as a way of forcing Iran into compliance with international demands.

DIVESTMENT

The reputational and share-value risk associated with corporate ties to U.S.-sanctioned states—Iran foremost among them—continues to grow in the capital markets of the United States. The existence of this risk, however, is potentially beneficial to U.S. security, providing the U.S. government with leverage over the behavioral patterns of U.S. and foreign corporations with ties to these countries. A key component of this new risk category (known as “global security risk”) is the national Iran divestment campaign that has developed across the country, and continues to gain ground on both a state and national level.

To date, no fewer than 14 states—California, Colorado, Florida, Georgia, Hawaii, Illinois, Kansas, Maryland, Ohio, Oregon, Nevada, New York, New Jersey and West Virginia—have enacted legislation curtailing state-level investment in companies that do business with the Islamic Republic. Eight others (Alaska, Iowa, Maine, Massachusetts, Tennessee, Texas, Washington, and Utah) have introduced similar legislation. Meanwhile, sweeping legislation curtailing trade and investment with all terror-supporting states has been enacted in Arizona, Indiana, Louisiana, Michigan, Missouri, New York, Pennsylvania, and Louisiana.

Movement is visible in Congress as well. The most prominent is the consideration currently being given to important sections of the Senate’s Comprehensive Iran Sanctions Accountability and Divestment Act which provide important legal cover for state legislative effort to prohibit the investment of public funds (principally via public pension systems) in companies with ties to Iran. The Senate version of that bill seeks to: 1) make it U.S. policy to support the divestment decisions of “state and local governments and educational institutions;” 2) authorize divestment and going-forward investment exclusion measures; 3) protect investment managers from any “civil, criminal, or administrative action

based upon [their] divesting from, or avoiding in, Iran;” 4) create disclosure requirements for investment managers regarding their holdings in such companies; and 5) reinforce the sense of Congress that any fiduciary of ERISA-administered plan assets that responsibly carries out divestment from Iran may do so without breaching their fiduciary responsibilities.

Underpinning these activities is a key fact: business ties to Iran, as well as other U.S.-designated terrorist-sponsoring states, carry distinct financial risks of “material” concern to the average U.S. investor. Indeed, the U.S. Securities and Exchange Commission (SEC) has supported this assertion due to the asymmetric nature of how a relatively small business investment, when compared to a company’s overall revenue picture, can have a disproportionately negative impact on share value. This is due to such factors as: negative publicity damaging to corporate brand and goodwill; unexpected disruptions and delays for specific projects and transactions; class action lawsuits from victims rights groups and others; violations of existing sanctions; higher insurance premiums; opportunity costs regarding the procurement decisions of federal and state governments; inordinate expenditures of executive time; and the estrangement of various shareholder groups.

Although moral and ethical considerations are often additional factors driving states and other institutional and individual investors to divest their portfolio holdings of companies with ties to Iran and other terrorist-sponsoring states, it is important not to lose sight of the sound financial rationale that often buttresses these decisions. These motives have helped spread divestment efforts across the United States.

These efforts matter a great deal. With technological expertise more dispersed in today’s global economy and U.S. trade relationships less prominent on the international stage, U.S. capital markets stand today as the most obvious feature of the U.S. economy that demonstrates international primacy. Over the past decade,

the U.S. capital markets have consistently represented between 30 percent and 50 percent of the world's investible capital, depending on the methodology employed to measure this statistic. The nearest national challenger is Japan, holding, on average, approximately eight percent of the world's investible capital. The EU countries, taken together, comprise approximately 20 percent of the world's total. Moreover, the lion's share of this financial pool resides within the institutional investment space. The size of the investments held by U.S. institutions provides significant influence over the U.S. and foreign companies comprising their portfolio holdings in three primary ways: 1) their decision to buy or sell any given stock can occur with potentially "market-moving" sums of money; 2) their stock holdings provide powerful voting rights as well as the right to offer shareholder resolutions; and 3) their size often commands the ability to instruct financial services firms to create new investment vehicles (i.e., stock indexes, index funds, separately managed accounts, exchange traded funds, institutional mutual funds, etc.) that exclude subsets of companies that they prefer not to hold. Such investment vehicles, which screen out offending companies, already exist, as part of a phenomenon termed "terror-free investing."

This influence applies also to a large number of foreign companies that list on U.S. exchanges. Indeed, according to 2008 figures, the SEC's oversight of foreign corporations extends to some 846 firms listing on U.S. exchanges. No other country has as many foreign registrants as does the U.S., representing some 13 percent of total U.S. listings (a percentage surpassed only by London among the top 10 exchanges).

RECOMMENDATIONS

Buttress state action at the legislative level. Regardless of the underlying cause or even financial underpinnings, institutional investors are typically opposed to the insertion of any exclusionary investment screen. Legislation has con-

sistently been required to implement such measures. In cases where voluntary action has taken place, it has typically been stimulated by at least the introduction and debate of actual, binding legislation. Significant resistance has emanated within the institutional investor community, based upon two principal arguments. First, that it is unconstitutional for the state legislatures (including the public pension systems) to involve themselves in foreign policy. Second, that it is a breach of fiduciary duty for institutional investors to consider such business ties in their selection of equities on behalf of their investor base. The first issue is simply inaccurate, as states are permitted to make whatever financial risk-related determinations they deem indicated, without any implication that they are trying to interfere with the federal government's role in conducting foreign policy.

Any divestment protections offered by Congressional legislation would better equip investors across the U.S. to pursue Iran-related initiatives in the face of institutional opposition of this type, similar to the Congressional intervention made in the case of Sudan divestment activity which has become more prevalent among pension systems and other investors over the past five years. Existing language in the Senate's Comprehensive Iran Sanctions Accountability and Divestment Act seeks to assist in overcoming the challenges cited above by addressing these issues head-on that currently confront fiduciaries examining how best to join this national shareholder movement.

Preserve Congressional focus on divestment. State legislatures and pension systems historically retained great flexibility over how they choose to invest public funds and which risk factors they choose to identify as most important in doing so. Similarly, the fiduciary duty of the managers of these investments is preserved through the financial underpinnings of this particular issue (i.e., the legitimate risk to share value that accompanies corporate decisions to conduct business with Iran). These facts are even, at times, supported by court rulings. Nevertheless, legislative support for these concepts

is key in an environment where legal challenges are sometimes mounted by those opposing divestment-related activity with regard to Iran and other forms of shareholder activism and security-minded corporate governance. The preservation of this divestment-related content of the Senate Iran sanctions legislation in Conference reconciliation of the House bill would materially assist investors evaluating divestment measures. The U.S. Congress could likewise look anew at whether the time is appropriate, when endorsing the divestment initiatives of others, to institutionalize the availability of “Iran-free” investment solutions within the largest retirement plan for federal employees, the Federal Thrift Savings Plan.

Seek greater support from the Executive Branch.

In order to have a larger strategic impact, divestment needs to be harnessed by the Executive Branch as part of a comprehensive effort to economically isolate the Iranian regime. Currently, the opposite is true: divestment is gathering steam not because of robust Administration action, but because of its absence. Successive U.S. administrations have made no secret of their displeasure with the various divestment measures currently contemplated in state legislatures, and—operating by proxy—the White House has so far succeeded in stymieing Congressional efforts to give these state laws greater potency. This is deeply counterintuitive, both because President Obama was a vocal supporter of divestment during his time in Congress, and because divestment can serve as an important complement to existing Administration approaches. While the private sector can only offer “sticks” to foreign countries and companies, the federal government can reward cooperation in divestment campaigns with preferential trade sweeteners. To that end, the White House must move quickly and resolutely to adopt divestment measures as an adjunct to its other economic policies vis-à-vis Iran.

EXPORT CONTROLS

The U.S. government has implemented various sanctions and blocking programs against Iran since the overthrow of the Shah in 1979. Since 1995, the U.S. has maintained a comprehensive economic embargo against Iran as a result of Iran’s sponsorship of international terrorism and its pursuit of weapons of mass destruction. The two U.S. Government agencies primarily responsible for administering the embargo are the Treasury Department’s Office of Foreign Assets Control (OFAC) and the Commerce Department’s Bureau of Industry and Security (BIS). There is a considerable amount of jurisdictional overlap between OFAC and BIS with respect to licensing and enforcement of the U.S. embargo against Iran, with deference usually paid to OFAC.

Under existing law, U.S. persons are prohibited from engaging in virtually all direct and indirect transactions with Iran and the Iranian government. As such, U.S. persons are prohibited from exporting items subject to U.S. jurisdiction to Iran either directly or through third parties. The prohibitions also extend to U.S. persons that facilitate transactions between third parties and Iran. Under some circumstances, foreign persons are also prohibited from engaging in transactions with Iran, particularly if they deal in items subject to U.S. jurisdiction (namely, U.S.-origin items, items in the United States, and foreign-made items incorporating above ten percent of U.S. content).

While the Iranian embargo is comprehensive, its enforcement is not. Severely hampered by lack of funding, export controls are essentially an unfunded mandate. For example, BIS’s Office of Export Enforcement (OEE) is currently staffed with fewer than 100 agents (only five of whom are located overseas), tasked with enforcement of all export controls laws—not just those relating to the Iranian embargo. With an average area of responsibility of more than two states per OEE Special Agent and limited funds

to conduct investigations, effective enforcement of the Iranian embargo is not practicable. Absent funding provisions for export enforcement, additional Congressional anti-Iranian measures, such as those designed to curtail investment in the Iranian energy market, will likely only serve to compound existing enforcement challenges.

Notably, new attention is now being given to export controls by the Executive Branch. This spring, the Obama administration announced a fundamental overhaul and reform of the U.S. export control system, including plans for a single, unified export control list, a single export licensing agency, central coordination of all export enforcement, and a unified information technology structure to govern licenses and users. Once implemented, these reforms can be expected to significantly improve current flaws with how the U.S. regulates the export of sensitive technologies. Effective change, however, will take time to implement. In the interim, the limitations of existing embargo policy, limited enforcement of existing U.S. laws, virtual lack of international assistance with the implementing of the embargo, and the ease of thwarting the embargo will continue to enable Iran to obtain many items subject to U.S. jurisdiction via third countries. To date, it has done so through several well-defined means:

The “Inventory Exception.” Generally, the re-export to Iran of certain items subject to U.S. jurisdiction is not prohibited if at the time of export from the United States parties do not have knowledge that such items would be subsequently reexported to Iran. Such cases generally involve items subject to U.S. jurisdiction that are purchased by companies located in third countries for general inventory. This exception is easily abused as U.S. and non-U.S. companies involved in supplying items subject to U.S. jurisdiction to Iran often falsify shipping documents.

Wholly-owned procurement companies. The Iranian government is often not subtle in its efforts to obtain items subject to U.S. jurisdic-

tion from third countries. A significant number of procurement companies wholly-owned by the Iranian government exist openly throughout the world. However, as these companies are incorporated in third-party countries, the export or reexport of U.S.-origin items to them is generally not prohibited.

Illicit technology transfers. Iran is also able to obtain sensitive U.S. technology by simply sending their best and brightest to study and work in American universities, high-tech companies, and U.S. National Labs. Under current U.S. export controls laws, a license from the U.S. government is generally required before sensitive technology is released to an Iranian national in the United States. Such license applications are typically denied. However, Iranian nationals may still be able to obtain sensitive technology in the United States because their employers often invoke the “fundamental research” provision to justify failure to obtain a prior authorization from the U.S. government.

Potential misuse of export promotion programs. Recent initiatives designed to promote and expedite international trade, such as BIS’s Validated End-User Program (VEU), can potentially be exploited to provide Iran with sensitive items subject to U.S. jurisdiction. The VEU program was initially designed to provide Chinese companies with easier access to certain specific items subject to U.S. jurisdiction, establishing a mechanism by which Chinese companies “validated” by the U.S. government are authorized to receive certain items without having to obtain an export license. Shortly after the inception of the VEU program, however, there were reports that two of the initial five companies certified by BIS had links to the Chinese military. The Chinese government also barred access to U.S. officials seeking to conduct end-use checks at facilities of “validated” companies. The VEU program has not been suspended, however; to the contrary, it was recently expanded to include Indian companies as well. And because of its current lack of trans-

parency, sensitive items subject to U.S. jurisdiction could be diverted for use by the Chinese military—or potentially transshipped to Iran or other rogue states—under the VEU program.

Falsification of export/shipping documentation. Illicit Iranian procurement methods usually do not require a great deal of complexity. The simplest method of circumventing the U.S. embargo is to falsify export controls documents. For example, the ultimate destination of a shipment may initially be described in export controls documents as “Dubai” to ensure that the U.S. customs does not stop the export. However, when the shipment arrives in Dubai, the items are then reexported to Iran. Also, some companies initially indicate in export controls documents that an ultimate destination is “Dubai,” and then revise the documents en route to change the final destination to “Iran.” While this second method is considerably more cost-effective, the assistance of complicit freight forwarder and/or broker is generally required.

RECOMMENDATIONS

List companies that trade with Iran on prohibited parties lists. Irrespective of country of incorporation, companies that ship items subject to U.S. jurisdiction to Iran in violation of the U.S. embargo should be listed on either the Specially Designated Nationals and Blocked Persons list (“SDN List”) maintained by OFAC, or the Entity List (15 C.F.R. Supplement No. 4 to Part 744) maintained by BIS. As a result of such designations, U.S. or non-U.S. companies that engage in transactions with entities listed on the SDN List and the Entity List will generally be in violation of U.S. export controls and sanctions laws, and would face significant monetary and criminal penalties as well the potential of themselves being listed on one or more of the prohibited parties lists. While some additional enforcement resources will be required to update existing lists, the impact of this measure will be immediate and extensive, severely curtailing the business of companies that carry out

such trade with Iran.

Tighten visa review and outreach. To reduce the likelihood of illicit technology transfers to Iranian foreign nationals studying and/or working in United States, the State Department, in cooperation with the Department of Commerce, should closely scrutinize both visa applications and existing visas of Iranian foreign nationals to ensure that such persons are not exposed to sensitive technology while in the United States. Such measures include increased outreach to—and oversight of—organizations that employ Iranian foreign nationals, including high-tech companies, universities, and U.S. national laboratories. Additional funding for such visa review and outreach measures will be required, but the expense is likely to be minimal when weighed against the danger of Iranian foreign nationals acquiring sensitive technology with the potential to harm the United States, its interests, and allies abroad.

Review the export promotion program. To limit the possibility of diversion and transshipment of items subject to U.S. jurisdiction to Iran, transactions involving items subject to U.S. jurisdiction should be closely scrutinized. This includes the elimination of export promotion programs, such as the VEU, that are likely to encourage diversion of items subject to U.S. jurisdiction to Iran.

Provide adequate funding for export enforcement agencies. Under current allocations, export controls represent both an unfunded mandate and an unattainable mission for the agencies involved. Substantial funding increases for export enforcement agencies, including additional funding for intelligence gathering as well as for export enforcement personnel stationed overseas, are necessary to permit adequate enforcement of existing legislation. Additionally, in order to be effective, future sanctions legislation will need to include export enforcement funding provisions that provides adequate resources for investigations and enforcement.

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