



# PAAIA

Public Affairs Alliance of Iranian Americans



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**Report on Iran Sanctions Legislation  
11<sup>th</sup> Congress  
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## Report on Iran Sanctions Legislation in the 111th Congress

With the ongoing P5+1 negotiations taking place between Iran, the United States and other members of that group, much of the world's attention has been focused on Iran's nuclear program. The Obama Administration has made clear that it would like to pursue the path of dialogue and diplomacy in order to win broad international support to resolve the standoff with Tehran. Meanwhile, lawmakers from both chambers of Congress have proposed a wide array of new unilateral sanctions to be imposed against the Islamic Republic of Iran. The procession of such sanctions legislation has drawn wide bipartisan support, an indication that passage of such legislation may be easily achieved.

While PAAIA is focused on domestic U.S. affairs as they relate to the Iranian American community and has not been a platform for promoting U.S. foreign policy vis-à-vis Iran, we recognize the importance of Iranian Americans being informed about legislative initiatives and positions of their members of Congress concerning this topic. Accordingly, the purpose of this report is to outline the background and significance of some of the sanctions legislation under consideration in the 111th Congress. Specifically, this report examines legislation falling under four major categories:

- (1) legislation expanding the reach of the 1996 Iran Sanctions Act so that it applies to foreign companies providing refined petroleum to Iran;
- (2) legislation allowing state and local government pension funds to divest from companies that invest in Iran's energy sector;
- (3) legislation sanctioning foreign companies that sell sensitive technology to the government of Iran that would allow it to more easily and effectively monitor the communications of its citizens; and
- (4) legislation further tightening the U.S. trade embargo on Iran and enhancing efforts to freeze assets tied to Iran's terrorism and proliferation activities.

### History of U.S. Sanctions Against Iran

Iran is subject to a wide range of U.S. sanctions restricting trade, investment, and aid to Tehran. The history of these sanctions began in 1979 when the U.S. government froze billions of dollars in Iranian assets in response to the takeover of the U.S. Embassy in Tehran. Sanctions were expanded when Iran was added to the "U.S. Terrorism" list following the 1983 bombing of the U.S. Marine barracks in Lebanon. The terrorism list was originally established under the Export Administration Act of 1979, which bans all foreign aid (except for disaster relief) to any country determined to have provided repeated support to acts of international terrorism. In 1987, pursuant to Executive Order 12613, President Reagan continued the trajectory of sanctions against Iran by imposing an embargo on all goods and services coming from Iran.

In 1995, President Clinton issued Executive Orders 12957 and 12959, forbidding U.S. citizens and corporations from investing in Iran's energy sector, and banning U.S. trade and investment in Iran respectively<sup>1</sup>. The purpose of the trade ban was to enhance U.S. efforts for multilateral containment of Iran. The ban, however, does not bar subsidiaries of U.S. companies who have no operational relations with the parent firm from trading with Iran. Since 1999, there have been a few modifications to the trade ban allowing for the export of some civilian aircraft parts for safety related purposes, the sale of food and medical products to Iran (on a case by case basis subject to OFAC licensing), and the import of Iranian products such as dried fruits, caviar, and carpets.

In 1996, the Iran-Libya Sanctions Act (ISA) was enacted into law. The law was later renamed the Iran Sanctions Act (ISA), as application to Libya terminated in April of 2004. The measure was intended to complement the Clinton Administration's ban on U.S. trade with Iran by deterring

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<sup>1</sup> Katzman, Kenneth. *Iran: U.S. Concerns and Policy Responses*  
Congressional Research Service. RL32048. June 22, 2009.

foreign firms from investing in Iran's energy sector. ISA imposes sanctions on foreign companies investing more than \$20 million annually in Iran's oil and gas sector by denying them business opportunities in the U.S. The available sanctions include: denial of U.S. Export-Import Bank assistance, denial of licenses for U.S. exports of military technology, prohibition on loans or credits from U.S. financial institutions, prohibition on designation as a primary dealer for U.S. government bonds, denial of U.S. government procurement opportunities, and a ban on all or some imports. The law grants the President waiver authority if he determines that its application would deter U.S. national interests. According to the Congressional Research Service, no projects to date have been sanctioned under the ISA<sup>2</sup>. While the effectiveness of the law has come into question, officials from past administrations have argued that the threat of sanctions alone has extensively restrained Iran's energy sector.

Since 2006, U.S. Treasury Department officials have leveraged U.N. sanctions against Iran to convince European and international financial institutions from financing trade and dollar transactions with Iran. They argue that such financing involves risk and perpetuates Iran's ability to fund terrorism and its nuclear program. According to the International Monetary Fund, such efforts have made it more difficult to trade with and fund energy projects in Iran<sup>3</sup>. The Treasury Department has also tightened sanctions against Iranian banks by blocking them from indirect transfers of money to and from American financial institutions through banks in other countries.

### **Current Efforts in the 111<sup>th</sup> Congress to Expand Sanctions Against Iran**

Several bills to date have been introduced in the 111<sup>th</sup> Congress, which aim to expand currently existing sanctions on Iran. While the majority of these bills are intended as a response to Iran's continued nuclear program, proponents have also pointed to Iran's continued sponsorship of terrorism and the Iranian government's harsh crack-down on protestors following the disputed June 12<sup>th</sup> presidential elections as more reason to enforce further sanctions. These measures include the Iran Refined Petroleum Sanctions Act, the Iran Sanctions Enabling Act, the Reduce Iranian Cyber-Suppression Act, and the Iran Threat Reduction Act.

#### Iran Refined Petroleum Sanctions Act of 2009 (H.R. 2194/S. 908)

Introduced into the House of Representatives by Congressman Howard Berman (D-28<sup>th</sup>/CA) and in the Senate by Senator Evan Bayh (D-IN), the [Iran Refined Petroleum Sanctions Act \(IRPSA\)](#) would amend the 1996 Iran Sanctions Act to further expand sanctions against foreign companies that provide Iran with refined petroleum or engage in activities that could contribute to Iran's ability to import such products (i.e. providing shipping services, insurance, financing, machine equipment, etc). The Act would prevent these companies from doing business with the U.S. by freezing their U.S. assets, barring U.S. persons and institutions from carrying out any business transactions with them, and prohibiting them from carrying out any financial transactions in U.S. Dollars. Just like the 1996 Iran Sanctions Act, the IRPSA grants the President waiver authority if he deems its application would deter U.S. national interests.

Iran is the fourth largest exporter of petroleum in the world. However, it imports approximately 40% of its gasoline because it lacks the infrastructure necessary to refine the amount of petroleum used for domestic consumption. Government subsidies help keep the price of gasoline in Iran at a very low cost. As such, sanctions on refined petroleum could be a major financial hit on Iran's economy, whose petroleum sector generates approximately 20% of the country's annual GDP. According to energy industry sources, companies who in the past have supplied refined petroleum to Iran include: British Petroleum, France's Total, Glencore International, India's Reliance, Litasco (trading arm of Russia's LUKOIL), Royal Dutch Shell, Vitol, and Zhuhai

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<sup>2</sup> Katzman, Kenneth. *Iran Sanctions Report*.  
Congressional Research Service. RS20871. July 9, 2009.

<sup>3</sup> Katzman, Kenneth. *Iran: U.S. Concerns and Policy Responses*.  
Congressional Research Service. RL32048. June 22, 2009.

Zhenrong (state-run Chinese company). Companies providing insurance to ships carrying refined petroleum to Iran include: Loyd's of London, Munich Re, Steamship Mutual Underwriting Association, and North England P&I Association<sup>4</sup>.

The IRPSA currently has 335 cosponsors in the House and 76 in the Senate. The House Foreign Affairs Committee marked up the legislation by a voice vote on October 28<sup>th</sup>. Three other House Committees must approve the bill or waive their right to do so before the measure can be brought to the House floor for a full vote. The Senate version of the bill has been referred to the Committee on Banking, Housing, and Urban Affairs.

#### The Iran Sanctions Enabling Act of 2009 (H.R. 1327/S.1065)

Introduced into the House of Representatives by Congressman Barney Frank (D-4<sup>th</sup>/MA) and in the Senate by Senator Robert Casey (D-PA), the [Iran Sanctions Enabling Act](#) would authorize state and local government pension funds to divest from, and prevent investment in, companies with investments of \$20 million or more in Iran's energy sector. Furthermore, the act would amend the Investment Company Act of 1940 to shield any registered investment company from civil, criminal, or administrative action based upon its divesting from, or avoiding investing in, securities issued by such persons.

In the past, divestment measures passed by state legislatures were blocked in federal court pursuant to certain applicable provisions of the U.S. Constitution and federal law. The purpose of this bill is to allow such measures which have been previously blocked in federal courts to move forward. The Iran Sanctions Enabling Act, which was originally introduced by then Senator Barack Obama in the 110<sup>th</sup> Congress, is modeled after legislation authorizing divestment from the government of Sudan for their ongoing participation in the Darfur genocide.

"There are people who think it is important that we tighten sanctions against Iran; there are some who may feel the time has come to relax them. This bill doesn't take sides," explained House Financial Services Committee Chairman Congressman Barney Frank. "What it says is that it is inappropriate to have a federal rule that says state governments with their own money can't make these decisions or that individual investors can't press their companies to do so."<sup>5</sup>

The House version of the Iran Sanctions Enabling Act was passed on October 14<sup>th</sup>, with 414 yeas, 6 neas, and 12 no votes. The Senate version currently has 39 cosponsors and was referred to the Committee on Banking, Housing, and Urban Affairs.

#### Reduce Iranian Cyber-Suppression Act (H.R. 3284/S.1475)

Introduced into the House of Representatives by Congressman Brad Sherman (D-27<sup>th</sup>/CA) and in the Senate by Senator Charles Schumer (D-NY), the [Reduce Iranian Cyber-Suppression Act](#) would prohibit the heads of executive agencies from entering into or renewing procurement contracts with persons that export hardware, software, telecommunications equipment, or any other technology that may be used by the government of Iran to restrict the free flow of unbiased information in Iran or to disrupt, monitor, or otherwise restrict speech by the people of Iran.

The legislation was introduced as a result of the June 22<sup>nd</sup> article published in the Wall Street Journal indicating that Nokia and Siemens had provided the government of Iran with the technology capable of monitoring nearly all cellular and internet activities within Iran. "Companies that provide technology to the Iranian regime to control the Internet must be forced to pay a heavy

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<sup>4</sup> Cornwall, Susan. *U.S. House Panel OKs Iranian Fuel Sanctions Bill*.  
Online: Reuters News Service, India. October 28, 2009.

<sup>5</sup> Robinson, Dan. *U.S. Congress Moves to Tighten Sanctions on Iran*.  
Online: Voice of America News Service. April 28, 2009.

price,” said cosponsor Senator Lindsey Graham in a statement issued by his office. “This legislation’s intent is to empower the people of Iran and weaken the regime.<sup>6</sup>”

Currently, the Reduce Iranian Cyber-Suppression Act has 9 cosponsors in the House and 1 in the Senate. In the House the bill has been referred to the Subcommittee on Government Management, Organization, and Procurement and in the Senate to the Committee on Homeland Security and Governmental Affairs.

#### Iran Threat Reduction Act (H.R. 1208)

Introduced into the House by Ileana Ros-Lehtinen (R-18<sup>th</sup>/FL), the [Iran Threat Reduction Act](#) would tighten the trade embargo on Iran by prohibiting the importation of Iranian products other than information materials, unless a Presidential waiver is issued. Furthermore, the legislation amends the ISA to exclude from the U.S. any person who is a senior government official of a foreign government, corporate principal, or a significant shareholder of a foreign person involved in proliferation activities related to Iran. The legislation also expands the definition of “petroleum resources” to include petroleum byproducts, liquefied natural gas, liquefied natural gas tankers, and products used to construct or maintain gas pipelines.

Currently, the bill has 121 cosponsors and was referred to the Subcommittee on Immigration, Citizenship, Refugees, Border Security, and International Law.

#### **Perspectives from Capitol Hill and the Administration**

As the Obama Administration pursues its diplomatic efforts to resolve the impasse with Iran, and especially in light of Iran’s recent refusal to affirm the agreement reached in Geneva on October 1<sup>st</sup> regarding its nuclear program, efforts to tighten U.S. sanctions against Iran have gained significant traction. As indicated above, a majority of lawmakers from both parties have signed on to legislation to further expand sanctions against foreign companies that provide Iran with refined petroleum and are supportive of measures that would allow state and local government pension funds to divest from companies with investments in Iran.

Supporters of further sanctions insist that their legislation is intended to give the Obama Administration additional leverage as it pursues the diplomatic track with Iran. “By reporting out the Iran Refined Petroleum Sanctions Act, this Committee will take the first key step to ensure that President Obama is empowered with the full range of tools he needs to address the looming nuclear threat from Iran, even as he pursues diplomacy and, if necessary, the multilateral sanctions track,” Congressman Berman explained on October 28<sup>th</sup> during the mark-up of his legislation by the House Foreign Affairs Committee.<sup>7</sup>”

Chairman of the Senate Banking Committee, Senator Christopher Dodd, voiced similar sentiments during an October 6<sup>th</sup> committee hearing on Iran. “Increased international pressure and the specter of biting sanctions are clearly what have brought Iran to the table for substantive talks...I am committed, as I think my colleagues are as well, to ensuring that this Congress equips this President with all of the tools he needs to confront the threats posed by Iran.<sup>8</sup>” Senator Dodd went on to explain that his committee is planning to incorporate the numerous Iran bills into one original Committee bill known as the “Comprehensive Iran Sanctions, Accountability and Divestment Act of 2009.” The bill, which was approved by the Senate Banking Committee by

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<sup>6</sup> Schumer, Charles, Office of Senator. *Schumer, Call for Crackdown on Companies Selling Iran Sensitive Technology*.

Online: Press Release. June 26, 2009.

<sup>7</sup> Berman, Senator Howard. *Opening Remarks at the Markup of the Refined Petroleum Sanctions Act*.

Online: U.S. House of Representatives Committee on Foreign Affairs. October 28, 2009.

<sup>8</sup> Dodd, Senator Chris. *Dodd on Iran: We Must Not Let Up Now*.

Online: U.S. Senate Committee on Banking, Housing, and Urban Affairs. October 6, 2009.

unanimous vote on October 29<sup>th</sup>, includes the IRPSA as well as portions of the Iran Sanctions Enabling Act and the Reduce Iranian-Cyber Suppression Act. The legislation also tightens the U.S. trade embargo on Iran and requires the President to report to Congress when investments in Iran's energy sector are eligible for sanctions.

While U.S. Congress readies to pass further sanctions legislation, the Obama Administration has been heavily focused on its dual track strategy of engaging Iran while threatening isolation if Tehran does not grant concessions on the nuclear issue. Administration officials have made clear that they would like to give negotiations an opportunity to succeed and prefer to work with their allies on a multilateral basis rather than applying unilateral pressure. "If we do not have international support, there will be diversions," explained Deputy Undersecretary of State James Steinberg at a Senate hearing in October. "Not only is a sanction more effective when they're [sic] broad-based, but it also takes away the political argument that the Iranian government may try and make, which this is American hostility." Steinberg went on to suggest that sanctions affecting the general population in Iran could backfire by driving people back to the regime whose credibility has been shattered following the disputed presidential election held on June 12<sup>th</sup><sup>9</sup>.

Anxious not to jeopardize ongoing negotiations, administration officials took a neutral public stance on the sanctions legislation, which cleared Senate and House committees last week. However, officials have voiced their aggravation over Iran's lack of cooperation and have privately indicated their support for imposing new sanctions on Iran even if they are unilateral. "We have to be prepared to act and we are not going to let this drag out forever," said one administration official on the condition of anonymity. In particular, officials have confirmed that several options, including a petroleum embargo as well as targeting companies that provide Iran with technology used to crack down on protesters and democracy advocates, are under review<sup>10</sup>.

## Conclusion

Since its inception, the United States has used economic sanctions as a tool in its diplomatic repertoire. In the post-Cold War era, economic sanctions have become a favored apparatus of U.S. foreign policy. For many members of Congress, sanctions provide an attractive, cost-free course of action that helps appease the demands of certain constituencies at home by punishing foreign governments whose actions they disapprove. According to a study released by the Nixon Center, from 1993 through 1998 the U.S. imposed or threatened to impose sanctions on over 70 nations with more than half the world's population<sup>11</sup>.

The question of whether sanctions have or will be an effective tool vis-a-vis Iran is one that is still open to debate. Critics argue that three decades of U.S. Sanctions against Iran have done little to alter the Islamic Republic's behavior and that additional unilateral measures could adversely affect our relations with China and Russia. Critics also worry that sanctions aimed at Iran's oil and gas sector could disproportionately affect average Iranians and help bolster an unpopular regime. "Rather than weakening the regime and convincing it to stop its nuclear program, the proposed new sanctions could feed the Iranian government's narrative that the current popular protest is foreign inspired and supported, giving the Iranian authorities a pretext to discredit and further persecute critics and protesters," said Debra DeLee, president *and* CEO of Americans for Peace Now<sup>12</sup>.

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<sup>9</sup> Lobe, Jim. *Washington Presses Iran Sanctions*.  
Online: Asia Times. October 20, 2009.

<sup>10</sup> Lee, Matthews. *U.S. Warily Leans to new Iran Sanctions over Nukes*.  
Online: The Associated Press. October 31, 2009.

<sup>11</sup> Hamilton, Lee. *Sanctions, Congress and the National Interest*.  
Online: The Nixon Center Perspectives, Volume 3 Number 3. July 20, 1998.

<sup>12</sup> DeLee, Debra. *Tougher Sanctions Against Iran Could Backfire*.  
Online: Jewish Telegraphic Agency. September 9, 2009.

Others such as Trita Parsi of the National Iranian American Council and professor Hossein Askari of George Washington University contend that sanctioning refined petroleum does not make sense because it provides the Iranian regime with the ability to eliminate its current gasoline subsidy, which is a drain on their economy (10% to 20% of its current GDP)<sup>13</sup>. If such sanctions are imposed, the argument goes, Iranian leaders can blame the U.S. for their fuel deficiency, damaging U.S. standing with the people of Iran, and spend their revenues elsewhere.

The countervailing view in Washington contends that economic sanctions coupled with robust diplomacy and law enforcement activities could persuade Iran to change its position on the nuclear issue. For example, proponents of the IRPSA argue that the legislation sends a clear signal to foreign companies that if they want to continue doing business with the U.S., they will have to stop doing business with Iran. "Sometimes being the 500-pound economic gorilla in the room can be helpful", said Matthew Levit of the Washington Institute for Near East Policy. "You don't want to overplay your hand, but people want to do business in the United States." This claim is supported by the fact that several foreign financial institutions appear to have terminated or reduced their business with Iran over the past three years due to U.S. pressure<sup>14</sup>.

In addition, some analysts point out that multilateral efforts, although more beneficial, are not absolutely necessary to severely impact Iran's ability to import refined petroleum. "While many firms around the world ship petroleum products, there's a limited number of companies that underwrite both ships carrying the petroleum and the cargo itself," says Mark Dubowitz of the Foundation for Defense of Democracies. "By targeting shipping underwriting, not only would the risk premium paid by Iran to ship its fuel become prohibitive, it could be possible to persuade the insurance companies to exit the market."<sup>15</sup>

Ultimately, the issue of further U.S. sanctions against Iran will have to be taken into consideration by the Obama Administration in the broader context of their negotiations with Iran. Should engagement not yield the desired results, Congress is poised to provide the President with additional measures that can be used to sanction Iran. "Only when we judge that these other options will not succeed in a timely manner should we turn to additional unilateral and extraterritorial sanctions such as those included in H.R. 2194," said Congressman Howard Berman in a press release issued by the House Foreign Affairs Committee on October 15<sup>th</sup><sup>16</sup>.

The primary aim of sanctions legislation currently under consideration in the U.S. Congress is to pressure Iran to come clean on its nuclear program. However, measures aimed at stopping Iran's support for terrorism as well as cracking down on companies that provide the Iranian government with technology to spy on its own citizens may be included as part of a comprehensive sanctions package to be presented to the White House. Even if sanctions legislation passes and is signed into law by the President, it is not clear it would be enforced. The Obama Administration, while tacitly supportive of legislation currently under consideration, is also committed to working with its allies to isolate Iran and could be unwilling to take unilateral steps.

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<sup>13</sup> Askari, Hossein. Parsi, Trita. *Throwing Ahmadinejad a Lifeline*.  
Online: The New York Times. August 15, 2009.

<sup>14</sup> Bogardus, Kevin. Soraghan, Mike. *House, Senate Ready Iran Sanctions*.  
Online: The Hill. September 30, 2009.

<sup>15</sup> Talley, Ian. *Amid Pressure For New Iran Sanctions, Obama Administration Weighs Efficacy*.  
Online: The Dow Jones Newswire. August 10, 2009.

<sup>16</sup> Berman, Howard, Office of Congressman. *House Foreign Affairs Committee to Mark Up IRPSA*.  
Online: Press Release. October 15, 2009.