

**Written Statement**  
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**Using Sanctions to Dissuade Iran and North Korea From Current**  
**Nuclear Proliferation Policies**  
**Before**  
**The House Committee on Foreign Affairs' Subcommittee on Terrorism,**  
**Nonproliferation, and Trade**  
**and**  
**The House Committee on Financial Services' Subcommittee on**  
**Domestic and International Monetary Policy**  
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Thank you, Mr. Chairman for inviting me to share my views on the use of sanctions to dissuade Iran and North Korea from their current nuclear proliferation policies. I don't think there can still be any doubt that Iran's current nuclear program, and particularly its uranium enrichment program, is directed at establishing a nuclear arms capability. And, I believe, that if Iran is allowed to succeed, and if North Korea is allowed to maintain its nuclear weapons program, that the implications for international peace and security, and for keeping the lid on future nuclear weapons proliferation, are devastating. The stakes here are very high.

I have long been an advocate of using well considered targeted, economic and political sanctions to dissuade Iran and North Korea from pursuing their irresponsible nuclear programs. By well considered I mean sanctions tailored to achieve specific objectives by having a significant impact on those individuals or entities, and/or specific segments of the targeted country's economy or body politique, that are likely to

influence the course of conduct in question. I believe that the credible threat or use of such sanctions offers us the best chance of convincing these countries to change course without having to engage in costly and dangerous military action. I do not believe that the current sanctions programs in place with regard to Iran or North Korea meet this criteria.

The North Korea and Iran situations are quite different, and require separate analysis. Each is vulnerable to sanctions in different ways and the sanctions used should be tailored specifically to these vulnerabilities. I will address them separately. Let me start with Iran.

One can certainly understand the reluctance and caution on the part of the international community when it comes to imposing sanctions on Iran, given Iran's importance as a supplier to the world oil market. And with oil now selling for more than \$60 per barrel, reducing Iran's flow of oil onto the market could drive the price much higher. But, the costs and dangers incurred by posing a credible threat of well targeted and effective sanctions against Iran now would be considerably less severe than having to resort to a comprehensive embargo and/or military action in the future. And everyday we stand down now serves only to strengthen Iran's resolve to forge ahead making further confrontation increasingly inevitable, and at a higher cost.

Let's be clear. The low-impact sanctions now on the table simply will not work. The sanctions measures so far adopted by the Security Council have already proved

insufficient to motivate Iran to curtail its enrichment activities, and have led, in fact, to its acceleration. Rather than demonstrate the international community's commitment to forcing Iran to halt its nuclear arms program, they have conveyed the sense that key countries lack the political will necessary to face up to Iran's challenge to non proliferation norms. And this signal has been received loud and clear by the current Iran regime. Iran will only change course if and when its leadership is convinced that the international community will, in fact, take the steps necessary to seriously impact Iran's leaders and its very vulnerable economy. Such an impact on Iran's economy, Iran's leaders know, would, in turn, seriously threaten the stability and durability of their regime.

And Iran has already discounted the credibility of future, more stringent sanctions coming from the Security Council. They count on the fact that both Russia and China have vested interests in expanding energy trade relations with Iran, and that Europe and Japan will be unwilling to impose meaningful sanctions on their own. They have good reason to expect that the next and future rounds of sanctions will be as hesitant, incremental and meager in nature as those currently in place. For this is precisely what has occurred since the first threats of sanctions were issued following the IAEA's resolution, in August 2004, condemning Iran's nuclear program as a clear violation of IAEA non proliferation commitments. Despite these previous threats of sanctions no actions were taken for over two years, and not until December 26, 2006 when the Security Council, with resolution 1737, finally imposed a muffled set of weak measures

directed against only a handful of individuals and entities directly tied to Iran's questionable nuclear program.

Resolution 1737 directed all countries to freeze the assets of only some 10 Iranian entities and 12 individuals directly involved in Iran's centrifuge programs, its heavy water reactor at Arak and its pilot uranium enrichment plant at Natanz. The resolution also imposed a limited ban on materials and technology that could contribute to "enrichment-related, reprocessing or heavy water related activities, or to the development of nuclear weapons delivery systems." But, these same items supposedly had already long been restricted under various international agreements such as the Nuclear Suppliers Group, the Wassenaar Agreement and the NPT itself. Surprisingly, the resolution allowed Iran to continue to import equipment and technology for other light-water reactors and for low-enriched uranium contained in assembled nuclear fuel elements. It simply exempted the \$800 million light-water reactor built for Iran by Russia at Bushehr from its application.

And resolution 1737 also provided little scope for any actual enforcement. It left each country free to interpret these restrictions for itself and to determine on its own which items must be barred. The only requirement is that they inform the Security Council of any dual use items that they actually do export to Iran.

Except for its harsh rejection of resolution 1737, Iran took little notice.

On March 23<sup>rd</sup>, 2007 the Security Council passed a second set of sanctions supposedly to ratchet up the pressure on Iran. But they really have not had such effect. The additional measures in resolution 1747 include:

(1) The addition of some 28 individuals and entities to the list of those whose assets are to be frozen. Many of these additional individuals and entities are associated with military aspects of Iran's nuclear program, including delivery systems. Few, if any, maintain bank accounts overseas, and there are no reports, so far, of their assets being frozen. Of some note, however, is the addition of Iran's fifth largest bank, Bank Sepah, which along with Bank Sepah International, plays a key role in bankrolling Iran's missile and aerospace programs. This may be the only really significant measure taken so far against Iran. The United States had already designated Bank Sepah on January 9<sup>th</sup>, 2007 stating that "Bank Sepah is the financial linchpin of Iran's missile procurement network and has actively assisted Iran's pursuit of missiles capable of carrying weapons of mass destruction." The resolution now requires that all countries direct their financial institutions to stop dealing with this bank.

(2) A ban on Iranian sales and exports of arms and military equipment. Iran now sells arms to very few countries in the Middle East and Africa, including Sudan. Hezbollah, and certain Shiite and Sunni factions in Iraq, are also recipients of Iranian arms, but these covert supply routes are unlikely to be affected by the new resolution. It is also unclear if the resolution applies to current arms purchase contracts or only to future contracts.

Beyond these "obligatory measures," the resolution only "calls upon" all countries to:

(3) “*exercise vigilance and restraint*,” when it comes to providing heavy military arms and equipment to Iran, including “battle tanks, armoured combat vehicles, large calibre artillery systems, combat aircraft, attack helicopters, warships, missiles or missile systems.”

(4) “*exercise vigilance and restraint*” when it comes to allowing specified Iranian military officers and nuclear scientists and engineers visit their countries; and,

(5) not to engage in new commitments for grants, financial assistance, and concessional loans, to the government of Iran, *except if they are to be used for humanitarian or developmental purposes.*

It is noteworthy that the resolution does not contain any cautionary suggestion when it comes to providing financial or other support or assistance for commercial investments with the Iranian government, including investment in Iran’s key energy sector. This leaves on the table several major oil and gas development projects including a potential \$10 billion investment by Royal Dutch Shell and the Spanish oil company Repsol YFP to develop Iran’s South Pars field, the construction of a multi-billion LPG export plant by Total, and a \$20 billion investment by SKS Ventures of Malaysia to produce national gas in Iran’s Golshan and Ferdow fields. Three years ago, in March 2004, China's state-owned oil trading company, Zhuhai Zhenrong Corporation, signed a 25-year deal to import 110 million tons of liquefied natural gas (LNG) from Iran. This was followed by a much larger deal between another of China's state-owned oil companies, Sinopec, and Iran, signed in October 2004 which allows China to import a

further 250 million tons of LNG from Iran's Yadavaran oilfield over a 25-year period. This huge deal also will enlist substantial Chinese investment in Iranian energy exploration, drilling and production as well as in petrochemical and natural gas infrastructure. Total Chinese investment targeted toward Iran's energy sector could exceed a further \$100 billion over 25 years.

The resolution also leaves Russia a completely free hand to pursue its own ambitious Iran trade promotion policy aimed at increasing bilateral trade between the two countries by some \$10 billion over the next five years.

**Against this background, how can any of these UN Security Council sanctions measures be taken seriously?**

The Security Council has used sanctions on numerous occasions to deal with or dissuade egregious state actions. These sanctions programs have had various degrees of success. Some sanctions programs, such as those against Serbia and Libya proved key to resolving problematic international crisis. The application of sanctions against South Africa and Rhodesia also led to profound changes in the domestic policies of these countries. But, the measures so far adopted against Iran stand out singularly as *the weakest and most timid response* the Security Council has ever made in dealing with such a high profile and potentially egregious disturbance to international peace and security.

I am deeply concerned also with the way the Security Council has formulated these measures against Iran. In order to achieve consensus they have simply set the sanctions bar too low - both in terms of its impact and its enforcement - to have any

effect. The Security Council should always avoid adopting measures that they already know, in advance, are unlikely to achieve any of the stated objectives. Such action serve only as an “empty gesture” or "excuse" for non-action on the part of the Security Council, and by others who are using the Security Council measures merely as an excuse for not taking any action themselves. This serves only to diminish the credibility of the Security Council and the effectiveness of sanctions as an effective foreign policy tool.

The use of new terminology in the Iran sanctions resolutions which merely calls on states to "*exercise vigilance and restraint*" when it comes to halting the flow of heavy arms and military equipment, including missiles to Iran, or to restricting the travel of key nuclear and military personnel, is particularly ludicrous and disturbing. Why not ban such trade and travel outright? Hopefully, such provisions will not become standard fare when it comes to future sanctions resolutions.

It is already clear from Iran’s reaction to the new sanctions that much more will be required. So what should we do?

There are many nay-sayers who warn that sanctions can never work against Iran given its important geo-economic position as a major market and oil and gas supplier. They argue that meaningful sanctions against Iran are just unattainable as they would wreak havoc on a world energy-reliant economy. If one accepts this thesis one must also be driven to the conclusion that the unilateral US sanctions that the US has imposed on Iran for all of these years has served no real purpose, and that it has been more harmful than helpful to overall US interests. I have heard these same arguments made with regard to sanctions on Serbia, Iraq, Libya and South Africa. In each of these cases, the nay-

sayers were wrong. While it is evident that gaining acceptance for effective sanctions on Iran will pose extra ordinary challenges, these challenges are worth pursuing, especially given the high stakes involved.

Iran's economy is already very fragile and vulnerable to trade restrictions. Oil accounts for around 80 to 90 percent of Iran's total exports and 40-50% of the government's budget. Despite high oil prices, Iran's economy has softened considerably since President Ahmadinejad took office. Unemployment is rampant and new investment in Iran's industry, commercial sector and infrastructure has stalled. Substantial new foreign capital investment is also needed to modernize its petroleum infrastructure and to meet growing domestic energy demands while maintaining revenue producing oil exports. Iran's leaders can ill-afford to aggravate Iran's economic distress further.

I believe that we should now adopt a much more aggressive strategy in favor of effective sanctions on Iran – sanctions that are directed specifically at Iran's economic and political vulnerabilities.

We should proceed concurrently on two different fronts. On the one hand we must continue to press for more stringent Security Council action. This should include accelerating sanctions aimed at isolating Iran and cutting off Iran's access to capital equipment and financial resources to develop further its very important oil and gas sector. Such investment should be tied specifically to benchmarks including discontinuance of its enrichment program, transparency and IAEA inspection. Sanctions should also

increasingly target Iran's very vulnerable commercial class, threatening to cut them off from access to goods and services, including financial services.

Ironically, Iran, which is such a major exporter of oil and gas, is, itself a major importer of gasoline and other finished petroleum products. With a daily consumption of more than 18 million gallons of gasoline Iran must now import some 180 to 200 million gallons of gasoline per month. Rising petroleum prices have already been the cause of civil unrest, and gasoline shortages could have a significant impact on local business activity and put increased pressure on Iranian leaders to alter course. Royal Dutch/Shell is now serving as an advisory partner with Iran in an assessment project to upgrade Iran's refining capacities. This is the kind of activity that should be halted.

Iran's banking sector is already notorious for its failures to comply with international anti-money laundering, fraudulent and corrupt practices, and counter-terrorism financing norms. Yet, Iranian banks continue to have broad access to, and to network through, the international financial and banking sectors. I believe new efforts should be taken to isolate Iran's banks and to assure that all transactions stemming from, or destined to or through Iranian banks be subjected to close regulation and scrutiny. Such action would also bring home to Iran a significant cost for the irresponsible policies it is pursuing.

Finally, special measures should be adopted which specifically freeze the assets and financial transactions of Iran's Iranian Revolutionary Guard Corps (IRGC), as well as its clerical, presidential and parliamentary leaders. The IRGC's business and industrial activities are heavily engaged in Iran's energy sector and its engineering arm, the Khatam-ol-Anbia, has been the beneficiary of numerous oil and gas development related

contracts. Iran's governing class has also been notorious for its corrupt practices including involvement in, and kickbacks from, Iranian and foreign companies engaged in Iranian commercial and developmental projects. For their part, Iran's Mullahs, many of whom reportedly have large caches of funds overseas, may also provide useful sanctions targets .

A new UN resolution should also encourage other oil producing countries to act to rationalize the oil market in anticipation of further sanctions against Iran. Further measures, including a ban on oil exports, should be envisaged if Iran continues to resist compliance with IAEA norms.

At the same time as we pursue opportunities to strengthen UN measures against Iran we should also seek expanded bilateral support and commitments from our friends and allies to increase the pressures on Iran.

We must develop a common front with Europe and with Japan, to act together, even in the absence of Security Council action, to impose serious economic and trade measures that will bring real costs to the Iranian economy. Such non-security council sponsored sanctions have been used successfully before by the United States and our European allies, as in the case of Serbia during the Kosovo war. They are certainly merited now.

Europe along with Japan holds the key to any really successful sanctions actions against Iran. Europe together with Japan are still Iran's most important trading partners, and the most important source for Iran to obtain critical energy sector capital equipment,

technology and investment. They also provide Iran with critical commercial and developmental investment and assistance. In fact, Iran now imports more from Europe and Japan than it exports to them in terms of oil supply. Iran's growing commercial class, which now plays a critical role in providing employment opportunities in Tehran and Iran's other major urban centers, is particularly reliant on this trade with Europe and Japan.

The threat of concerted action by Europe and Japan to reduce or cut-off a significant part of its trade and investment activities in Iran, and to place great stress on Iran's commercial sector, would likely have a major impact on Iran's future policy calculations.

But, Europe has, so far, given Iran a free pass, using loud words, but no real action, to convince Iran to change course. Europe's negotiating package with Iran already contains a very large number of attractive carrots, but it is woefully short when it comes to the sticks. This must change.

Alone the United States has little sanctions leverage left on Iran. The US has barred most trade and investment with Iran, including the purchase of Iranian oil since 1995. But, we are still the major player in the international economy, and our own economic, trade and financial policies can have a major impact on the cooperation and conduct of others. Our task now is to convince European Countries Union to get tough with Iran and to get their companies and financial institutions to refrain from entering into new deals or making further capital investment commitments in Iran until Iran complies with the UN's non proliferation resolutions. Beyond that, we can use our

combined economic clout with Europe and Japan to retain pressure on Russian and China not to undercut these sanctions measures. Ultimately, China and Russia must be convinced to join with the community of countries that will refuse to deal with Iran so long as they pursue an unacceptably dangerous road toward the development of nuclear weapons.

Let me turn now to North Korea

While the threats posed by North Korea's nuclear weapons program are as grave, and perhaps even more acute, as that posed by Iran, the situation we face in North Korea is markedly different.

North Korea is among the poorest countries on earth, completely lacking in foreign investment and heavily dependent on foreign assistance. It is tightly ruled by a small clique whose interests have been defined as quite distinct from the country's general population. And any North Korean decision to reverse course on nuclear weapons would entail little controversy or consequences for its leadership. When it comes to sanctions the country's perceived vulnerabilities are truly quite distinct from those in the Iran situation.

United Nations Security Council Resolution 1718 was meant to send a strong message to North Korea that the international community will not contenance continuation of their ballistic missile and nuclear weapons development and testing programs. It showed that the international community stands behind efforts by the United States, China, Japan, Australia and South Korea to convince North Korea that it has more to gain, than lose, by abandoning its nuclear weapons program.

While the language contained in the North Korea sanctions resolution is quite strong and to the point, the sanctions measures adopted are considerably weaker. They impose a very limited embargo on a small range of heavy military equipment, and high technology items and commodities associated with North Korea's nuclear and ballistic missile programs. The resolution ostensible also threatens to cut off the flow of "luxury goods" to North Korea's leadership. But, the only measure that really captured North Korea's leader's attention were the measures directed at freezing assets and bank accounts held overseas by North Korea's leaders. North Korea has insisted that the US allow funds frozen in the Macau-based Banco Delta Asia (BDA) bank to be released as a precondition for Korea's carrying out steps promised in a accord reached in six party talks last February. This includes North Korea's agreement to seal the Yongbyon nuclear reactor by April 13<sup>th</sup> and to invite back the IAEA to oversee North Korea's compliance. North Korea has already missed this deadline, but has indicated that it remains committed to carrying out these actions.

When it comes to sanctions on North Korea, China is clearly in the driver's seat. The Chinese can determine what impact, if any, these measures will actually have on North Korea. They remain North Korea's principal market and principal supplier. The bulk of North Korea's imports and exports cross their common border. China's inspection of cargoes, and interdiction of contraband, are essential to making these measures work. But, even if these limited trade sanctions items are interdicted, the economic effect on North Korea will be minimal. China will have to go beyond these limited sanctions, and begin using its considerable economic leverage over North Korea, to keep them on track with their six party talks commitments.

I think it is premature to assess whether or not these sanctions, or more specifically the threat of these sanctions actually being enforced, will work. Except for the asset freeze little more has been done to put these measures in play. Nor do I have any great suggestions to offer on what we must do to get North Korea to comply fully with the terms of the Security Council Resolution— other than to suggest the obvious: We must encourage all countries, and especially China, to effectively implement these measures, if, in fact, North Korea backslides. And we must stand ready to consider how we can best keep China and South Korea committed to maintaining sufficient pressure on North Korea to make sure they move forward in closing down and dismantling their nuclear weapons related facilities.

Thank you, Mr. Chairman. That concludes my remarks.