H.R. 1327, THE IRAN SANCTIONS ENABLING ACT OF 2009

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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CONTENTS

	Page
Hearing held on:	
March 12, 2009	1
Appendix:	
March 12, 2009	35

WITNESSES

THURSDAY, MARCH 12, 2009

Deutch, Hon. Ted, a State Senator from the State of Florida	8
Isaacson, Jason F., Director, Government and International Affairs, American Jewish Committee (AJC)	13
Kittrie, Orde F., Esq., Professor of Law, Sandra Day O'Connor College of Law, Arizona State University	16
Parsi, Dr. Trita, President, National Iranian-American Council	10

APPENDIX

Prepared statements:	
Peters, Hon. Gary C.	36
Deutch, Hon. Ted	37
Isaacson, Jason F.	65
Kittrie, Orde F.	70
Parsi, Dr. Trita	83

H.R. 1327, THE IRAN SANCTIONS ENABLING ACT OF 2009

Thursday, March 12, 2009

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL
MONETARY POLICY AND TRADE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:07 a.m., in Rayburn House Office Building, Hon. Gregory Meeks [chairman of the subcommittee] presiding.

Members present: Representatives Meeks, Waters, Moore of Wisconsin, Driehaus; Royce and Paulsen.

Also present: Representatives Ellison, Sherman, and Klein.

Chairman MEEKS. Good morning. Let me welcome everyone to our first International Monetary Policy and Trade Subcommittee hearing, and I want to welcome you to this important hearing on the Iran Sanctions Enabling Act of 2009. This bill in many ways resembles similar bills introduced in the House and the Senate in the last Congress. It was important then and it is important now.

I am just going to start jumping into it with my opening statement, and then we are going to move on because I know that we have various competing hearings that are taking place, and members want to have opening statements, which we will do, and ask questions.

I believe in a sticks-and-carrots approach when seeking a favorable outcome to foreign policy. While this bill is clearly about the sticks, I want to state for the record that there are important incentives that should be a part of our efforts to stop nuclear weapons development in Iran. Some of these incentives are outlined in the most recent U.N. Security Council resolution that bans certain aspects of trade with Iran.

As in previous versions of this bill, we are not mandating divestment with this bill, but instead we are making it feasible for States to divest, and most importantly, for citizens to exercise the power of the purse through their investment decisions. Specifically, this legislation makes it clear that it is the policy of the United States to support State and local governments to divest from or prohibit the investment of assets they control and persons who have investments of more than $20 million in Iran's energy sector.

These are uncertain times for both of our countries. Today we find ourselves in a relationship with Iran that is based on a long history of hostility and lack of trust. Clearly Iranian citizens and

their neighbors in the region are waiting to see the change president Barack Obama has pledged.

In fact, we have already seen significant change. The Obama Administration has expressed noticeably increased openness to diplomatic relations with Iran. This is in striking contrast to previous Administrations. From my perspective, we have an enormous opportunity to forge a new path forward in our relationship with Iran.

We should, of course, proceed with caution, and we are. Iran is still not fulfilling its international obligations, and we must act accordingly. Recently, U.S. ambassador to the U.N., Susan Rice, acknowledged this point and outlined several concerns. She pointed out the findings in a recent U.N. report that Iran's nuclear program has military dimensions and that they are troubling.

In addition, she stated to a U.N. Security Council subcommittee that deals with enforcement of sanctions against Iran, "Iran also still refuses to respond constructively to IAEA questions about its past work to develop a nuclear weapons capability." The United States urges its fellow Security Council members not only to take note of the IAEA's serious findings, but also to vigorously support the IAEA in its continuing investigations of these critical matters.

While much discussion about the United States and Iran focuses on our differences, we should not close our eyes to common interests. Both countries share the goal of bringing security and stability to Iraq and Afghanistan and combating the terrorism that stems from the extreme version of Islam. Just as the United States recently reached out to Iran regarding Afghanistan, I believe it is possible for both sides to build on common interests in these areas.

Many of us in Washington have called for direct engagement with Iran over its efforts to acquire nuclear weapons, but direct dialogue alone will likely prove insufficient. Indeed, the legislation at hand should be a part of a comprehensive diplomatic strategy to head off security threats while also engaging the Iranian people to forge a new chapter in our bilateral relationship.

The Iran Sanctions Enabling Act of 2009 would place economic pressure on the Iranian regime with the goal of halting Iran's nuclear program. This divestment bill is designed to dissuade foreign companies from investing in energy operations whose profits could be used to threaten the United States and our allies. Without mandating that they do so, this legislation recognizes the right and maximizes the ability of Americans to speak out through their investment decisions about their opposition to many aspects of Iranian activities.

And as I have watched this situation with Iran with great interest in the past few years, along the way, I have developed a tremendous appreciation for the work of the National Iranian-American Council. I am pleased that we will hear the perspective of NIAC's president, Trita Parsi. This group is on the front lines providing the infrastructure for building bridges among Iranian-American organizations and the peoples of American and Iran.

I also appreciate the testimony of Mr. Orde Kittrie, who is a distinguished expert on legal matters related to non-proliferation, Mr. Jason Isaacson, a leading advocate on U.S.-Israel relations and the search for Middle East peace, and Mr. Ted Deutch, a Florida State

Senator who spearheaded legislation that made Florida the first State to force its pension fund to divest from companies doing business in Iran's energy sector.

I look forward to hearing from these witnesses, and I now turn to Mr. Royce.

Mr. ROYCE. Thank you, Mr. Chairman.

Not withstanding recent statements made by the Administration's Director of National Intelligence, I have little doubt that Iran is pursuing nuclear weapons capability. Last month, the IAEA reported that Iran now has produced enough low-enriched uranium that a further enriched weapons grade level, they could produce a nuclear weapon.

Enrichment capability, the key aspect of a nuclear weapons program, frankly is being mastered by the Iranian regime, and not so long ago I remember talking about 164 centrifuges in Iran. Today, we are talking about numbers that are measured in the thousands every time we have an update.

Iran continues to deny IAEA inspectors access to key nuclear facilities, making an accurate assessment of Iran's nuclear program impossible. What is certain, though, is that regional security—and frankly, our security—will be seriously harmed if Iran develops nuclear weapons.

While Iran has raced forward, international efforts to halt the program have been lackluster. The bungled National Intelligence Estimate from a year-and-a-half ago made that effort even more difficult. Russia and China have consistently blocked tough sanctions against Iran. Some believe President Obama's popularity will make it easier to line up international sanctions, but given the global downturn, unfortunately, countries that were previously reluctant to pass up on business opportunities in Iran will be even more so reluctant today, I'm afraid.

The United States has taken some innovative actions. Under the previous Administration, the Treasury persuaded many foreign banks not to provide financing for exports to Iran or to process its dollar transactions, and I think this was one thing that was pretty effective. That effort should be continued while targeting Iran's central bank and forging an effort to deny refined petroleum products to Iran. With Iran forced to import more than 40 percent of its gasoline, this, I think, could have a real impact.

The purpose of the legislation we are discussing today is to permit State and local governments, educational institutions, and private fund managers to divest from entities that invest $20 million or more in Iran's energy sector. In addition, this bill would provide a safe harbor to any investment company that divests from or avoids investing in certain entities.

This legislation would give support to efforts happening at the local level, including in my home State of California. It is good policy, and frankly it is in the interest of our non-proliferation goal.

The 1980's era divestment campaign against the apartheid regime in South Africa is a model. Of course, that regime was universally abhorred and the financial markets were not under the type of stress they are today. For far too many, business with Iran is okay by them, and that is why I think this legislation is important.

One thing is certain. Time is not on our side. There will be no single solution, but a need to levy as much pressure as possible and leverage from every conceivable avenue, and this is something that is going to add to that approach.

And I thank you again for holding this hearing, Mr. Chairman.

Chairman MEEKS. I now recognize the gentlelady from California, Ms. Waters, for 3 minutes.

Ms. WATERS. Thank you, Mr. Chairman.

First, I would like to congratulate you on your chairmanship and to commend you for choosing this subject matter as your first legislation to hear. This is important legislation and I certainly think that this committee can play an important role in creating the public policy that deals with Iran and help to provide some pressure on the Iranian government while we are also moving toward some diplomatic efforts based on this Administration's initiation of diplomacy.

I would like to just follow my colleague from California by saying that State divestment does work. I was the author in the State of California of the divestment legislation that divested our pension funds from businesses that were doing business in South Africa. And I dare say that of all the sanctions we have imposed on Iran over the past 15 years, this one I think stands to really exert economic pressure in ways that they have not felt before.

I believe this bill will cause, allow, or support States that come up with divestment public policy. Disallowing investments in the energy sector of $20 million or more is extremely powerful, and so without another word, I support this and I think this is the right thing to do.

We have, again, been attempting to apply economic sanctions, and while we have been doing this, they have continued to develop nuclear capability. I think given the state of their economy at this time, which is in terrible shambles, that this will further cause them to have to think about whether or not they are going to completely disable their entire economic sector or whether or not they are willing to begin to talk about how they are going to cease and desist from terrorist activities.

So I thank you for this hearing and I yield back my time.

Chairman MEEKS. Thank you. And as the gentlelady said, this is my first hearing as chair, and already I realized one thing that I should have done in the beginning was to ask that, without objection, all members' opening statements be made a part of the record.

Mr. ROYCE. I object.

[Laughter]

Mr. ROYCE. I withdraw my objection.

Ms. WATERS. You can do it at any time, Mr. Chairman.

Chairman MEEKS. I now recognize Mr. Paulsen for 3 minutes.

Mr. PAULSEN. Thank you, Mr. Chairman, for holding this important subcommittee hearing on proposed legislation that would help increase the economic pressure on the Iranian government.

Mr. Chairman, I believe action on this issue cannot come soon enough. Last month, the Institute for Science and International Security reported that while Iran does not yet have a nuclear weapon, it does have enough low-enriched uranium for a single nuclear weapon, and clearly the Iranians are making drastic improvements

for their nuclear program. This could further threaten the stability of an already volatile region.

A new Administration is in office and reevaluating the Nation's policy, particularly the U.S.-Iran relationship. This is going to be one of the biggest challenges the President faces. I look forward to hearing from Administration officials down the road on how they plan to deal with the Iran issue and how Congress can play a key role in helping develop that strategy.

I believe we must have as many tools as possible at our disposal for the United States. I also believe we must work with our allies in the region to have any effect in bringing about regime change.

So the subcommittee hearing today will consider legislation that deals with an issue not typically the focus of this committee, international relations and supplementing sanctions, but H.R. 1327 as introduced by Chairman Frank last week would permit State governments, local governments, and educational institutions to alter the way they approach investments related to Iran's energy sector.

In addition, the legislation would extend to private actors the ability to consider the U.S.-Iran relationship in their investment calculus by providing safe harbor to registered investment advisors who divest or elect not to invest in securities of companies that engage in investment activities in Iran as outlined in the Act.

So I believe this legislation is a very positive step in the right direction. I am pleased to see the committee take such a strong interest in this issue under your leadership, Mr. Chairman. It is my hope that when the time is right, we can have another hearing and another opportunity to hear from Administration officials as well as their economic plans dealing with Iran going forward.

So thanks for bringing such a distinguished panel forward. I look forward to hearing their views, and I yield back.

Chairman MEEKS. I now call on the gentleman from California, who is not on this subcommittee, but he has worked very hard on this issue for a long period of time, and he is on both the Financial Services and the Foreign Affairs Committees. Mr. Sherman.

Mr. SHERMAN. I thank the Chair for letting me participate in these hearings.

Along with Chairman Frank, Mr. Berman, and Chairman Meeks, I am an original co-sponsor of a bill, as I was in the 110th Congress. I think we owe a special debt of gratitude to the mullahs who run Iran whose corruption and mismanagement have made that country vulnerable to economic pressure in spite of the fact that they benefitted from the huge windfall when oil was selling at $150 a barrel.

First, a bit of legislative history. This bill in fact passed the House twice last Congress, once as H.R. 2347, the Iran Sanctions Enabling Act, on July 31, 2007, and again as part of a larger Iran sanctions package, the Comprehensive Iran Sanctions Accountability and Divestment Act of 2008, which passed the House on September 26, 2008.

The first time the bill passed, it was 408 to 6; the second time it passed, it was by voice vote. It was not terribly controversial in the Senate by itself, but due to delay, never passed the Senate.

The companion legislation was introduced by Senator Obama. He has supported this concept consistently, as his policy has consist-

ently been one of both sanctions and engagement, and he continues to support this legislation. It is unfortunate that even after both Senate leaderships, Democrat and Republican, approved this bill as part of a group of amendments to the defense bill, there were partisan disagreements on totally unrelated issues, and this bill did not become law last year.

I am quite hopeful that it will become law this year. This bill will cease to operate, as it should, when Iran changes its policies with regard to nuclear weapons and support for terrorism.

This bill, H.R. 1327, will simply allow States and municipalities to enact Iran divestment legislation and would provide protection to asset managers covered by the Investment Company Act from suits brought on the rather stretched theory that they have a fiduciary duty to invest even in firms that prop up the Iranian regime.

This bill specifies that they are free to divest in those companies, mostly international energy companies, that invest more than $20 million in the Iran oil sector. This year's version of the bill would also provide for allowing for divestment for those who are involved in shipping for Iran's energy sector as well as companies that provide products and services related to pipeline construction.

This bill is purely permissive. It is about the freedom to make investment decisions. It does not require any State, city, town, or an asset manager to do anything at all. It simply allows them to be able to employ their consciences if they chose, as they chose, without fear of a frivolous lawsuit.

And in fact, if there are some misguided asset managers who choose to deliberately buy stock in foreign oil companies that are investing in Iran, there is nothing in this bill that prevents them from doing so.

Now it is true that the Iran oil sector is probably the source of the country's wealth, but it is also an Achilles heel. Iran cannot sustain current levels of oil production without significant investment, chiefly international investment.

With us today is my friend Senator Ted Deutch, who authored the first law in the country, Florida's divestment law. Welcome back to Washington. I am proud to say that Florida was first—California, I believe, was second in passing similar laws—and we want to protect both States and others from frivolous lawsuits.

I want to urge my colleagues to consider two provisions for addition to the bill as it goes forward. First, I think we need a grandfather clause to ensure that we do not unintentionally imperil State enactments that don't follow precisely the criteria of Section 3C of the bill if they were adopted before we adopted the Federal law.

The dozen States that have enacted divestment policies so far use criteria that are perhaps a bit different from this bill. They may slightly define differently which business activities in Iran justify divestment.

The State enactments are not identical to what we have in the Federal bill, but we can hardly blame the States for not following the Federal prescription. After all, they acted first, and we cannot blame Senator Deutch for not complying in 2007 to the standards that we plan to adopt in 2009.

We should make sure that our bill does not invalidate, weaken, imperil, or fail to protect State statutes that have already been enacted.

Second, another weakness of the Iranian economy has come into focus just in the last 2 years, and that is the fact that Iran has to import more than 50 percent of its refined petroleum products, gasoline. It has oil, but it doesn't have sufficient refinery capacity. The companies that provide this gasoline as well as those that might help build domestic refining capacity in Iran should be discouraged from doing so, so we should consider adding a provision to this bill that includes refined petroleum and refining equipment as triggers for allowing divestiture.

I urge my colleagues to support this bill. It has passed the House twice, it is consistent with the leadership position on both sides of the aisle in the Senate, and it is fully in accord with President Obama's policies.

Thank you.

Chairman MEEKS. Representative Ellison wanted to make an opening statement, but he is not here, so I guess what we will do is we will start with the introductions and we will allow Mr. Ellison to make an opening statement at a later time. I see his stuff is still here.

With that, I am delighted to have a member of the committee who is here, and he came for a special request in doing this hearing, and he wanted to make sure that he had a chance to introduce one of our panelists. We know that when we have someone from our home State come in, especially one whom we have worked with, it becomes very important.

So for purposes of an introduction, I yield to my good friend Mr. Klein from Florida.

Mr. KLEIN. Thank you, Mr. Chairman, and thank you Mr. Sherman, for bringing this piece of legislation forward. I also thank the committee for considering it.

As a member of both the Financial Services Committee and the Foreign Affairs Committee, I think all of us understand the importance of this piece of legislation. This is one that I think we as a country understand the importance of working with other countries, but certainly setting our own precedent and our own position of stopping economic dealings as much as we can with Iran, and certainly giving the ability for our local governments, State governments, and certainly any kind of other activity to be protected if the choices are made to not make the investments which continue to do business with Iran.

This is a special privilege for me because I am here to introduce a good friend, Senator Ted Deutch, who is a resident of the same community I come from. He serves in the Florida State senate. He represents parts of Palm Beach and Broward counties, which is South Florida, and it was his initiative and his work in the community and throughout the State of Florida that literally brought this issue along to the point where the State of Florida became the first State to allow pension boards to divest from companies that do business in Iran and Sudan without any liability risk.

The legislation comes before us after other States have followed Senator Deutch's and the State of Florida's lead, but what we now

believe is important, as we have said, is a national standard. And Senator Deutch's example, in the information he will provide you today, will help this committee and the public understand the importance of why the State of Florida did this, and why it is important for us to consider this as national legislation.

So welcome, Senator Deutch. I will turn it back over to the chairman.

Chairman MEEKS. The Senator is now recognized to give his statement for 5 minutes.

STATEMENT OF THE HONORABLE TED DEUTCH, A STATE SENATOR FROM THE STATE OF FLORIDA

Mr. DEUTCH. Thank you.

First, to Congressman Klein, it is an honor—Congressman, you failed to point out that I have the good fortune to have succeeded you in District 30 of the Florida State senate. It is an honor to be there. I bring greetings from our colleagues in Tallahassee who continue to hold you in high regard both for the leadership you provided in Florida in the State senate and the leadership you continue to provide in Congress. Thank you very much.

Mr. Chairman and members of the committee, thank you for the opportunity to speak today in support of H.R. 1327, the Iran Sanctions Enabling Act of 2009.

I am grateful for the efforts of the bill's sponsors to enable investors to make investment decisions that are consistent with the principles and convictions of the American people. This good legislation will also permit every State and local government to take action to help prevent Iran's development of nuclear weapons just as the Florida legislature did with its passage of the Protecting Florida's Investments Act in 2007.

Before asking our pension board in Florida to divest from Iran or from Sudan, which our legislation also required, we asked the very citizens whose dollars were at risk. We spoke to our public employees, our teachers, our firefighters, and our police. And when our citizens learned that their retirement dollars were helping to fund a genocidal regime in Sudan and an Iranian government whose leader has spoken openly of genocide should he acquire nuclear weapons, they were outraged. They demanded that we take action and offered significant support as we moved ahead.

But others were not as supportive. The pension fund managers fought back hard. They asked that we not bother with morals or national security or fighting to prevent genocide. The pension board cared little about the investment wishes of its investors.

That is where the legislature came in. Our citizens wanted us to act. How could the State of Florida—how can any State—make investments that could make its investors, their children, and our Nation less secure?

H.R. 1327 specifically gives State and local governments the authority to divest from companies engaged in significant business with Iran's energy sector and identified using credible information available to the public.

I suggest to the members of this committee that you look to the State of Florida to find such credible information. Florida State Board of Administration, the entity that invests on behalf of the

Florida retirement system, is responsible for complying with the terms of the Protecting Florida's Investments Act.

On a quarterly basis, the SBA assembles and publishes a list of companies that have prohibited business in Iran. Under our legislation, a company that invests $20 million or more in contributing Iran's ability to develop its petroleum resources will be put on the list, and the list is available on the internet at SBAFLA.com.

A fundamental question that I am continually asked is, "Are you doing this to make a statement or do you truly believe that you can impact Iran's pursuit of nuclear weapons?"

The State of Florida has divested more than $1.1 billion of investments thus far, and the retirement system of our public employees no longer owns one dime of direct holdings in companies enabling Iran to press ahead with its pursuit of nuclear weapons. That is an important statement.

But there is $3 trillion held in public pension funds. When State and local governments, on behalf of their citizens, declare that they intend to sell every share they own unless the companies withdraw from Iran and join the world's efforts to prevent a nuclear armed Iran, the companies will take notice. And when our actions are strengthened by the efforts of this Congress, divestment can and will have an impact.

Last June, when oil traded at over $140 a barrel, we were told this type of economic pressure would have no impact. Today, with oil under $50 a barrel, economic pressure is exactly what is needed to cut off the flow of funds to Iran.

Let me be clear. I believe that we have the economic power to stop Iran's quest for nuclear weapons. We have the economic power to eliminate the threat to the United States and our allies that a nuclear armed Iran would present. And whatever your political views, wherever you are on the political spectrum, right or left, Democrat or Republican, exercising this economic power is fundamentally in line with your beliefs.

Mr. Chairman, as elected officials, we often attempt to explain to our constituents that it is not always possible to move as quickly as we may like. Sometimes it takes time to move new policies forward. But we simply don't have time to waste.

This morning, there are executives sitting in corporate suites in the Netherlands, in the U.K., France, Russia, and China who are watching this debate. They know there is a divestment effort in this country, but they are waiting to see if the path is cleared for the effort to become a movement. If it is not, they will continue to do business as usual. But if this movement accelerates quickly and dramatically and major investors of public pension funds use the power of the purse, these executives and these companies will be forced to consider whether to proceed as they have in the past.

In closing, I return to where I started, with the public employees, teachers, nurses, firefighters, police, and professors. Give them the option to act with conviction. Respect their values, for they are our values. Our public money, their money, should not be used to aid Iran's quest for nuclear weapons.

This bill removes the hurdles that so many pension boards have constructed to prevent divestment. When it passes, it will be full

speed ahead in standing up for our citizens, their values, and our collective efforts to prevent a nuclear armed Iran.

Thank you, Mr. Chairman and members of the subcommittee, for giving me the opportunity to address you today, and on behalf of State and local government officials throughout America, thank you for this vitally important legislation.

[The prepared statement of State Senator Deutch can be found on page 37 of the appendix.]

Chairman MEEKS. We now will hear from Mr. Trita Parsi. He is the founder and president of the National Iranian-American Council and an expert on U.S.-Iranian relations, Iranian politics, and the balance of power in the Middle East.

He is the author of "Treacherous Alliance: The Secret Dealings of Iran, Israel, and the United States," a book that I have read and found to be very informative. In that book, he conducted more than 130 interviews with senior Israeli, Iranian, and American decision-makers. "Treacherous Alliance" is the silver medal winner of the 2008 Arthur Ross Book Award from the Council of Foreign Relations.

Mr. Parsi has followed Middle East politics through work in the field and extensive experience from Capitol Hill and the United Nations. He is frequently consulted by Western and Asian governments on foreign policy matters.

He received his Ph.D. from Johns Hopkins University School of Advanced International Studies. In addition to that, he holds a Masters degree in international relations from Uppsala University and a Masters degree in economics from the Stockholm School of Economics, and he has served as adjunct professor of international relations at Johns Hopkins University.

He is currently an adjunct scholar at the Middle East Institute.

Mr. Parsi, we welcome you.

STATEMENT OF DR. TRITA PARSI, PRESIDENT, NATIONAL IRANIAN-AMERICAN COUNCIL

Mr. PARSI. Thank you so much, Mr. Chairman, and let me join in congratulating you for your chairmanship.

Mr. Chairman and Congressman Paulsen, thank you so much for allowing me to come before you to discuss our policies towards Iran, particularly the efforts to change Iranian policy behavior through instruments of economic pressure such as divestment.

Before I proceed, let me just see if I can add this joint statement, expert statement, to the record. It is an effort by the American Foreign Policy Project with some of the foremost experts on U.S.-Iran relations, chaired by ambassador Thomas Pickering and ambassador James Dobbins, giving, I think, very, very healthy advice on how to proceed in dealing with the government in Iran.

As a representative of the largest grassroots organization representing Americans of Iranian descent, the National Iranian-American Council, I want to emphasize that no group of Americans have suffered more from the policies of the Iranian government than our community. Whether they were victims of persecution, arbitrary arrest or detention, imprisonment or killings of family members, the vast majority of Iranian Americans have made Amer-

ica their home precisely because they have differences with the Iranian government.

In recent years, we have actually seen what seems to be a specific targeting of Iranian Americans by the government of Iran. Just a few weeks ago, Roxana Saberi, an Iranian-American journalist with NPR and a former Miss America finalist, was arrested while working in Tehran. Other cases exist, and in all of them, the human rights of these Iranian-Americans were violated.

Yet, at the same time, no other group of Americans has visited Iran in the numbers that Iranian-Americans have, and with each visit, we bear witness to the effects of economic sanctions on the Iranian economy, on the Iranian people, and much less so, on the Iranian government. Though mostly anecdotal, their observations are instrumental into understanding why U.S. sanctions policies have failed to reach their objectives while further sanctions will likely make little difference in how the dynamics of Iranian society and Iran's political system can be better utilized to bring about the desired change in Iranian behavior.

My prepared remarks today will focus on how America's objectives with Iran can best be achieved, ensuring a peaceful Iran that contributes to region stability, that does not develop a nuclear bomb, and that ceases to support militant organizations.

There is no doubt that U.S. sanctions, including recent financial sanctions, have hurt the Iranian economy. Investments have diminished, risk assessments have increased, and major oil contracts have been canceled or put on hold.

However, with all the economic pain the sanctions have imposed on the Iranian economy, there has not been a single instance in which that pain has translated into a desirable change in Iranian policy. As a result, we stand here today in this hearing, more than 15 years after the first round of comprehensive U.S. sanctions were imposed, faced with a more powerful and a more problematic Iran than ever before.

What is worse, the sanctions and economic pressure have actually contributed to several unhelpful developments inside Iran. I will only mention a few of them here, and I will go into greater detail in the written testimony.

First, the Iranian people, who tend to have very positive views and admiration for America, for American values, and for the American people, have suffered the brunt of the economic pressures.

Second, the Iranian government's success in circumventing sanctions has made Iran less sensitive to new sanctions. There is a diminishing return on additional sanctions. In December 2004, President George Bush recognized this when he said, "We have sanctioned ourselves out of influence with Iran. Paradoxically, the large number of sanctions that we have had has reduced our leverage with Iran rather than increased it."

Finally, economic sanctions have undermined Iran's pro-democracy movement by weakening Iran's civil society and by hampering the emergence of a wealthy middle class, key components of any indigenous process of democratization. This will have severe implications if Iran continues to move towards a nuclear capability, which as we have seen in the last couple of years, it has.

But don't we need more leverage over Iran in any future negotiations and don't additional sanctions or instruments of economic pressure such as divestment provide that, many would ask. My answer to both of those questions would be no.

The reality is that Washington actually has significant leverage with Tehran if willingness exists to trade away existing sanctions for extensive changes in Iranian policies. Tehran is aware that its key objective of political and economic rehabilitation in the region, in which Iran would be included in the region's security architecture and granted a role commensurate with its political weight, cannot be achieved unless it mends fences with Washington.

As such, Washington is the gatekeeper for Iran's political future in the region—that is leverage—if, again, there is a willingness to provide Iran with a seat at the table in return for those desired changes in policies. So it is not the threat or imposition of new sanctions that is likely to achieve the desired changes in Iranian behavior that I think we all agree with, but rather the promise of lifting existing ones.

But this leverage can only be achieved and utilized in the context of a negotiation, and that is why President Obama has emphasized repeatedly his desire for diplomacy with Tehran.

And this is why I personally believe that the timing of the proposed legislation before us today may be of concern. Washington and Tehran are currently in a phrase in which they are finding themselves both expressing a desire for diplomacy, but mutual distrust is making it difficult for them to find their way to the negotiating table.

In this atmosphere of mistrust, neither side has much room for error. As difficult as the process of negotiations certainly will be, the process of reaching the negotiating table may actually be even more problematic and sensitive. The slightest misstep, whether a misguided comment or actions that are interpreted as hostile from either side, may prevent the two parties from reaching the negotiating table. I think the Obama Administration has recognized this and spent its first week seeking to create a more positive atmosphere, and the Administration should be commended for its efforts in this arena.

These efforts, however, can be undermined if Congress passes additional punitive economic measures before diplomacy has yet even been given a chance to proceed, to begin, and to succeed. Such a step would only reduce the prospects of diplomacy by further poisoning the atmosphere, which in turn lessens America's ability to tap into its reservoir of leverage with Iran in the first place.

After a decade-and-a-half of failed economic pressure and 3 decades of hostility, it is not sanctions or divestment that deserve another chance. It is diplomacy and the opportunity to use the leverage that existing sanctions provide in the context of a negotiation that should be given the space and time to succeed.

Thank you so much, Mr. Chairman.

[The prepared statement of Dr. Parsi can be found on page 83 of the appendix.]

Chairman MEEKS. Thank you.

Now we will hear from Mr. Jason Isaacson, who is and has been the director of the American Jewish Committee's Office of Govern-

ment and International Affairs in Washington, D.C., since July 1991.

Long involved in government, politics, and journalism at the local levels, Mr. Isaacson has studied, written, and worked as an advocate on U.S.-Israel relations, the search for Middle East peace, and a range of domestic and international issues.

In his current post, Mr. Isaacson is responsible for maintaining relations between the AJC and the White House, Congress, Federal agencies, foreign governments and their embassies in Washington, political parties, and other civic, religious, and human relations groups in Washington. He oversees AJC's international offices and the agency's efforts to secure the welfare and security of Jews around the world. He also serves as director of AJC's Pacific Rim Institute.

Before joining AJC, Mr. Isaacson was the Chief of Staff to Senator Christopher J. Dodd of Connecticut and was responsible for managing the legislative and political agendas of a Senator active in foreign policy, particular regarding the Middle East, Eastern Europe, and Latin America, and domestic affairs focusing on children's issues and securities market reform.

Welcome, Mr. Isaacson.

STATEMENT OF JASON F. ISAACSON, DIRECTOR OF GOVERNMENT AND INTERNATIONAL AFFAIRS, AMERICAN JEWISH COMMITTEE (AJC)

Mr. ISAACSON. Thank you very much, Mr. Chairman.

Mr. Chairman, members of the subcommittee, I am honored to testify on behalf of the American Jewish Committee in support of the Iran Sanctions Enabling Act. AJC is grateful to Chairman Frank and to you, Chairman Meeks, and to the other sponsors for developing early in the new Congress this well-crafted tool to address the grave threats posed by Iran's regime.

My testimony will highlight two key points. First, stopping Iran's nuclear program is a matter of the greatest urgency because Iran is close to achieving a nuclear capability that would alter the world as we know it in terrible ways. Second, this legislation, clarifying the authority of State and local governments and investment managers to divest from entities that invest heavily in Iran's energy sector, can significantly assist the overall effort to halt Iran's nuclear program.

Iran is on the doorstep of nuclear arms capability. It has already crossed a significant threshold, amassing enough enriched uranium to make, with further enrichment, its first nuclear bomb. It is well-positioned to rapidly enrich to bomb grade without IAEA inspectors realizing it until it is too late. We have breathtakingly little time.

Some observers see a nuclear Iran primarily as an existential peril to Israel, a country it repeatedly threatens and attacks by proxy. I do not want to minimize that very real danger, but I want to highlight that a nuclear Iran will pose an even broader threat throughout the Arab gulf, to the entire region, and indeed, to global peace and security.

I will give a few examples of what could lie ahead. A nuclear Iran could dominate the world's most abundant sources of energy, the gulf and the Caspian basin. Challenged, Iran could attempt to

close the Strait of Hormuz, or it might seek to realize its expansionist vision by taking territory from one or more gulf States.

Over the last 15 years, AJC has paid periodic visits to the gulf, conferring with U.S. allies in the struggle against terrorism and extremism and the quest for Middle East peace. We regularly hear on these visits the concerns of gulf leaders about Iran's assertion of regional power and its attempts to radicalize their societies.

It isn't only Israel that is threatened. The Palestinian Authority, Egypt, Jordan, and others are menaced by Iran's presence in the Palestinian territories and Lebanon through its support of Hezbollah and Hamas. From North Africa to the Levant to the gulf, pragmatic governments and civil society leaders recognize the danger of a further empowered Iran. Many look to the United States for assurance that this nightmare can be averted. Unless we act boldly, these governments may feel compelled to accommodate Iran, potentially destabilizing nuclear programs of their own, or both.

The shadow cast by a nuclear capable Iran, which my colleague Emanuele Ottolenghi outlines in his just-published book, "Under a Mushroom Cloud: Europe, Irna and the Bomb"—and there are copies on the table by our side—clearly pales in comparison with the dangers of Iran actually launching a nuclear weapon or transferring a nuclear device to a terrorist proxy.

A dirty bomb in the center of Chicago, London, or Tel Aviv is horrifyingly in the realm of possibility. If Iran's leaders wish to make good on their oft-repeated promise to wipe Israel off the map, we could not rely on deterrence to dissuade them, not in a country whose rulers have demonstrated their willingness to sacrifice millions of their citizens to achieve their vision.

What can be done to stop Iran's nuclear drive? First, our government should make it abundantly clear that we will not allow a nuclear Iran and that the U.N. Security Council demand that Iran verifiably suspend enrichment is not negotiable. Second, we should offer Iran incentives, as E.U. and U.S. negotiators have previously tabled, for ending its nuclear enrichment and meetings its non-proliferation obligations. Third, we should make it unbearably costly for Iran's regime to continue its defiance, even as we make it clear to Iran's people, against whom we hold no grief, that the choice lies with their regime.

If our Administration pursues engagement with Iran, simultaneously intensifying sanctions is critical. Only tough sanctions with firm goal posts and deadlines would prevent Iran's rulers from seeing our overtures as a sign of weakness, motivate them to be forthcoming, and remove the cover of drawn out negotiations while they complete their quest for nuclear arms.

Additional U.S. sanctions also are important to discourage large new investments and contracts that help sustain Iran's regime. This is where the Iran Sanctions Enabling Act will make a significant contribution.

Iran's strained economy is the regime's Achilles heal, as Congressman Sherman noted previously, and provides our most effective leverage, especially now, with oil prices sharply depressed. Billions of dollars of U.S. public employee pension funds and other public funds are invested in the foreign corporations that most

heavily engage in Iran's oil sector. A movement of concerned citizens seeks to curb investment of public funds in these companies.

Divestment mandates already on the books in 10 States and multiple localities affect more than half-a-trillion dollars in assets, a sum that is growing as grassroots concern spreads. H.R. 1327 will endorse and accelerate that trend, adding to the economic pressure on the regime.

The American Jewish Committee strongly supports this legislation and wishes to express our appreciation for the opportunity to testify before the subcommittee on this critical matter. I would also be remiss if I did not thank my AJC colleague Deborah Fuller for her exceptional work on this issue.

And thank you, Mr. Chairman. I would ask that my full testimony be entered in the committee record.

[The prepared statement of Mr. Isaacson can be found on page 65 of the appendix.]

Chairman MEEKS. And in fact, the full testimony of both Senator Deutch and Mr. Parsi also will be, without objection, part of the record.

Last but far from least, we have with us Mr. Orde Felix Kittrie, who is a professor of law at Arizona State University and a visiting scholar at the Johns Hopkins University School of Advanced International Studies.

Mr. Kittrie also serves as chair of the non-proliferation arms control and disarmament committee of the American branch of the International Law Association and chair of the non-proliferation and arms control and disarmament committee of the American Society of International Law.

Professor Kittrie is a leading expert on legal issues relating to nuclear non-proliferation. In April of 2008, Professor Kittrie was appointed to a National Academies of Science committee created by Congress to issue a report in time for the next Administration assessing and making recommendations to improve current U.S. Government programs to prevent the proliferation of nuclear, chemical, and biological weapons. Also in 2008, Professor Kittrie testified before a United States Finance Committee hearing on S. 970, the Iran Counter-Proliferation Act.

Prior to 2004, Professor Kittrie worked for 11 years at the U.S. Department of State, and for 3 years he served as an attorney specializing in trade controls, in which capacity he was the principal drafter of U.N. Security Council resolutions, U.S. Executive orders, and U.S. regulations imposing or implementing embargoes on terrorism and supporting other outlaw regimes.

Professor Kittrie is a proud Mexican American and is active in the Latino community, and a speaker about crime and immigration issues.

He earned his undergraduate degree from Yale University and his J.D. from the University of Michigan.

Welcome, professor.

STATEMENT OF ORDE F. KITTRIE, ESQ., PROFESSOR OF LAW, SANDRA DAY O'CONNOR COLLEGE OF LAW, ARIZONA STATE UNIVERSITY

Mr. KITTRIE. Thank you, Chairman Meeks, and distinguished members of the committee and the subcommittee. I appreciate the opportunity to speak with you today.

If President Obama is to persuade Iran to negotiate away its illegal nuclear program, he will first need more leverage than what the Bush Administration has left him. The Iranian regime continues to insist there are no incentives—no incentives—in exchange for which it would halt or even meaningfully limit its nuclear program. So incentives are going to be a necessary part of any deal with Iran, but are apparently not sufficient to convince Iran to halt its nuclear program.

The IAEA, followed by Joint Chief Chairman Mullen, recently announced that Iran has sufficient nuclear fuel to enrich into a bomb, and Iran last month launched a satellite into orbit. We are at 5 minutes to midnight when it comes to stopping Iran from acquiring the capacity to launch a nuclear-armed missile. The time is now to change Iran's cost-benefit analysis.

During the campaign, then-Senator Obama stated that, "Tough-minded diplomacy would include real leverage through stronger sanctions on Iran." With H.R. 1327, you can take a first step towards assisting President Obama's diplomacy by increasing U.S. leverage over Iran. Congresswoman Waters described the powerful success of sanctions against apartheid.

The international community has learned in recent years that strong sanctions can also stop illicit nuclear weapons programs. For example, strong sanctions induced Libya's government to both forsake terrorism and completely and verifiably relinquish its nuclear, chemical, and biological weapons programs. As a result, Libya allowed a team of British and American government experts to enter Libya and completely dismantle Libya's WMD infrastructure by April 2004. That is what I hope happens with Iran.

However, the sanctions imposed on Iran by the international community thus far are much weaker than the sanctions which stopped the Libyan nuclear weapons program. It is no surprise that sanctions have yet to have an impact on the Iranian regime and its nuclear program.

In fact, the Iran sanctions are thus far weaker than the sanctions imposed by the Security Council on South Africa in response to apartheid, weaker than those imposed on Liberia and Cote D'Ivoire during their civil wars, and Sierra Leone in response to its military coup, on the Federal Republic of Yugoslavia during the Bosnian crisis, and the Haitian response to its 1991 military coup.

Others will tell you that sanctions on Iran have proven ineffective. In my opinion, strong sanctions on Iran have yet to be tried. That is unfortunate, because Iran's heavy dependence on foreign trade leaves it potentially highly vulnerable to strong economic sanctions.

Why are the Security Council sanctions on Iran so weak thus far? In considerable part because Russia and China have used their vetoes over Security Council sanctions to protect their lucrative trade with Iran.

Europe has played a more constructive role but could do much better. Europe supplies one-third of Iran's imports, including a high proportion of Iran's sophisticated machinery needs and 40 percent of Iran's total gasoline. If Europe were to follow the U.S. lead and impose a nearly comprehensive embargo on Iran, it might quickly succeed in coercing Iran to cease its nuclear weapons program.

The E.U. exported about $15 billion worth of goods to Iran in 2007. Although vital for Iran, this was less than 1 percent of the E.U.'s total worldwide trade. However, despite this relatively cheap price, there is currently no sign that the E.U. plans to impose such vigorous additional sanctions against Iran, and there is, unfortunately, even less hope of the Security Council doing so thanks to Russian and Chinese opposition.

Well what can Congress do? Congress can increase U.S. leverage over Iran by putting these foreign countries and companies that keep the Iranian economy afloat to a business choice, a choice between doing business with Iran and doing business in the United States.

The U.S. Treasury has successfully put foreign banks to such a choice, convincing more than 80 banks, including most of the world's top financial institutions, to cease all or some of their business with Iran. The result has been increased pressure on the Iranian regime.

For example, in November 2008, a group of 60 Iranian economists called for the regime to drastically change course. These 60 Iranian economists said in an open letter that President Ahmadinejad's tension-creating foreign policy has "scared off foreign investment and inflicted heavy damage on the economy." The economists said the current sanctions, as weak as they are, have cost Iran billions of dollars.

Additional sanctions imposed by you here in Congress could contribute to reaching a tipping point in which economic pressures and protests convince the Iranian regime its illicit nuclear program poses too great a risk to its grip over the Iranian people. Then-Senator Obama made similar points in 2007 when he introduced a bill nearly identical to H.R. 1327.

I, Orde Kittrie, have testified in favor of Iran pension divestment bills before the State legislatures of Maryland, Virginia, and Ohio, as well as before the D.C. City Council, and have advised several other State legislatures that were considering such bills.

I have heard State legislators express concerns about the very preemption and fiduciary obligation issues so effectively addressed by your bill. I am convinced that if it is enacted into law, more States will chose to divest their pensions from companies involved with Iran's energy sector—14 States have thus far enacted such divestment laws or policies. With H.R. 1327, I hope we can get much closer to 50 States.

As Congressman Sherman suggests, and as my written statement indicates, I urge that H.R. 1327 be amended to include as potential targets for divestment the handful of companies that supply refined petroleum to Iran. Iran's heavy dependence on imported gasoline is a potential Achilles heel. Targeting those few foreign companies that supply refined petroleum to Iran could help convince them to stop.

In conclusion, in light of Iran's rapidly advancing nuclear program, a failure by the United States to quickly and dramatically improve its peaceful leverage over Iran will inevitably leave us with a terrible choice: allowing Iran to obtain a nuclear arsenal or taking military action to stop Iran's nuclear weapons program. H.R. 1327 can contribute to increasing leverage over Iran and thus improve the prospects for successful diplomacy with Iran.

The 110th Congress passed no Iran sanctions legislation. I urge this Congress to do better by quickly passing both this bill and others that will increase U.S. leverage over Iran in additional important ways.

Thank you.

[The prepared statement of Professor Kittrie can be found on page 70 of the appendix.]

Chairman MEEKS. Thank you.

And just prior to taking the testimony, I know Mr. Ellison was here, and I'm going to give him first the opportunity for an opening statement if he would like.

Mr. ELLISON. Mr. Chairman, thank you for your opportunity to allow me to make an opening statement.

In some ways, the statement I was going to make has already been answered because today, Mr. Chairman, my point is not to make a lot of statements about what my beliefs are, but actually to learn from the witnesses. I think that one of the real questions as we proceed with this legislation is whether or not it is effective, does it really work, what are the metrics we would apply to determine whether it works, how do we know if this effort is working?

As has been pointed out already, we have been trying punitive economic sanctions for quite a while now. One of our witnesses has pointed out that he believes they haven't been tough enough, but at the same time, we have had almost no direct diplomacy over the past 30 years, and it seems to me that if you just compare the passage of time that we might try some real diplomacy. And because of the position that the Obama Administration seems to be pointing us toward, we may well have an opportunity at that.

My next question is timing. Is this the right time? It is not as if there are no economic sanctions against Iran. Do we need more, and at this time, will this signal be one that might thwart or undermine what progress we could make with direct negotiations without preconditions?

Let me say that there is no question that given the human rights issues that take place in Iran, which I am extremely concerned about, which many of my constituents have brought to my attention, given Iran's support for militant organizations which has contributed to instability in the region, and given the extreme danger of introducing a nuclear weapon into the Middle East—or at least more because we know there already are some countries that have them—that this is dangerous to the region and the world.

But the question is not how much can we demonstrate our anger towards Iran for doing these things, human rights issues, the nuclear weapons issue, supporting militant organizations—not how well can we demonstrate our anger toward them, but how effectively we can change their behavior, and I think that needs to be how we operate and what we focus our attention on.

We are clearly angry with Iran and have been ever since the incident with American victims of kidnap who were taken in 1979, and that issue has remained an issue for the United States ever since. But are we willing to let go of some of that in order to have a wise, smart, and effective policy?

So those are the questions that I hope get answered for me today.

Thank you, Mr. Chairman.

Chairman MEEKS. Thank you, and we will start the questions.

I guess I will start by asking Senator Deutch first, because this bill specifically deals with divestment from State and local municipalities. And some question has been raised by observers that there may be difficulty in tracking company business in Iran, and some have argued that there may be tax penalties to State governments.

I was wondering if you could just answer giving us the experience of Florida about tracking who is doing business in Iran and how to get them to divest as well as what, if any, penalties the State of Florida has felt as the result of divestment.

Mr. DEUTCH. Sure. Thank you, Mr. Chairman.

One of the greatest objections to our divestment legislation is that it would be extremely difficult if not impossible to determine what companies should be on the list, it would be extremely costly to sell the shares in those companies, and most importantly, that there would be violation of the obligation of fiduciary duty that the fund managers have.

In terms of identifying the companies, our pension board, the SBA, despite their opposition to the bill, have carried out their obligation since the bill passed better than we ever could have hoped. There is a quarterly reporting requirement that the SBA uses. They conduct research using outside research groups first. There are several independent research groups that they employ to do the screening of the companies, to investigate which companies should be on the scrutinized companies list.

And then when they come back, when those recommendations are made, they then with their own internal investigators analyze the SEC reports, industry analysis, government agencies, including the SEC's Office of Global Security Risk, the Office of Foreign Asset Control at Treasury, and the Congressional Research Service.

There is extensive research that goes into determining which companies should be on the list. So they have figured out how to do it. That information is available to the public, which I think will help other States as we go forward.

And then just briefly in terms of cost, Mr. Chairman, what we have learned is that there are transactions on a daily basis, stocks, equities that are bought and sold every day, there is a budget to do that. There has been no dramatic impact on the cost of those transactions by fulfilling the mandate of the divestment legislation that we passed.

Chairman MEEKS. Professor Kittrie, let me ask you a question. In my opening statement, I said that I clearly believe that there have to be sticks, and I also believe there have to be carrots. I would like to get your viewpoint on—even though it is not the specific subject matter of this hearing, but given the fact that we need these sticks, what carrots do you think can also be offered?

Mr. KITTRIE. Sure. That is a very good question.

With respect to carrots, my sense is that there are a number of carrots already on the table. These were the offers made by the European Union with American concurrence to the Iranians. These carrots included increased trade, included assisting the Iranians with light water reactors. I think we also need to provide the Iranians security assurances as part of a kind of a grand bargain with them in which they would halt their nuclear program and also their support for terrorism.

But as I mentioned, I don't get the sense that the carrots currently on the table, or in fact any carrots, are sufficient to get the Iranians to halt their nuclear program and their support for terrorism. Thus, we need increased leverage.

And indeed, Senator Obama, in his statements last year supporting a very similar bill, seemed to talk in those terms. He said, "I have called for direct engagement with Iran over its efforts to acquire nuclear weapons, but direct dialogue should be part of a comprehensive diplomatic strategy to head off this unacceptable threat. So should the legislation Senator Brownback and I are introducing today," he said.

Senator Obama also said, "Sustained and aggressive diplomacy combined with tough sanctions should be our primary means to deal with Iran. It is incumbent upon us to find and implement ways to pressure Iran short of war, ways that demonstrate our deep concern about Iran's behavior, ways that will help us to exert leadership on this issue. This bill is one of those ways." And I have seen nothing—

I thought Senator Obama was right when he said that a couple of years ago, and I have seen nothing in the ensuing 2 years to change my sense that what is necessary is both diplomacy talks and increased leverage.

Thank you.

Chairman MEEKS. My time has expired on this, and on this I am going to try to be closer to the time so that we can go around more if we can and members can ask and engage in more questions, so I now yield to Mr. Paulsen.

Mr. PAULSEN. Thank you, Mr. Chairman.

Beyond the two options of stalled diplomacy, and military action such as a blockage, there is a consensus growing around a third option now to tighten sanctions. However, the Iranian regime is likely to absorb such sanctions if the United States does not simultaneously reach out to the Iranian people themselves.

Professor Kittrie and Mr. Isaacson in particular, what impediments exist right now to the U.S. Government reaching out to the Iranian opposition groups such as the National Council of Resistance of Iran and the MEK? First, if you could comment on that?

Mr. KITTRIE. In terms of opposition groups in Iran, I am not an expert by any means in Iranian opposition groups.

I know that some such as the MEK have been tied to acts of terrorism. It seems to me we need to be very careful in reaching out to Iranian opposition groups, to reach out to groups that are constructive players and can be constructive players.

The Iranian people, we know from polls, that the Iranian people don't support the current regime in Iran. They wish for something

more moderate. We ought to be reaching out as best we can to opposition figures that are more moderate, as opposed to the MEK who may be in some ways just as radical.

Mr. PAULSEN. And Mr. Isaacson, maybe before you comment, I understand the United Kingdom and the E.U. have both removed these organizations from their terrorist lists. Why does the United States continue to list them? Is the situation where Europe is going down the road of not having tough sanctions and they are kind of being more lenient with these groups as well? Maybe you can comment.

Mr. ISAACSON. Like Professor Kittrie, I have some recollection of past reports on these groups, the MEK in particular.

I believe that we have to find ways, certainly, to reach out to the Iranian people. There are particular opposition groups that I think the United States has been able to engage in the past and should continue to engage, but I would be very careful as we move forward in looking at the records, at the principles of some of the groups that we do engage.

But it is essential that people-to-people exchanges be encouraged in ways that can advance the policy that you have been advocating, Congressman. We have to find ways to demonstrate that it is not the Iranian people that we have a grudge against, it is the actions of the Iranian regime which threaten the region and threaten the world.

Mr. PAULSEN. The President has stated that the U.S. policy toward Iran will be based on tough, principled diplomacy, including engagement, and the Administration is currently in the midst of a policy review, and then it is going to decide how and when to engage. But the President has already stated that U.S. policy will be clear that Iran should not be allowed to acquire a nuclear weapon or have that capability.

Again, Professor Kittrie and Mr. Isaacson, if you could design the Administration's policy of engagement, how would you do it, keeping in mind the ultimate goal to deny Iran the capability of getting these weapons, and in a short period of time, obviously. You mentioned that we are at 5 minutes to midnight.

Mr. ISAACSON. If I can continue, Congressman.

As was said by an earlier witness, there are some common interests that the United States and Iran clearly have that have to do with some regional security questions. There is an opportunity for certain kinds of engagement, but it has to be extremely clear-eyed, and it has to have certain deadlines and certain goalposts.

As I said in my testimony, for several years the European Union had these endless discussions with the Iranian regime. The stockpile of carrots was very high, the stockpile of sticks was very small, and the result of this was endless frustrating discussions that led nowhere. I'm very concerned that if we engage without making sure that we are maintaining tough sanctions, that we are keeping the Iranians focused on the downside of continuing on the path that we are on, we are going to go nowhere.

And also, we don't have time to kill. This is a matter of weeks or months, it is not a matter of years. The Europeans earnestly tried to resolve this problem of the Iranian nuclear program, they tried for years, and they have gotten nowhere, regrettably. The

United States was a side party to that; it wasn't directly involved in those negotiations.

But as we pursue the negotiating option, the diplomatic option—which does have merit, it does have potential—we have to be very careful that we not take our foot off the sanctions pedal as well.

Mr. PAULSEN. And Professor Kittrie, how do we prevent the Iranians from simply dragging out negotiations if we have weeks and months?

Mr. KITTRIE. I think we have to learn very carefully the lessons of the European engagement with Iran. If you look at the record of that engagement, it went on for years and the Iranians mostly continued to move their nuclear program forward during that time. There are some quotes from Iranian leaders afterwards, including some quotes that I have in a scholarly article I wrote about this issue, in which the Iranian negotiators crowed, bragged about the fact that they moved their nuclear program forward while talk, talk, talking with the Europeans.

We don't want that to happen to us, especially because at the current pace, 90 days of negotiations may be enough for the Iranians to enrich close to another full bomb's worth of low-enriched uranium.

So it seems to me we need to set very clear deadlines and we need to put on the table carrots, including, I think, very generous carrots. As I mentioned, even more generous carrots than those that were put on the table by the Europeans, carrots that only the United States can bring to the table, including security assurances and the like.

But at the same time, we have to make very, very clear what is coming down the pike in terms of sanctions, tough sanctions, and we need to get as best we can. And I think the Obama Administration seems to be doing a good job of this.

We need to get the Russians and hopefully the Chinese on board, because the only way to get U.N. Security Council sanctions is to get them on board. So in some sense, we may need a grand bargain with the Russians before we can effectively get the Iranians to agree to a grand bargain.

Chairman MEEKS. Ms. Waters.

Ms. WATERS. Thank you very much, Mr. Chairman.

Let me just first say to Mr. Parsi that I am extremely sympathetic to the Iranian people on the ground, the innocent civilians and citizens who are at the mercy of the leadership of the Iranians in charge and the U.S. Government.

We had to confront that very issue when we imposed sanctions against the apartheid regime in South Africa, and it was very hard to do that because the military and the police structure, regime, they put pressure on so many ways. People lost their lives, on and on and on. But we persisted and of course, you know the end of that story. We were able to bring down the unconscionable apartheid in South Africa. So I am not dismissing that at all.

But let me get a little bit of discussion from you about your statement, "It is not the threat of imposition of new sanctions that is likely to achieve the desired changes in Iranian behavior but the promise of lifting existing ones." Without trying to envision a total negotiation, give me some example of what you mean.

How would that kind of discussion go? What existing sanctions could be lifted that would cause the Iranian government to take some significant action against its continued development of nuclear capability? Give me some idea of what you are thinking.

Mr. PARSI. Thank you so much, Congresswoman, and I very much appreciate your comments about the effects of the sanctions on the Iranian people.

The case of South Africa is obviously a very interesting one. Let me just quickly address that. You had a situation, as you correctly pointed out, the opposition inside the country favored the sanctions. They wanted the sanctions to be imposed because of the apartheid regime.

You have an opposite situation in the country right now. Polls have consistently shown that the Iranian people are opposed to the sanctions because they feel that they are being directly affected by them. Obviously South Africa did not have any oil and there was a consensus in the international community about targeting South Africa with sanctions, and that was very important in making sure that was a successful case of sanctioning a regime. Unfortunately, those factors do not really exist in the Iranian case.

One more added factor there: In order for a threat or a promise to be effective, the other side has to feel confident that if they cease to do an activity that is objectionable from our end, then we would cease to do the punishment. I think after about 15 or 20 years now of different sanctions in which various efforts of outreach has taken place by sides, there is unfortunately very little confidence that any change in Iranian behavior actually would lead to change in the sanctions.

This has been cemented by some of the outreach that occurred during the Bush Administration. For instance, the 2003 proposal that goes directly to your question in which the Iranians put on the table a negotiation offer that included a wide variety of different issues. What they asked for in return, I think, was very interesting. It was a lifting of existing sanctions. I think there are a lot of things that can be achieved precisely because of the way that existing sanctions have hurt the Iranian economy.

If there is a negotiation in which we are willing to say, "We want to see a cease for the support for a militant organization. We want to see a completely different Iranian behavior in Iraq and in Afghanistan, a constructive behavior. And in return, what we are offering, instead of what we are threatening, is the lifting of existing sanctions," precisely because of the different weight that existing sanctions have versus the imposition of new sanctions while we at this point have essentially no trade with that country.

Ms. WATERS. I would like to, if I may, Mr. Chairman, ask Mr. Isaacson, do you think that is a way to proceed, that there is a possibility that the lifting of sanctions could result in the kind of positive behavior that we are looking for from Iran to cease and desist any number of things, whether it is involvement in Iraq or whether it is continuing on the path toward development of nuclear capability? Do you think that this kind of lifting of sanctions could extract those kinds of actions from the Iranian government?

Mr. ISAACSON. Congresswoman, not without something in return. I think as the end goal of a negotiation, the lifting of U.S. sanctions

should the Iranians comply with their international obligations, that would obviously be something that we would be in a position to offer, and it would be, I think, worth a great deal to the Iranians.

I would also like to just respectfully disagree with a comment that Mr. Parsi said, if I may do that, Congresswoman, on this very issue. I think that what we can do with the kind of legislation that is before you today is to expand the scope of the pressure that has been put on the Iranian regime.

It is not just a unilateral effort by the United States. By imposing this economic pressure from foreign companies that are doing business with Iran, I think what you have the chance of doing is giving greater leverage to what the United States is already trying to do. People have said unilateral sanctions don't work, that the history of sanctions over the years has not had the desired effect.

I think before we take all of those sticks off of our table, let us try something different, let us try something more comprehensive. Let's make sure that the rest of the international community, the rest of the business community is brought into this game as well.

I really do not believe, I don't believe anyone does, that the Iranians are going to just give up their quest for nuclear weapons without extreme pressure. I think that the kind of legislation you have before you will add to the pressure that is already existing.

And then if the Iranians demonstrate that they are willing to take the steps that are necessary, not just in the nuclear program, but on support for terrorism, on human rights issues, other concerns of yours and of the international community, then certainly those sanctions will be backed off. That is obviously going to be part of the bargain.

Ms. WATERS. Thank you.

Chairman MEEKS. We have been joined by a freshman member, a new member of the committee, Mr. Steve Driehaus from Ohio.

Mr. DRIEHAUS. Thank you very much, Mr. Chairman, and thank you for calling this hearing.

I support H.R. 1327, and Dr. Kittrie, I was a member of the Ohio legislature when you came to testify, and I supported that legislation at the time.

As has been mentioned, I think the South Africa example is a prescient example. I was a student at Miami University at the time and helped form a group that tried to get Miami University to divest its interests in South Africa. And it was through those hundreds of efforts such as that across the country that I think we brought enormous pressure upon the government of South Africa to bring an end to the apartheid regime that was so onerous to the people.

But Mr. Parsi, I do respect the concerns that you raise concerning the people of Iran, and I think it is a point that we have to take very, very seriously. But you mentioned in your testimony a couple of things. First, that you believe that lifting some of the sanctions would be beneficial. I would simply suggest to you that carrot doesn't exist unless you impose the sanctions in the first place, and so without the stick already in place, it is impossible to get to the carrot.

But you also made another point which I think is very interesting. When you were talking about South Africa, you mentioned the consensus that the international community had when it came to sanctions against the apartheid regime.

Dr. Kittrie, you talked quite a bit about our European partners. And while I don't hold much hope that China and Russia will be joining us anytime soon in calling for sanctions against Iran, I do believe there is greater hope amongst our European allies. And when we talk about a third of Iranian imports coming from our European allies, it seems to me that there is a possibility that we could reach the type of consensus, Mr. Parsi, that you spoke of.

So I guess what I am asking, Dr. Kittrie, is can you give me specific steps that you might suggest in terms of working with our European partners to achieve this type of international consensus? Because my fear is that despite the multitude of efforts that might exist in the United States, it is not enough because it is not enough of the pie that we are affecting when it comes to Iran.

Mr. KITTRIE. Your question, Congressman, is a very good one, and it seems to me that we have a track record of success from which we can learn lessons with respect to the Europeans, and that track record of success is under Secretary Stuart Levy's efforts at the Treasury Department. And I think it is a very important signal that, as I understand it, the Obama folks have carried him over, taken the relatively rare step of taking what was a Bush political appointee, and now he is going to be Obama's Undersecretary for Terrorist Finance.

What he has done is he has gone directly to the companies and he has managed to convince 80 banks, including many of the largest banks in Europe, to stop doing business with Iran. And what he has discovered is that sometimes it is easier to put the companies to a business choice and then get the governments to come around than it is to go to the governments alone.

So one of the nice things about H.R. 1327 is that it puts these companies to a business choice. It says to them "You companies, if you continue to invest in Iran's energy sector and do some of these other things, you will lose investors from these various States."

So I think in some senses, we are with this legislation taking the lessons learned from Undersecretary Levy's very successful efforts, which depend in part on special leverage the Treasury has, and we are giving to the States the same kind of leverage so they can replicate that approach of going directly to the companies.

Mr. DRIEHAUS. Could you further extend that example, Dr. Kittrie, by suggesting not that we only work through Treasury and the banks, but also through U.S. contracts? We spend an awful lot of money with foreign contractors, we have an awful lot of friends in Europe that use U.S. tax dollars when it comes to a multitude of contracts. Could you not extend that same logic to U.S. contracts and allow our partners to engage in that business decision, if they want to accept U.S. tax dollars, then they have to go down this road?

Mr. KITTRIE. Your suggestion is an excellent one. In fact, I will give you a very specific example of how it is playing out currently.

As I mentioned, Iran imports 40 percent of its gasoline—it doesn't have sufficient refinery capacity, so it imports 40 percent of

its gasoline. The leading supplier of gasoline to Iran is a Swiss company called Vitol.

On January 16th, the last 4 days of the Bush Administration, the Department of Energy entered into a contract to buy tens of millions of dollars of gasoline from Vitol. The Bush Administration could have put Vitol to a choice: "We will buy from you if you stop selling to Iran," but the Bush Administration didn't do that.

About 10 days ago, several of your colleagues, Congressman Berman, Congressman Sherman, and various others, about eight of them, got together and wrote a letter to the Department of Energy saying, "Look, can you put a hold on this contract? Can you put Vitol to a choice between selling to the Department of Energy and selling to Iran?" And this was a particularly powerful message with respect to Vitol because Vitol in fact in November 2007 was convicted of grand larceny in New York State court in connection with the oil for food program in the Iraq sanctions, so there is an argument that Vitol should have been debarred anyway.

But that is exactly the sort of choice that Congress and the Obama Administration could be putting these companies to, and potentially having a very large impact.

Mr. DRIEHAUS. Thank you, Mr. Chairman.

Chairman MEEKS. Mr. Ellison.

Mr. ELLISON. Let me thank all of the panelists. It has been a very illuminating panel today.

Mr. Isaacson, I just have a question for you first. I'm curious to know what metrics do you propose we might apply to determine the effectiveness of the divestment measures here? How do we know they are working and how can we sort of assess our progress?

Mr. ISAACSON. Well, of course, we will be on kind of an accelerated timetable, I'm afraid, because we don't have a whole lot of time. I think we will all know when the negotiators that the Obama Administration is planning to use to engage Iran find results in these discussions.

Mr. ELLISON. Thank you.

I understand Dennis Ross has been appointed to the Iran desk. Have you checked in with him about—I mean recently—I know that he has made statements over time, but right now, what is his assessment of this bill in this moment now that he has gotten this new assignment. Have you had an opportunity to talk—

Mr. ISAACSON. I'm afraid I can't tell you that, Congressman. I simply haven't spoken with him about this in this time period.

Mr. ELLISON. That is fair. And I agree, I just was wondering whether we did that.

Let me ask you this question, Dr. Parsi. Do you have any idea as to what metrics we might apply to determine whether this divestment action and maybe even our previous sanctions are working, are having the desired effect? Because I know there is a lot of criticism of that National Intelligence Estimate that was in December of 2007, I think.

But one of the things that it said that I think needs some attention is that the Iranian government is not immune from manipulation, from changing its position. Can you dismiss sanctions as part of what that assessment might have been referring to, or what are your views about this?

Mr. PARSI. I think sanctions, obviously, in any comprehensive approach play a significant role. The question is, do you put it at the center, as we have for the last 15 years, particularly during the last 8 years, or is it one of the instruments that are being used? I think we have a lot of focus on sanctions.

In regards to the question of metrics, we have heard a lot of people saying it has been a success. Well, the ultimate metric is to see, has Iran's nuclear program stopped from advancing? Let's just remind ourselves, in 2003 when it first was revealed—or the end of 2002—the Iranians operated probably less than centrifuges. After several years of intensified sanctions, more economic pressure, they are now above 4,000. Let's use that as one of the metrics of seeing how it has not gone forward.

And I wanted to say, if I could, part of the reason why the Bush Administration, in my view, was not very successful in dealing with Iran was because we had an approach in which we were not building consensus with our allies, we were pressuring our allies. If we are sanctioning and targeting companies of our allies, that is not an effort to build consensus, that is an effort to further pressure them, and we have seen the results of that in the last 8 years.

Mr. ELLISON. Dr. Parsi, you have been to Iran, you were born there, and you are an American citizen and all, but you have a lot of familiarity with Iran. And this is a difficult question to ask you, and I allow that, but could you tell us anything about the collective psychology of the Iranian regime which might make it less subjective to what it views as coercive force?

I mean could you speak to that issue? How do they view this? Do they view this as, "Oh, they are getting on us now so we better do it," or do they say, "No, we are going to resist because"—I mean how do you view their reaction to something like this?

Mr. PARSI. First, let me say I'm not—I'm on my way of becoming a citizen, and secondly, understanding the Iranian government is a very, very tricky thing.

They have a policy that they call assimilated rationality. They want the outside world not to be able to figure them out. In fact, they want them to think that they are irrational. They think it buys them security. I think it is a disastrous policy for them to pursue.

But there are a couple of things I think we can say. For instance, after the offer of changing the policy as it was made in 2003 and the Bush Administration did not even respond, what happened was that the elements within the government who were arguing that the United States actually is not interested in changing Iranian behavior, they are just interesting in defeating and weakening Iran, they are the ones who were strengthened because it was an offer to change the behavior and it wasn't even responded to.

And I think we see a mirror image. They are having a similar debate right now, how do they put more pressure on the United States?

Mr. ELLISON. I just want to make a final comment.

This debate I have been following and I have tried to pay attention to it, and I get a certain sense of concern when I hear experts and leaders in our country say they are immune from any incentives, and then of course we hear their people in their government

who say, "We are immune from anything." It seems like we are setting up a situation where maybe we won't get to even talk about talking.

Mr. DEUTCH. Mr. Chairman, if it is appropriate, I would like to respond to the question as well.

Mr. ELLISON. Only if I get to respond too, Mr. Chairman,

Chairman MEEKS. I just want to make sure we are out of here by 12:00.

Mr. DEUTCH. Thank you, Congressman. I wanted to respond to the question of how do we tell whether this is a success, and I would first of all refer you to the news just yesterday that executives of Vitol announced that they were going to—that they have chosen not to move forward with a proposed contract for oil fields in Iran. That is success. They cited the sanctions movement in the United States in making that decision. That is the kind of success that we are capable of achieving here with respect to these companies.

But one broader point, and that is I don't believe we can measure success only by looking at the results in Iran. This is not the government's money we are speaking of. This is the money of our citizens that is being invested.

It would be a success, I would respectfully suggest, if our citizens had the ability to make the determination for themselves through their elected officials at every local and State government to make the decision that they don't want their money invested in companies that are making it easier for Iran to develop nuclear weapons. If they have that voice, if we give them that voice, which this legislation will do, that I would suggest would be a great success.

Mr. KITTRIE. Thanks. I just wanted to say in terms of metrics for success, which is a very good question, that the U.N. Security Council has provided us with metrics for success. The U.N. Security Council in three Security Council resolutions, including Resolution 1737 of December 2006, has issued an order to Iran binding international law that Iran shall without further delay suspend various proliferation, sensitive nuclear activities, including all enrichment related and reprocessing activities and work on all heavy water projects.

Rather than comply with this legally binding Security Council mandate, Iran has openly and admittedly accelerated its enrichment activities as reported by the International Atomic Energy Agency. If Iran wants the sanctions to come off, all it needs to do is comply with international law, comply with the U.N. Security Council resolution ordering it to stop enrichment reprocessing and heavy water work and comply with U.N. Security Council Resolution 1373 which bans support for terrorism.

If Iran wants the sanctions to stop, that is all it needs to do. The recipe is clear and the metrics are clear.

Thank you.

Mr. ELLISON. Well, I just want to say that I appreciate everything the panel said.

I understand that the three of your gentleman probably see this issue similarly, but I do hope that you spend time after the hearing talking with Dr. Parsi because I think there is a lot to be learned from everyone at this table.

And my gut tells me that the proof of the pudding is in the tasting, that is to begin to impact Iranian behavior around these issues. And we can't get married to tools. We have to be focused on a goal. The goal is not in my view, Senator, to take negative action on a particular company, it is to stop Iranian weaponization. The metric can't be that it is the standard that the U.N. has set that Professor Kittrie speaks of, but the ultimate measure of the success of a program is whether it achieves its end goal, which is to cease that enrichment.

So with that, I just thank you, Mr. Chairman, and all the members of the panel. Thank you very much.

Chairman MEEKS. We have been joined by Congresswoman Gwen Moore from Wisconsin, and I don't know if you have any questions. If you have, please feel free at this time.

Ms. MOORE. Well, Mr. Chairman, I am very grateful to be here. I had another meeting of the Subcommittee on Capital Markets, which was very interesting, on the mark to market. So I am very grateful that you are still assembled, and I will reserve my questions for the next panel.

Chairman MEEKS. This is it.

Ms. MOORE. This is it?

Chairman MEEKS. If you have any questions, we have to be out of here in the next 10 minutes.

Ms. MOORE. Okay.

Chairman MEEKS. This is your one and only shot.

Ms. MOORE. Well, I just appreciate all of you coming here.

It is very important, I think, to disaggregate sanctions against a regime that continues to enrich uranium without the sanction of the international energy commission.

But I do think that it is important for us to develop other means of dealing with this other than sanctioning them, because I understand there is a great deal of misery among the Iranian people. And so I welcome, Mr. Chairman, the opportunity to come up with more innovative and creative ways and diplomatic ways, as Mr. Ellison said, to de-weaponize the Iranian regime other than imposing real hardship on the Iranian people.

Thank you.

Chairman MEEKS. Let me just ask, as we wrap up, I was just reading an article and talking about that, and I think it is the general sense of most American citizens also that war is not the answer. And for me, that is one reason why I have looked at the sanctions bill, etc., because war is not the answer.

But we do have a great need of dialogue and of conversation. And I know that during the campaign season, there were questions of whether or not you dialogue with Iran without preconditions or with preconditions, etc., especially dealing with the incentives that are necessary.

I was wondering if I could just hear from each of you in regards to should there be dialogue with Iran and should there be dialogue with or without preconditions.

Mr. KITTRIE. Sure. I agree completely with what Senator Obama had to say a couple of years ago in introducing a bill very similar to this one. He said, "While we should take no option, including military action, off the table, sustained and aggressive diplomacy

combined with tough sanctions should be our primary means to deal with Iran."

He also said, and I agree, "It is incumbent upon us to find and implement ways to pressure Iran short of war, ways that demonstrate our deep concern about Iran's behavior. This bill is one of those ways," he said, and I believe that this bill, H.R. 1327, which is very similar to the bill he introduced, is one of those ways.

And I do believe—I spent many years at the U.S. State Department negotiating nuclear agreements between the United States and Russia. I don't love the Russians, but you have to talk with your adversaries and you have to see if you can come up with a deal. And if you are creative, you often can come up with a deal. I think the Russians had certain incentives then that perhaps, as I mentioned, the Iranians don't share. And as I mentioned, I think we are going to need to, as Senator Obama called for, increase the pressure on Iran while also talking to them and trying to be creative in terms of incentives to come up with a package deal.

I just want to mention I have heard now several times the concern that H.R. 1327 might harm humanitarian interests. I am very sympathetic to the need to not want to hurt the innocent, but neither current U.N. nor current U.S. sanctions deprive Iran of either food or medicine. Neither will this bill, H.R. 1327, deprive Iran of either food or medicine.

If the people of Iran are not as prosperous today as they would like to be, it is because the Iranian regime has mismanaged the Iranian economy and chosen to isolate itself from the international community by persisting in its nuclear program in explicit defiance of three legally binding U.N. Security Council resolutions.

It seems to me that whatever inconvenience the Iranian people might incur from a tightening of sanctions attributable to this bill, H.R. 1327, would pale in comparison to the humanitarian costs to the United States and its allies of an Iranian nuclear arsenal, including the greatly increased risk of stepped-up terrorism under an Iranian nuclear umbrella, a likely cascade of nuclear proliferation in the Middle East, and the greatly increased risk of a nuclear 9/11, which would cost more than half-a-million American lives per detonated nuclear weapon.

Thank you.

Chairman MEEKS. Mr. Isaacson.

Mr. ISAACSON. Thank you, Mr. Chairman.

I think you are facing a couple of choices with Iran. As panelists here have said, and as you yourself have said, Mr. Chairman, the danger that is posed by a nuclear capable Iran is so ominous and is so foreseeable that we have to try a path away from that.

And if we are to avoid having to go to war to prevent Iran from having a nuclear device, we need to try everything. We need to try the toughest possible sanctions, we need to try diplomatic engagement without releasing the constraints that are put on Iran, the pressure that is put on Iran from those sanctions that we have already applied and from further sanctions.

Engagement can work. It has worked in instances in the past. Diplomacy must be tried, but it must be tried with clear goals and clear deadlines. I think the kind of sanctions legislation that is

being discussed today will add to the arsenal that the United States has and really must be pursued.

Chairman MEEKS. Mr. Parsi.

Mr. PARSI. To answer your first question, negotiations without preconditions I would say absolutely, precisely because of the time factor. While we insisted on preconditions for 5 years, the Iranians went ahead with their nuclear program because there was no opportunity to negotiate because we insisted on a precondition that even senior State Department officials said were self-defeating, including President Obama.

I would argue that precisely because of the danger of seeing nuclear proliferation in the region—which I believe would be the case if the Iranians were to weaponize and it would spread—precisely because of that danger, precisely because of the lack of time, we have to really get serious about matters.

And if sanctions, a strategy based solely on coercion had been successful in the last 15 years, we would not be sitting here today talking about it being 5 minutes to 12:00. If we are in this situation of 5 minutes to 12:00, we have to try something new, something that we didn't dare to try before, something that has been successful elsewhere, but we have not yet given it a full chance with Iran.

I think actually my biggest fear is that if we continue on this path of only coercive diplomacy, then we will eventually see a nuclear armed Iran, and I think that would be disastrous. That is the path we have gone so far.

Chairman MEEKS. Mr. Deutch.

Mr. DEUTCH. Thank you, Mr. Chairman.

Mr. Chairman, the Florida legislature does not engage in foreign policy, nor do any of our fellow legislators around the country. We follow the foreign policy of the United States. American foreign policy and the congressional legislation in support of it dictates that American companies cannot make investments in the Iranian energy sector at this level of they will be subject to sanctions.

Currently, the only way to effectively convince our foreign companies to make the same decision to leave Iran and when they leave take with them the financial resources that the Iranians require to develop nuclear weapons, the only way to do that is to help them understand that we, through our pension funds, do not support the positions and the investments that they are making. What we do is entirely consistent with American foreign policy.

I believe that we should do everything that we can, and in legislatures and county commissions and city councils, this is the option that we have. I beseech of you and this committee and the Members of Congress that while time is running out, it is running even faster for State legislatures throughout the country. This legislation will make it possible for all of those legislatures to move forward.

I believe that we must do everything we can. I don't want to look back at a time when the Iranians have nuclear weapons to wish that we could have done more.

Mr. Chairman, there is one moment in world history to prevent the Iranians from having nuclear weapons, and this is it. I ask that

you move this good bill forward so that we at the local level can do everything we can to support you in American foreign policy.

Chairman MEEKS. Ms. Moore wants one question, and this will be the final, final question.

Ms. MOORE. Thank you so much, Mr. Chairman, and forgive me if this has already been addressed in the hearing—and it literally is 5 minutes to 12:00, Mr. Parsi.

[Laughter]

Ms. MOORE. I guess I really am sincerely asking a question I don't know the answer to, and that is, I know that sanctions worked very well eventually with South Africa in ending apartheid.

What compelling evidence in terms of the development in Iran can you give us that these kinds of sanctions will in fact work to pressure the Iranian government to end its nuclear ambitions? I mean, sanctions haven't worked so far. So what can you tell us?

Mr. DEUTCH. Thank you, Congresswoman.

Yesterday, Vitol, which is one of the largest players in the Iranian energy sector, announced that they are not going to move forward with a proposed contract in the fields of Iran.

That is exactly the kind of success that we will be able to have if this bill passes and States and local governments are able to divest. When the companies that we have divested from in Florida understand that it is not in their interest to continue to make major investments in the Iranian oil and natural gas sector—and that is all we are focused on, no consumer products—when they realize it is in their best interest and they start to pull out, as we saw just yesterday, the result will be that there will be a rapid decline in the amount of investment in those oil fields.

With that reduction, it will become exceedingly more difficult for the Iranian government to continue to move forward to its plans to build its energy sector, and without that foreign investment, it cannot go forward.

This is but one piece of the puzzle. I think we are all in agreement on that. But there have been successes. Those successes will multiply if this good legislation is passed.

Ms. MOORE. Mr. Parsi.

Mr. PARSI. Thank you.

I have very much enjoyed listening to the Senator from Florida, but if it is not obvious, we may have a slight disagreement. I think the Senator is absolutely right, and I mentioned it earlier on, there are plenty of companies that have, as a result of many different factors, including sanctions from the United States, pulled out of Iran. That is definitely true.

I wouldn't call that a success, I would call that a tactical victory. Success happens when you actually achieve the objectives of the sanctions policy, when you have the reversal of the nuclear program in Iran, when you have an end to Iranian meddling throughout the region or support for militant organizations. We have not yet seen any indication that sanctions will actually bring that about.

If the aim solely is to hurt Iran's economy, then yes, success is there. But if the aim is to change the behavior, and particularly on this most pressing issue of a nuclear program, then I fear that additional sanctions will actually be an obstacle because it will make

it more difficult for the President to pursue diplomacy with the Iranians.

Chairman MEEKS. The Chair notes that some members may have additional questions for this panel which they may wish to submit in writing, and without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

Let me thank the witnesses for being here, and as one who does believe in dialogue and thinking that it will help resolve, let me end with two quotes from Yitzhak Rabin. One, "Peace is not made with our friends. Peace is made with our enemies." And two, "The path is indeed long and our work is not nearly done."

Thank you for being here.

The hearing is adjourned.

[Whereupon, at 11:58 a.m., the hearing was adjourned.]

A P P E N D I X

March 12, 2009

Opening Statement of Congressman Gary C. Peters
International Monetary Policy and Trade Subcommittee
March 12, 2009
Hearing on the Iran Sanctions Enabling Act of 2009

I would like to thank Chairman Frank for introducing the important legislation we will be discussing today, and I also wish to thank Chairman Meeks for holding this hearing as it signals the importance of this issue.

U.S. policy toward Iran is one of the most crucial foreign policy issues that Congress is facing. Iran's troubling behavior throughout the region is certainly cause for concern as it has tremendous impact on American interests in the Middle East and on the security and prosperity of our ally, the State of Israel. I support the legislation we will be discussing here today because it will send a strong message to the people and to the Government of Iran that they must cease their support for terrorism and their nuclear program.

H.R. 1327 gives state and local governments the authority to divest themselves of assets under their control which are associated with companies known to be assisting Iran's energy sector, and protects these fund managers from lawsuits by investors. This legislation will continue to put economic pressure on President Mahmoud Ahmadinejad's regime and hopefully encourage the Iranian people to turn against Ahmadinejad and his failed policies and dangerous rhetoric.

As a nation we have been far too complacent with respect to this issue and in the last eight years U.S. investments in Iran multiplied ten-fold. I believe the new Administration will be vigilant on this issue, and I note that President Obama introduced similar legislation in the Senate when he served in that body.

This legislation will also allow the United States to continue to serve as a model for the rest of the world. This legislation allows our country to demonstrate to others around the world that we are serious about applying pressure to Iran.

I thank the Chairman for holding this important hearing today.

THE FLORIDA SENATE
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SENATOR TED DEUTCH
30th District

Testimony of Florida State Senator Ted Deutch before the
Subcommittee on International Monetary Policy and Trade
March 12, 2009

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to speak today in support of H.R. 1327, the Iran Sanctions Enabling Act of 2009. I am grateful for the efforts of the bill's sponsors to enable investors to make investment decisions that are consistent with the principles and convictions of America's citizens. This good legislation will also permit every state and local government to take action to help prevent Iran's development of nuclear weapons, just as the Florida legislature did by its passage of the Protecting Florida's Investments Act in 2007.

This legislation will specifically permit and encourage fund managers to consider the policy of the United States Government and the interests of its citizens when making investment decisions. By authorizing pension funds to divest and prohibit investments in Iran's oil and gas sector, it will permit our local governments, on behalf of our citizens whose brave family members are on the front lines in our armed forces, to tighten the pressure on Iran's government which relies upon foreign investment to have sufficient funds to continue to press forward with its nuclear weapons program.

I would like to speak about the actions of the Florida legislature, why it was important that we succeed, the fight waged against our efforts, and the importance of H.R. 1327 in permitting other states to move forward. Before asking our pension board in Florida to divest from Iran, or from Sudan, which our legislation also required, we asked the very citizens whose dollars were at risk. We spoke with our public employees, teachers, firefighters, and police. And what we found did not surprise us, nor will it surprise you. When our citizens learned that their retirement

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JEFF ATWATER
President of the Senate

MIKE FASANO
President Pro Tempore

dollars were helping to fund a genocidal regime in Sudan, and an Iranian government whose leader has spoken openly of genocide should he acquire nuclear weapons, they were outraged. They demanded that we take action, offering significant support as we moved ahead.

But others were not as supportive. The pension fund managers fought back hard. Arguing that their only concern should be return on investment, they asked that we not bother with morals, or national security, or fighting or attempting to prevent genocide. They strenuously argued that their fiduciary obligation required them to invest in whatever companies they chose, so long as they generated the highest return for their investors. The pension board cared little about the investment wishes of its investors. That's where the legislature came in; it was our job, as it is your job, to represent the interests of our constituents, the citizens of the State of Florida and the United States. And our citizens wanted us to act. How could the State of Florida make investments that could make its investors, their children and our nation less secure?

What these pension administrators failed to acknowledge is that investments made in companies that have significant investments in Iran's energy sector are not only wrong; they are risky. The fact that a foreign company is doing material business with a state sponsor of terror that is subject to sanctions by the United States and the United Nations may well deter a reasonable investor from making such investment. Moreover, in response to the financial risk posed by investments in companies doing business with a state that sponsors terrorists, the Securities and Exchange Commission established its Office of Global Security Risk to provide for enhanced disclosure of material information regarding such companies.

In a report prepared in 2006 by this United States House of Representatives, you warned that "a company's association with sponsors of terrorism and human rights abuses, no matter how large or small, can have a materially adverse result on a public company's operations, financial condition, earnings, and stock prices, all of which can negatively affect the value of an investment." When state and local governments consider the return on investments made on behalf of their citizens, prudent governments should and will choose not to invest or own stock in companies whose officers, by putting profit over principle, risk losing both.

H.R. 1327 specifically gives state and local government the authority to divest from companies engaged in significant business with Iran's energy sector and identified "using credible information available to the public." I suggest to the members of this Committee that it look to the State of Florida to find such credible information. Florida's State Board of Administration, the entity that invests on behalf the Florida Retirement System, is responsible for complying with the terms of the Protecting Florida's Investment Act ("PFIA"). On a quarterly basis, the SBA assembles and publishes a list of companies that have prohibited business operations in Iran (and Sudan, as our legislation requires divestment from there as well). Under our legislation, a company that invests $20 million or more in contributing to or enhancing Iran's ability to develop its petroleum resources will be put on the list.

Attached to this written testimony is the SBA's most recent quarterly report under the PFIA dated January 13, 2009. This quarterly report, together with all activity and reports of the SBA under the PFIA is available to the public on the SBA's website, www.sbafla.com. The report details the 90-day engagement process that our Act requires prior to divestment. More important for the members of this Committee and for those state and local governments who are considering divesting or who certainly will move forward upon passage of H.R. 1327, are the reports published on the SBA's website that identify the companies subject to divestment. The companies on the list appear on that list only after the SBA completes thorough research and analysis, first relying upon external research providers, including RiskMetrics Group and KLD Research & Analytics, then subject to review by senior investment professionals who utilize company SEC and other disclosures, industry analysis, government agencies including the SEC's Office of Global Security Risk, Treasury's Office of Foreign Asset Control, and the Congressional Research Service, non-governmental organizations and any other publicly available information. The Florida State Board of Administration oversees the fourth-largest pension system in the country; its work-product is first-rate and can be most helpful to the national Iran divestment movement.

The fundamental question that I am continually asked is, "Are you doing this to make a statement, or do you truly believe that you can impact Iran's pursuit of nuclear weapons?" The State of Florida has divested more than $1.1 billion of investments thus far, and the retirement system of our public employees no longer owns one dime of direct holdings in companies enabling Iran to press ahead with its pursuit of nuclear weapons. I believe that that is an important statement, and a fairly dramatic statement at that. But more than a dozen other states have taken action, municipalities throughout America have recognized the potential power of divestment, and I am confident that dozens more will move forward once H.R. 1327 is passed because your legislation will make it impossible for the naysayers to continue to argue against it.

As of September 30, 2008, the 1000 largest retirement systems had assets totaling close to $6.5 trillion. Nearly half of that money, or $3 trillion, is held in public pension plans. When state and local governments, on behalf of their citizens, declare that they own tens of billions of dollars of stock in companies doing business in Iran, and that they intend to sell every share they own unless the companies withdraw from Iran and join the world's efforts to prevent a nuclear-armed Iran, the companies will take notice. And when our actions are strengthened by the efforts of this Congress, this Administration, the United Nations, divestment can and will have an impact. Last June, when oil traded at over $140/barrel, we were told that this type of economic pressure would have no impact on Iran. Today, with oil under $50/barrel, economic pressure is exactly what is needed to cut off the flow of funds that Iran is using to pursue its illicit nuclear program.

Let me be clear. I believe that we have the economic power to stop Iran's quest for nuclear weapons. We have the economic power to eliminate the threat to the United States and our allies that a nuclear-armed Iran would present. And whatever your political views, right or left, Democrat or Republican, exercising this economic power is fundamentally in line with your beliefs.

Mr. Chairman, as elected officials, we often attempt to explain to our constituents that it is not always possible to move as quickly as we may like. Sometimes, it takes time to move new policies forward. But while the policy laid out in H.R. 1327 is bold, it is not new, and we simply do not have time to waste. This morning, there are executives sitting in corporate suites in the Netherlands and the United Kingdom, in France, Russia and China, who are watching this debate. They know there is a divestment effort, but they are waiting to see if the path is cleared for this effort to become a movement. If it is not, they will continue to do business as usual. But if this divestment movement accelerates quickly and dramatically, and if major investors at public pension funds throughout this county use the power of the purse, these executives and these companies will be forced to consider whether to proceed as they have in the past. Evidence suggests they will not.

In closing, I return to where I started, with the public employees, teachers, nurses, firefighters, police and professors. Give them the option to act with conviction. Respect their values, for they are our values. Our public money, THEIR money should not be used to aid Iran's quest for nuclear weapons. H.R. 1327 removes the hurdles that so many pension boards have constructed to prevent divestment. When it passes and is signed into law by President Obama, it will be full speed ahead in standing up for our citizens, their values and our collective efforts to prevent a nuclear-armed Iran.

Thank you, Mr. Chairman and Members, for giving me the opportunity to address you today, and on behalf of state and local government officials throughout America, thank you for this vitally important legislation.

Protecting Florida's Investments Act (PFIA)

Quarterly Report

January 13, 2009

Florida State Board of Administration (SBA)

INVESTING FOR FLORIDA'S FUTURE

Table of Contents

Introduction 1
Primary Requirements of the PFIA 1
Definition of Scrutinized Company 2
SBA Scrutinized Companies Identification Methodology 3
About the State Board of Administration 4
Table 1: Scrutinized Companies with Activities in Sudan 5
Table 2: Continued Examination Companies with Activities in Sudan 7
Table 3: Scrutinized Companies with Activities in the Iran Petroleum Energy Sector 8
Table 4: Continued Examination Companies with Activities in the Iran Petroleum Energy Sector 9
Table 5: Summary of Correspondence & Company Engagement Efforts with Scrutinized Co.'s 10
Table 6: Summary of Correspondence & Co. Engagement Efforts with Continued Examination Co.'s 12
Key Dates for PFIA Activities 14
Summary of Investments Sold, Redeemed, Divested or Withdrawn 15
Table 7: List of Prohibited Investments (Scrutinized Companies) 16
Table 8: SBA Holdings in Prohibited Investments Subject to Divestment 18
Summary of Progress, SBA Investment Manager Engagement Efforts 19
Listing of All Publicly Traded Securities (Including Equity Investments) 20

Introduction

On June 8, 2007, the Protecting Florida's Investments Act ("PFIA") was signed into law. The PFIA requires the State Board of Administration ("SBA"), acting on behalf of the Florida Retirement System Trust Fund (the "FRSTF"), to assemble and publish a list of "Scrutinized Companies" that have prohibited business operations in Sudan and Iran. Once placed on the list of Scrutinized Companies, the SBA and its investment managers are prohibited from acquiring those companies' securities and are required to divest those securities if the companies do not cease the prohibited activities or take certain compensating actions. The implementation of the PFIA by the SBA will not affect any FRSTF investments in U.S. companies. The PFIA will solely affect foreign companies with certain business operations in Sudan and Iran involving the petroleum or energy sector, oil or mineral extraction, power production or military support activities. This quarterly report is developed pursuant to Section 215.473 (4), Florida Statutes.

Primary Requirements of the PFIA

The PFIA created new reporting, engagement and investment requirements for the SBA, including:

1. Quarterly reporting to the Board of Trustees of every equity security in which the SBA has invested for the quarter, along with its industry category. This report is posted on the SBA website.

2. Quarterly presentation to the Trustees of a "Scrutinized Companies" list for both Sudan and Iran for their approval. Scrutinized Company lists are available on the SBA's website, along with information on the FRSTF direct and indirect holdings of Scrutinized Companies.

3. Written notice to external investment managers of all PFIA requirements. Letters request that the managers of actively managed commingled vehicles (i.e., those with FRSTF and other clients' assets) consider removing Scrutinized Companies from the product or create a similar actively managed product that excludes such companies. Similar written requests must be provided to relevant investment managers within the defined contribution plan.

4. Written notice to any company with inactive business operations in Sudan or Iran, informing the company of the PFIA and encouraging it to continue to refrain from reinitiating active business operations. Such correspondence continues semiannually.

5. Written notice to any Scrutinized Company with active business operations, informing the company of its Scrutinized Company status and that it may become subject to divestment. The written notice must inform the company of the opportunity to clarify its Sudan-related or Iran-related activities and encourage the company, within 90 days, to cease its scrutinized business operations or convert such operations to inactive status.

6. A prohibition on further investment on behalf of the FRSTF in any Scrutinized Company once the Sudan and Iran scrutinized lists have been approved by the Trustees. All publicly traded securities of Scrutinized Companies must be divested within 12 months after the company's initial (and continued) appearance on the Scrutinized Companies list. Divestment does not apply to indirect holdings in actively managed commingled investment funds—i.e., where the SBA is not the sole investor in the fund. Private equity funds are considered to be actively managed.

7. Reporting to each member of the Board of Trustees, President of the Senate, and the Speaker of the House of Representatives of Scrutinized Company lists within 30 days of creation, and public disclosure of each list.

8. Quarterly reporting of the following to each member of the Board of Trustees, the President of the Senate, the Speaker of the House of Representatives, the United States Presidential Special Envoy to Sudan and, if one is appointed, the United States Presidential Special Envoy to Iran. The report is made publicly available and posted to the SBA's website.

a. A summary of correspondence with engaged companies;
b. A listing of all investments sold, redeemed, divested, or withdrawn;
c. A listing of all prohibited investments;
d. A description of any progress related to external managers offering PFIA compliant funds; and
e. A list of all publicly traded securities held directly by the state.

9. Adoption and incorporation into the Investment Policy Statement (IPS) of SBA actions taken in accordance with the PFIA. Changes to the IPS are reviewed by the Investment Advisory Council and approved by the Trustees.

10. Relevant Sudan or Iran portions of the PFIA are discontinued if the Congress or President of the United States passes legislation, executive order, or other written certification that:

    a. Darfur genocide has been halted for at least 12 months;
    b. Sanctions imposed against the Government of Sudan are revoked;
    c. Government of Sudan honors its commitments to cease attacks on civilians, demobilize and demilitarize the Janjaweed and associated militias, grant free and unfettered access for deliveries of humanitarian assistance, and allow for the safe and voluntary return of refugees and internally displaced persons;
    d. Government of Iran has ceased to acquire weapons of mass destruction and support international terrorism;
    e. Sanctions imposed against the government of Iran are revoked; or
    f. Mandatory divestment of the type provided for by the PFIA interferes with the conduct of U.S. foreign policy.

11. Cessation of divestment and/or reinvestment into previously divested companies may occur if the value of all FRSTF assets under management decrease by 50 basis points (0.5%) or more as a result of divestment; i.e., a reduction in value of assets of about $629 million at the current value of the FRSTF. If cessation of reinvestment is triggered, the SBA is required to provide a written report to each member of the Board of Trustees, the President of the Senate, and the Speaker of the House of Representatives prior to initial reinvestment. Such condition is required to be updated semiannually.

Definition of a Scrutinized Company

The following is a brief review of the criteria on which the active business operations of companies must be judged, in accordance with subsection (1)(t) of the Section 215.473, F.S.

Sudan:

1. Have a material business relationship with the government of Sudan or a government-created project involving oil related, mineral extraction, or power generation activities, or
2. Have a material business relationship involving the supply of military equipment, or
3. Impart minimal benefit to disadvantaged citizens that are typically located in the geographic periphery of Sudan, or
4. Have been complicit in the genocidal campaign in Darfur.

Iran:

1. Have a material business relationship with the government of Iran or a government-created project involving oil related or mineral extraction activities, or
2. Have made material investments in and significantly enhancing Iran's petroleum sector.

Affiliates of companies with scrutinized business operations are also subject to the requirements of the PFIA. An affiliated company is generally defined as any other company that either directly or indirectly controls, is controlled by or is under common control with the company conducting scrutinized active

business operations. Control generally means the power to exercise a controlling influence over the management or policies of a company. As well, many companies have parent—subsidiary relationships whereby a parent company may own several other companies. In such cases, the SBA has included any known parent and/or subsidiaries which can be clearly linked to a company with scrutinized active business operations. The SBA has used a 50 percent ownership threshold in determining whether or not companies are affiliated, examining parent company—subsidiary ownership on a pro rata basis.

The SBA views companies which have explicit plans and activities related to discontinuation of active business operations as meeting the PFIA definition of substantial action. For all identified companies, the SBA will request information detailing what a company has actually done, if anything, to discontinue its active business operations or if it has pursued humanitarian efforts (applicable to Sudan only).

SBA Scrutinized Companies Identification Methodology

The SBA has developed two lists of Scrutinized Companies with active business operations by principally relying on the research and findings of four "External Research Providers":

1. Sudan Divestment Task Force (SDTF). SDTF is a project of the Genocide Intervention Network, a non-profit organization focused on fundraising for the UN-supported African Union Mission in Darfur and political activism to pressure governments and the UN to pursue a comprehensive strategy to end the genocide in Darfur.

2. RiskMetrics Group (formerly listed as ISS). RiskMetrics delivers proxy voting and corporate governance solutions to institutional clients. RiskMetrics offers screening services to help pension funds and their investment managers comply with the specific and unique components of state law pertaining to investments in sanctioned countries, including Sudan and Iran.

3. KLD Research & Analytics (KLD). KLD is an investment research firm producing a Sudan Targeted Divestment Compliance product, which meets the requirements of the Sudan Divestment Task Force. While KLD consults with the SDTF on legislative criteria and certain companies, KLD independently performs all of the research involved in creating the product. KLD also produces an Iran Compliance product, which identifies companies generally meeting the criteria of the federal government elements of the Iran Sanctions Act.

4. American Israel Public Affairs Committee (AIPAC). AIPAC works on public policy issues with the intent to strengthen the U.S.-Israel relationship. AIPAC produces a list of foreign companies at risk of being sanctioned by the U.S. for investing in Iran's oil and natural gas sector, in violation of the Iran Sanctions Act (ISA).

The SBA Office of Corporate Governance (OCG) and senior investment professionals review the assessments of the External Research Providers and other publicly available information. The SBA has utilized the following sources to evaluate over 200 companies and affiliates with reported links to Sudan or Iran:

<u>Company disclosures:</u>
- SEC filings (DEF 14A Proxy Statements, 10-K & 20-F Annual Reports, etc.)
- Investor Relations/company websites
- Industry publications and analyst research

<u>Investment/Finance Organizations:</u>
- Industry Analysts
- Index Providers (e.g., Russell)
- Other Institutional Investors/Private Investors

<u>U.S Government Agencies:</u>
- SEC Office of Global Security (EDGAR)

- U.S. Treasury, Office of Foreign Asset Control (OFAC)
- Dept. of Energy, Energy Information Administration (EIA)
- Congressional Research Service (CRS), Library of Congress

Non-Governmental Organizations (NGOs):
- American Enterprise Institute (AEI)
- Amnesty International
- Yale University (Allard K. Lowenstein International Human Rights Project)
- Human Rights Watch

Other Sources:
- SBA External Investment Managers
- U.S. Federal Sanctions Laws covering State Sponsors of Terror
- Any other publicly available information.

Using the previous information sources, the SBA has developed two separate categorizations of a company's involvement in Sudan and/or Iran.

1. **"Scrutinized"** — All applicable External Research Providers indicate that a company meets the classification of a Scrutinized Company as defined by the PFIA as set forth in Section 215.473 (1)(t)1., 2., or 3. [Sudan] or Section 215.473 (4)(t)1. [Iran]. For Sudan, SDTF, RiskMetrics Group, and KLD must unanimously agree on the company's status under the PFIA. For Iran, AIPAC, RiskMetrics Group, and KLD must unanimously agree on the company's status under the PFIA. Upon SBA review, no other information sources clearly contradict the conclusions of the External Research Providers.

2. **"Continued Examination"** — At least one, but not all applicable External Research Providers indicates that a company meets the classification of a Scrutinized Company as defined by the PFIA as set forth in Section 215.473, (1)(t)1., 2., or 3. [Sudan] or Section 215.473, (4)(t)1. [Iran]. In other words, the External Research Providers do not agree on the status of a company and the SBA is unable to definitively categorize the company's activities as scrutinized without further research to resolve the differences. For companies classified as "Continued Examination" the SBA will begin an engagement process to clarify each firm's current business relationships.

About the State Board of Administration

The statutory mission of the State Board of Administration (SBA) is to invest, manage and safeguard assets of the Florida Retirement System (FRS) Trust Fund and a variety of other funds for state and local governments. FRS Trustees are dedicated to ensuring that the SBA invests assets and discharges its duties in accordance with Florida law, guided by strict policies and a code of ethics to ensure integrity, prudent risk management and top-tier performance. The SBA is an investment fiduciary under law, and subject to the stringent fiduciary duties and standards of care defined by the Employee Retirement Income Security Act of 1974 (ERISA), as incorporated into Florida law. The SBA has three Trustees: the Governor, as Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary.

As of December 31, 2008, the net asset value of total funds under SBA management equaled $122.6 billion. The FRS Pension Plan, which provides defined pension benefits to 1.1 million members, was fully funded with a surplus. The strong long-term performance of the FRS Pension Plan, the fourth-largest public pension fund in the nation, reflects our commitment to responsible fiscal management. The SBA strives to meet the highest ethical, fiduciary and professional standards while performing its mission, with a continued emphasis on keeping operating and investment management costs as low as possible for the benefit of Florida taxpayers. We encourage you to review additional information about the SBA and FRS on our website at www.sbafla.com.

Table 1: Scrutinized Companies with Activities in Sudan

***** denotes a new company on the list this quarter**

Company	Country of Incorporation	Date of Initial Scrutinized Classification
*****ABB Ltd.**	Switzerland	**January 13, 2009**
Alstom	France	September 19, 2007
AREF Investment Group	Kuwait	December 18, 2007
AviChina Industry & Technology Company Limited	China	September 19, 2007
Bharat Heavy Electricals Limited	India	September 19, 2007
Bongaigaon Refinery & Petrochemical	India	September 19, 2007
Chennai Petroleum Corporation Limited	India	September 19, 2007
China Petroleum & Chemical Corp (Sinopec)	China	September 19, 2007
CNPC Hong Kong Limited	China	September 19, 2007
Daqing Huake Group Company	China	March 25, 2008
***** Dietswell SA**	France	**January 13, 2009**
Dongan Motor	China	September 19, 2007
Dongfeng Automobile Company Limited	China	September 19, 2007
***** Egypt Kuwait Holding Co. SAE**	Egypt	**January 13, 2009**
Electricity Generating PCL	Thailand	September 19, 2007
Hafei Aviation Industry Company	China	September 19, 2007
Harbin Power Equipment	China	September 19, 2007
Indian Oil Corporation Limited	India	September 19, 2007
Jiangxi Changhe Automobile	China	September 19, 2007
Jiangxi Hongdu Aviation	China	September 19, 2007
Kejuruteraan Samudra Timur Bhd	Malaysia	September 19, 2007
Kencana Petroleum	Malaysia	December 18, 2007
Khanom Electricity Generating Company	Thailand	December 18, 2007
KMCOB Capital Bhd	Malaysia	September 19, 2007
Lanka IOC	India	September 19, 2007
Lundin International SA	France	September 19, 2007
Lundin Petroleum AB	Sweden	September 19, 2007
Mangalore Refinery & Petrochemical	India	September 19, 2007
Midciti Resources Sdn Bhd	Malaysia	September 19, 2007
MISC Bhd	Malaysia	September 19, 2007
Muhibbah Engineering	Malaysia	September 19, 2007
Oil & Natural Gas Corporation (ONGC)	India	September 19, 2007
Optimal Olefins Sdn Bhd	Malaysia	September 19, 2007
PECD Bhd	Malaysia	September 19, 2007
PetroChina	China	September 19, 2007
Petroliam Nasional (Petronas)	Malaysia	September 19, 2007

Table 1 continued: Scrutinized Companies with Activities in Sudan

Company	Country of Incorporation	Date of Initial Scrutinized Classification
Petronas Assets Sdn Bhd	Malaysia	September 19, 2007
Petronas Capital Limited	Malaysia	September 19, 2007
Petronas Dagangan	Malaysia	September 19, 2007
Petronas Fertilizer Sdn Bhd	Malaysia	September 19, 2007
Petronas Gas Bhd	Malaysia	September 19, 2007
Ranhill Bhd	Malaysia	September 16, 2008
Scomi Engineering	Malaysia	September 19, 2007
Scomi Group	Malaysia	September 19, 2007
Sinopec Kantons Holdings	China	September 19, 2007
Sinopec Shanghai Petrochemical Company	China	September 19, 2007
Sinopec Yizheng Chemical Fibre Company	China	March 25, 2008
Wärtsilä Oyj	Finland	December 18, 2007
Wuhan Boiler Company	China	September 19, 2007
# of Companies	**49**	

No companies were **removed** from the Scrutinized Company list for Sudan during the quarter.

Table 2: Continued Examination Companies with Activities in Sudan

***** denotes a new company on the list this quarter**

Company	Country of Incorporation
Areva SA	France
Bharat Electronics Limited	India
Bollore Group	France
*** Korea Plant Service and Engineering Co. Ltd.	South Korea
*** LS industrial Systems Co. Ltd.	South Korea
La Mancha Resources	Canada
MMC Bhd	Malaysia
Nam Fatt	Malaysia
PetroFac	United Kingdom
Sinohydro	China
Sudan Telecommunications (Sudatel)	Sudan
Total SA	France
# of Companies	**12**

The following companies were **removed** from the Continued Examination list for SUDAN during the quarter.

Removed Company	*Country of Incorporation*
ABB Ltd. (moved to Sudan Scrutinized List)	*Switzerland*
Dietswell SA (moved to Sudan Scrutinized List)	*France*
Egypt Kuwait Holding Co. SAE (moved to Sudan Scrutinized List)	*Egypt*

Table 3: Scrutinized Companies with Activities in the Iran Petroleum Energy Sector

Company	Country of Incorporation	Date of Initial Scrutinized Classification
China Petroleum & Chemical Corp (CPCC) Sinopec	China	September 16, 2008
CNPC Hong Kong Ltd.	Hong Kong	September 19, 2007
ENI	Italy	September 19, 2007
Gazprom	Russia	September 19, 2007
Gazprom Neft	Russia	September 16, 2008
GS Engineering & Construction	South Korea	September 16, 2008
GS Holdings	South Korea	September 19, 2007
Indian Oil Corp Ltd (IOCL)	India	September 19, 2007
Inpex Corp.	Japan	September 19, 2007
Midciti Resources Sdn Bhd	Malaysia	September 19, 2007
MISC Bhd	Malaysia	September 19, 2007
Mosenergo	Russia	September 16, 2008
Oil & Natural Gas Corp (ONGC)	India	September 19, 2007
Optimal Olefins Sdn Bhd	Malaysia	September 19, 2007
PetroChina	China	September 19, 2007
Petroleo Brasiliero (Petrobras)	Brazil	September 19, 2007
Petroliam Nasional (Petronas)	Malaysia	September 19, 2007
Petronas Assets Sdn Bhd	Malaysia	September 19, 2007
Petronas Capital Limited	Malaysia	September 19, 2007
Petronas Dagangan Bhd	Malaysia	September 19, 2007
Petronas Fertilizer Sdn Bhd	Malaysia	September 19, 2007
Petronas Gas Berhad	Malaysia	September 19, 2007
Repsol YPF	Spain	September 19, 2007
Royal Dutch Shell PLC	United Kingdom	September 19, 2007
Sinopec Kantons Holdings Limited	China	September 16, 2008
Sinopec Shanghai Petrochemical	China	September 16, 2008
Sinopec Yizheng Chemical Fibre	China	September 16, 2008
Snam Rete Gas	Italy	September 19, 2007
StatoilHydro	Norway	September 19, 2007
Total Nigeria	Nigeria	March 25, 2008
Total SA	France	September 19, 2007
# of Companies	**31**	

The following companies were **removed** from the Scutinized list for IRAN during the quarter.

Removed Company	*Country of Incorporation*
Bow Valley Energy	*Canada*

Table 4: Continued Examination Companies with Activities in the Iran Petroleum Energy Sector

Company	Country of Incorporation
Aker Kvaerner ASA	Norway
CNOOC Ltd.	China
Daelim Industrial Co.	South Korea
Edison Spa	Italy
Engineers India Ltd.	India
Essar Oil	India
GAIL Ltd.	India
GVA Consultants	Sweden
Hyundai Engineering & Construction Co.	South Korea
Hyundai Heavy Industries	South Korea
Liquefied Natural Gas LNGL	Australia
Lukoil OAO	Russia
OMV AG	Austria
Persian Gold PLC	United Kingdom
Petrofac Ltd.	United Kingdom
PT Citra Tubindo Tbk	Indonesia
PTT Exploration & Production PCL	Thailand
Samsung Engineering Co. Ltd.	Korea
Sasol Ltd.	South Africa
Siam Cement PCL	Thailand
Technip	France
Trevi-Finanziaria Industriale SpA	Italy
Welspun-Gujarat Stahl Rohren Ltd.	India
# of Companies	**23**

The following companies were **removed** from the Continued Examination list for IRAN during the quarter.

Removed Company	*Country of Incorporation*
Actividades de Construccion y Servicios S.A.(ACS)	*Spain*
GDF Suez	*France*

Table 5: Summary of Correspondence & Company Engagement Efforts with Scrutinized Companies

In accordance with Section 215.473(3)(a), F.S., the SBA began to engage companies on the September 19, 2007, Scrutinized Company lists. The SBA sent letters to each Scrutinized Company that was owned and held as of September 19, 2007, per the requirements of the law. The SBA also sent written communication to other scrutinized firms since the initial company engagement effort in September 2007. Each letter encouraged the company to cease any active business operations within 90 days or convert such operations to inactive status to avoid qualifying for divestment by the SBA. In addition, the SBA sent a second letter to scrutinized companies on January 25, 2008, again requesting companies to provide all information necessary to avoid divestment. On September 30, 2008, the SBA sent a follow-up letter to all Scrutinized Companies. Although, these companies are no longer held by the SBA, the September 30, 2008 letter was intended to once again provide notice of the requirements of the PFIA. Since our original correspondence, several companies on the scrutinized list have replied with valuable information. Each company's response and classification status is summarized below. Any company that responded to the SBA's written correspondence is highlighted in blue text.

Company	Company Responsive to SBA Communications	Status
ABB	Yes; November 17, 2008	Sudan Scrutinized Classification Continues
Alstom	Yes; October 1, 2007	Sudan Scrutinized Classification Continues
Bharat Heavy Electricals Limited	Yes; October 4, 2007	Sudan Scrutinized Classification Continues
Bow Valley Energy	Yes; October 22, 2008	Removed from Iran Scrutinized List
Chennai Petroleum Corporation Limited	Yes; October 16, 2008	Sudan Scrutinized Classification Continues
China Petroleum & Chemical Corp (Sinopec)	No	Iran & Sudan Scrutinized Classification Continues
CNPC Hong Kong Limited	Yes; October 5, 2007 and May 24, 2008	Iran & Sudan Scrutinized Classification Continues
Electricity Generating PCL	No	Sudan Scrutinized Classification Continues
ENI	Yes; February 13, 2008	Iran Scrutinized Classification Continues
Gazprom	Yes; November 1, 2007	Iran Scrutinized Classification Continues
Harbin Power Equipment	No	Sudan Scrutinized Classification Continues
Indian Oil Corp Ltd (IOCL)	No	Iran & Sudan Scrutinized Classification Continues
Inpex Corp.	Yes; October 15, 2007	Iran Scrutinized Classification Continues
Kencana Petroleum	Yes; October 31, 2008	Sudan Scrutinized Classification Continues
Lukoil OAO	Yes; October 8, 2007	Moved to Iran Continued Examination List
Lundin Petroleum AB	Yes; October 17, 2008	Sudan Scrutinized Classification Continues
Lundin International SA	No	Sudan Scrutinized Classification Continues
MISC Bhd	No	Iran & Sudan Scrutinized Classification Continues
Norsk Hydro	Yes; November 30,2007	Removed from Iran Scrutinized List
OMV AG	Yes; November 6, 2007	Moved to Iran Continued Examination List
PetroChina	Yes; December 22, 2008	Iran & Sudan Scrutinized Classification Continues
Petroleo Brasiliero (Petrobras)	No	Iran & Sudan Scrutinized Classification Continues
Ranhill Bhd	Yes; October 22, 2008	Sudan Scrutinized Classification Continues
Repsol YPF	Yes; October 15, 2007	Iran Scrutinized Classification Continues
Royal Dutch Shell PLC	Yes; October 5, 2007	Iran Scrutinized Classification Continues
Sinopec Kantons Holdings	No	Sudan Scrutinized Classification Continues

Company	Company Responsive to SBA Communications	Status
Sinopec Shanghai Petrochemical Company	No	Sudan Scrutinized Classification Continues
Snam Rete Gas	Yes; October 9, 2008	Iran Scrutinized Classification Continues
StatoilHydro	Yes; February 4, 2008	Iran Scrutinized Classification Continues
Total SA	Yes; October 12, 2007	Iran Scrutinized Classification Continues
Wärtsilä Oyj	Yes; December 4, 2007	Sudan Scrutinized Classification Continues

Table 6: Summary of Correspondence & Company Engagement Efforts with Companies Warranting Continued Examination (CE)

In addition to Scrutinized Companies, the SBA engaged companies on our initial September 19, 2007 Continued Examination company lists. The SBA also sent written communication to firms added to the Continued Examination list since the initial company engagement effort in September 2007. Such companies were asked to provide information to the SBA in order to assist us in determining the extent of their activities, if any, in Sudan and Iran. The SBA sent a follow-up letter to all companies on September 30, 2008. Each company's response and classification is summarized below.

Company	Company Responsive to SBA Communications	Continued Examination ("CE") Status
Actividades de Construccion y Servicios S.A.(ACS)	No	Removed from Iran List
Aggreko PLC	Yes; January 28, 2008	Removed from Iran List
Air Liquide	Yes; November 30, 2007 January 28, 2008	Removed from Iran List
Aker Kvaerner ASA	No	Iran CE Classification Continues
AREF Investment Group	No	Sudan CE Classification Continues
Areva SA	Yes; October 27, 2008	Sudan CE Classification Continues
Bauer Aktiengesellschaft	Yes; March 13, 2008	Removed from Sudan List
BG Group	Yes; November 23, 2007	Removed from Iran List
Bharat Electronics Limited	No	Sudan CE Classification Continues
Bollore Group	No	Sudan CE Classification Continues
CNOOC Ltd	Yes; October 28, 2008	Iran CE Classification Continues
Costain Group PLC	Yes; November 5, 2007	Removed from Iran List
Daelim Industrial Co.	No	Iran CE Classification Continues
Engineers India Ltd.	Yes; October 16, 2008	Iran CE Classification Continues
Essar Oil	No	Iran CE Classification Continues
Finmeccanica SpA	No	Removed from Sudan list
GVA Consultants	Yes; September 26, 2007	Iran CE Classification Continues
ICSA India Limited	No	Removed from Sudan List
Itochu Corp	Yes; May 9, 2008	Removed from Iran List
JGC Corp	Yes; October 1, 2007	Removed from Iran List
La Mancha Resources	Yes; October 21, 2008	Sudan CE Classification Continues
Linde AG	Yes; November 14, 2007	Removed from Iran List
Liquefied Natural Gas LNGL	No	Iran CE Classification Continues
Mitsubishi Heavy Industries Ltd.	Yes; October 26, 2007	Removed from Iran List
Mitsui & Co.	Yes; October 17, 2007	Removed from Iran List
Mitsui Engineering & Shipbuilding	Yes; November 21, 2007 December 18, 2007	Removed from Iran and Sudan Lists
MMC Bhd	No	Sudan CE Classification Continues
Nam Fatt	No	Sudan CE Classification Continues
Saipem	Yes; December 12, 2007	Removed from Iran List
Samsung Engineering Co. Ltd.	No	Iran CE Classification Continues
Samsung Heavy Industries Co. Ltd.	No	Removed from Iran List

Company	Company Responsive to SBA Communications	Continued Examination ("CE") Status
Sasol Ltd.	No	Iran CE Classification Continues
Schlumberger Limited NV	Yes; October 19, 2007	Removed from Iran and Sudan Lists
Siam Cement PCL	Yes; October 21, 2008	Iran CE Classification Continues
SNC - Lavalin Group Inc.	Yes; September 25, 2007	Removed from Iran List
Sudan Telecommunications (Sudatel)	No	Sudan CE Classification Continues
Technip	No	Iran CE Classification Continues
The Weir Group PLC	Yes; November 16, 2007	Removed from Iran and Sudan Lists
Total SA	Yes; October 12, 2007	Sudan CE Classification Continues
Weatherford International, Ltd.	No	Removed from Sudan List

Key Dates for PFIA Activities

June 8, 2007 — Legislation's effective date, upon becoming a law.

August 6, 2007 — SBA letter to state agencies requesting data on all publicly traded securities held directly by the State.

August 20, 2007 — First of two letters to investment managers providing written notice of PFIA enactment and amendment to Schedule B of investment management contracts.

September 19, 2007 — SBA assembles initial Scrutinized Companies lists for Sudan and Iran.

September 20, 2007 — SBA engages companies classified as either Scrutinized or needing Continued Examination through written correspondence, subsequent conference calls and additional communication. SBA disclosed the Scrutinized Companies lists on its website, including reporting of all equities held by the State.

September 21, 2007 — Second of two letters to investment managers providing Scrutinized Companies lists.

October 16, 2007 — SBA formally submits the Scrutinized Companies lists to the Legislature and the United States Special Envoy to Sudan, and continues to do so every quarter.

November 30, 2007 — SBA sends notification via email to any owned scrutinized company that has not responded to initial written correspondence. Similar notification was sent to each company classified as needing continued examination.

December 18, 2007 — SBA assembles updated Scrutinized Companies lists for Sudan and Iran, including a summary of engagement activities to date.

January 25, 2008 — SBA sends additional notice of divestment and request for information to all Scrutinized Companies, with emphasis to companies that have been unresponsive to the SBA's prior request for the necessary information.

March 25, 2008 — SBA assembles updated Scrutinized Companies lists for Sudan and Iran, including a summary of engagement activities to date and related investment activity.

June 10, 2008 — SBA assembles updated Scrutinized Companies lists for Sudan and Iran, including a summary of engagement activities to date and related investment activity.

July 1, 2008 — In March 2008, the SBA developed a policy approach directing all affected managers to sell their remaining PFIA related holdings no later than July 1, 2008, approximately three months earlier than the statutory deadline of September 18, 2008.

September 16, 2008 — SBA assembles updated Scrutinized Companies lists for Sudan and Iran, including a summary of engagement activities to date and related investment activity.

September 18, 2008 — Statutory deadline for the SBA to complete divestment of *initial* Scrutinized Companies (i.e., within 12 months of their initial appearance on the September 19, 2007 list), if they do not stop scrutinized active business operations.

January 13, 2009 — SBA assembles updated Scrutinized Companies lists for Sudan and Iran, including a summary of engagement activities to date and related investment activity.

Summary of Investments Sold, Redeemed, Divested or Withdrawn

In accordance with the PFIA, the SBA must divest all holdings of any scrutinized companies within 12 months of their original appearance on the prohibited securities list. Since September 20, 2007, there has been no increase (i.e. additional, new buying) in holdings of any scrutinized companies. External managers are contractually responsible for administering investments in accordance with restrictions set forth by the SBA, including the prohibited securities list of the PFIA. Beginning in April 2008, the SBA developed a policy approach that directed all affected managers to sell their remaining PFIA related holdings no later than July 1, 2008, approximately three months earlier than the statutory deadline of September 18, 2008. Historical divestment transaction data is contained in prior PFIA Quarterly Reports.

Since the last quarterly report on September 16, 2008, investment holdings in Gazprom Neft totaling $37,892.73 were sold on December 15, 2008. Below is a table showing the aggregate amounts divested by the SBA, by company, since the PFIA's inception:

Royal Dutch Shell	$215,784,700.79
Total SA	$214,536,015.45
Petroleo Brasileiro SA	$206,135,264.10
ENI	$141,403,034.78
Gazprom (a.k.a. OAO Gazprom)	$71,275,453.14
Alstom	$65,897,698.67
Repsol YPF	$53,420,179.87
StatoilHydro	$44,648,662.58
China Petroleum and Chemical Corp (CPCC) Sinopec	$38,455,440.48
PetroChina	$25,723,158.75
Inpex Corp.	$24,835,110.63
MISC Bhd	$16,448,397.44
Snam Rete Gas	$9,596,905.78
Lukoil OAO**	$9,487,631.46
OMV AG **	$8,601,977.98
Wärtsilä Oyj	$1,797,871.96
Petrofac Ltd **	$1,496,881.43
The Weir Group PLC **	$1,322,666.62
Lundin Petroleum AB	$1,133,120.04
Oil & Natural Gas Corporation (ONGC)	$945,363.83
Dongfeng Motor Group	$158,623.49
Electricity Generating Public Company	$121,321.38
Gazprom Neft	$37,892.73
	$1,153,263,374

** Denotes a company which is no longer on the Prohibited Companies list.

In accordance with the PFIA, the SBA will report on the performance implications of PFIA-related divestitures and restrictions. Generally, the impact of PFIA legislation on performance is measured as the opportunity cost of not being able to hold prohibited securities, measured by comparing the monthly return of the standard foreign equity benchmark (i.e., the MSCI ACWI ex-US) to a custom foreign equity benchmark based upon PFIA divestiture requirements. The difference in returns between the standard benchmark and custom benchmark represents the opportunity cost to the SBA of not being able to invest in (or hold) prohibited companies. The percent return difference is then applied to the average monthly balance of foreign equity investments to determine a dollar impact. Monthly dollar impacts, whether positive or negative, are added together through time and then compared to the total value of the FRS Pension Plan to determine the percentage or basis point impact of PFIA legislation.

Table 7: List of Prohibited Investments (Scrutinized Companies)

***** denotes a new company on the list this quarter**

Company	Scrutinized Country	Country of Incorporation	Initial Appearance on Scrutinized List	Full Divestment
***** ABB Ltd.**	Sudan	Switzerland	January 13, 2009	**January 12, 2010**
Alstom	Sudan	France	September 19, 2007	Yes
AREF Investment Group	Sudan	Kuwait	December 18, 2007	Yes
AviChina Industry & Technology Company Limited	Sudan	China	September 19, 2007	Yes
Bharat Heavy Electricals, Limited	Sudan	India	September 19, 2007	Yes
Bongaigaon Refinery & Petrochemicals	Sudan	India	September 19, 2007	Yes
Chennai Petroleum Corp Limited	Sudan	India	September 19, 2007	Yes
China Petroleum & Chemical Corp (CPCC) Sinopec	Iran & Sudan	China	September 19, 2007	Yes
CNPC Hong Kong Limited	Iran & Sudan	Hong Kong	September 19, 2007	Yes
Daqing Huake Group Company	Sudan	China	March 25, 2008	Yes
***** Dietswell SA**	Sudan	France	January 13, 2009	Yes
Dongan Motor (aka Harbin Dongan Auto Engine)	Sudan	China	September 19, 2007	Yes
DongFeng Automobile Co Limited	Sudan	China	September 19, 2007	Yes
***** Egypt Kuwait Holding Co. SAE**	Sudan	Egypt	January 13, 2009	Yes
Electricity Generating Public Company	Sudan	Thailand	September 19, 2007	Yes
ENI	Iran	Italy	September 19, 2007	Yes
Gazprom	Iran	Russia	September 19, 2007	Yes
Gazprom Neft	Iran	Russia	September 16, 2008	Yes
GS Engineering & Construction	Iran	South Korea	September 16, 2008	Yes
GS Holdings	Iran	South Korea	September 19, 2007	Yes
Hafei Aviation Industry Co Limited	Sudan	China	September 19, 2007	Yes
Harbin Power Equipment	Sudan	China	September 19, 2007	Yes
Indian Oil Corp Ltd (IOCL)	Iran & Sudan	India	September 19, 2007	Yes
Inpex Corp.	Iran	Japan	September 19, 2007	Yes
Jiangxi Changhe Automobile	Sudan	China	September 19, 2007	Yes
Jiangxi Hongdu Aviation (aka Hongdu Aviation)	Sudan	China	September 19, 2007	Yes
Kejuruteraan Samudra Timur Bhd	Sudan	Malaysia	September 19, 2007	Yes
Kencana Petroleum	Sudan	Malaysia	December 18, 2007	Yes
Khanom Electricity Generating Co	Sudan	Thailand	December 18, 2007	Yes
KMCOB Capital Bhd	Sudan	Malaysia	September 19, 2007	Yes
Lanka IOC Limited	Sudan	India	September 19, 2007	Yes
Lundin International SA	Sudan	France	September 19, 2007	Yes
Lundin Petroleum AB	Sudan	Sweden	September 19, 2007	Yes
Mangalore Refinery & Petrochemicals Limited	Sudan	India	September 19, 2007	Yes
Midciti Resources Sdn Bhd	Iran & Sudan	Malaysia	September 19, 2007	Yes

Company	Scrutinized Country	Country of Incorporation	Initial Appearance on Scrutinized List	Full Divestment
MISC Bhd	Iran & Sudan	Malaysia	September 19, 2007	Yes
Mosenergo	Iran	Russia	September 16, 2008	Yes
Muhibbah Engineering Bhd	Sudan	Malaysia	September 19, 2007	Yes
Oil & Natural Gas Corp (ONGC)	Iran & Sudan	India	September 19, 2007	Yes
Optimal Olefins Sdn Bhd	Iran & Sudan	Malaysia	September 19, 2007	Yes
PECD Bhd	Sudan	Malaysia	September 19, 2007	Yes
PetroChina	Iran & Sudan	China	September 19, 2007	Yes
Petroleo Brasiliero (Petrobras)	Iran	Brazil	September 19, 2007	Yes
Petroliam Nasional (Petronas)	Iran & Sudan	Malaysia	September 19, 2007	Yes
Petronas Assets Sdn Bhd	Iran & Sudan	Malaysia	September 19, 2007	Yes
Petronas Capital Limited	Iran & Sudan	Malaysia	September 19, 2007	Yes
Petronas Dagangan Bhd	Iran & Sudan	Malaysia	September 19, 2007	Yes
Petronas Fertilizer Sdn Bhd	Iran & Sudan	Malaysia	September 19, 2007	Yes
Petronas Gas Berhad	Iran & Sudan	Malaysia	September 19, 2007	Yes
Ranhill Bhd	Sudan	Malaysia	September 16, 2008	Yes
Repsol YPF	Iran	Spain	September 19, 2007	Yes
Royal Dutch Shell PLC	Iran	United Kingdom	September 19, 2007	Yes
Scomi Engineering Bhd	Sudan	Malaysia	September 19, 2007	Yes
Scomi Group Bhd	Sudan	Malaysia	September 19, 2007	Yes
Sinopec Kantons Holdings Limited	Iran & Sudan	Bermuda	September 19, 2007	Yes
Sinopec Shanghai Petrochemical	Iran & Sudan	China	September 19, 2007	Yes
Sinopec Yizheng Chemical Fibre	Iran & Sudan	China	March 25, 2008	Yes
Snam Rete Gas	Iran	Italy	September 19, 2007	Yes
StatoilHydro	Iran	Norway	September 19, 2007	Yes
Total Nigeria	Iran	Nigeria	March 25, 2008	Yes
Total SA	Iran	France	September 19, 2007	Yes
Wärtsilä Oyj	Sudan	Finland	December 18, 2007	Yes
Wuhan Boiler Company	Sudan	China	September 19, 2007	Yes
# of Companies	**63**	-	-	-

Table 8: SBA Holdings in Prohibited Investments Subject to Divestment

[Market values as of January 1, 2009]

The following table provides SBA holdings in companies on the January 13, 2009 Prohibited Investments list in accounts subject to the PFIA divestiture requirements.

Due to its initial appearance on the Prohibited Investments list this quarter, ABB is the only investment holding subject to divestment under the PFIA, no later than January 12, 2010.

Company	Market Value
ABB	$20,408,035.42
Total	$20,408,035.42

Summary of Progress, SBA Investment Manager Engagement Efforts

On August 20, 2007, the SBA sent letters to 66 external investment managers notifying them of the Act and informing them of new contract language that would enforce their cooperation with the requirements of the new law.

On September 19, 2007, the SBA sent letters to all affected managers outlining the list of prohibited securities for any future purchases. The letter described the SBA's engagement process with companies on the list, which affords companies a 90-day period in which to comply with the conditions of the law or clarify their activities. The letter directed these managers to cease purchase of securities on the list and to await the direction of the SBA for any divestment necessary in the event engagement fails, with a deadline for divestment under the law of September 18, 2008.

On September 19, 2007, the SBA sent letters to actively-managed, indirectly held funds holding scrutinized securities, including managers of the defined contribution program, asking the funds to review the list of scrutinized securities and consider eliminating such holdings from the portfolio or create a similar fund, devoid of such holdings, per the requirements of the law.

Each quarter, and most recently on September 16, 2008, the SBA sends written and electronic notification to all affected managers about the list of prohibited companies.

The SBA has received responses noting our concerns in writing and by telephone from several of the contacted managers.

Listing of All Publicly Traded Securities (including Equity investments)

Due to the large number of individual securities and the volume of information, this list has been electronically posted to the SBA's website. A list of all publicly traded securities owned by the State of Florida can be found at www.sbafla.com within the PFIA section.

For more information, please contact:

Florida State Board of Administration (SBA)
Office of Corporate Governance
1801 Hermitage Blvd., Suite #100
Tallahassee, FL 32308
www.sbafla.com

or send an email to:

pfia@sbafla.com

TESTIMONY OF
JASON F. ISAACSON
DIRECTOR OF GOVERNMENT AND INTERNATIONAL AFFAIRS
AMERICAN JEWISH COMMITTEE
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES
ON
H.R. 1327, THE IRAN SANCTIONS ENABLING ACT OF 2009
2220 RAYBURN HOUSE OFFICE BUILDING
MARCH 12, 2009

Mr. Chairman, members of the Committee, I am honored to testify on behalf of the American Jewish Committee in support of the Iran Sanctions Enabling Act. AJC is grateful to Chairman Frank and to you, Chairman Meeks, and to the other sponsors of this important legislation for developing early in the new Congress this well-crafted tool to address the grave threats posed by Iran's regime.

My testimony will highlight two key points:

First, stopping Iran's nuclear program is a matter of the greatest urgency – because Iran is so close to achieving nuclear capability, and because a nuclear Iran would alter the world as we know it in terrible ways.

Second, this legislation – clarifying the authority of state and local governments, and investment companies, to divest from entities that invest heavily in Iran's energy sector – can significantly assist the overall effort to halt Iran's nuclear program.

Iran is perilously close to nuclear arms capability. It has already crossed a significant threshold – amassing enough enriched uranium to make, with further enrichment, its first nuclear bomb. Admiral Mullen, the Chairman of the Joint Chiefs of Staff, discussed this conclusion last week, and the International Atomic Energy Agency documented it in its February 19 report.

Iran's installation of thousands of next generation centrifuges increases its ability rapidly to enrich to bomb grade – and thus "break out" of its Non-Proliferation Treaty constraints. Iran could probably conceal its breakout even if IAEA inspectors remain in the country, because Iran routinely refuses to provide critical information and access to inspectors. Once Iran decides to break out, it may be too late for the international community to stop it from producing a bomb. That gives us breathtakingly little time to act. And Iran could marry a nuclear warhead with advanced missiles it already possesses that could strike the Middle East and beyond, including much of Europe.

President Obama and Congress recognize America's strong interest in preventing Iran from obtaining a nuclear weapon. Some observers may see a nuclear Iran primarily as an existential threat to Israel, a country it has repeatedly threatened and has used proxy forces to attack. I do not want to minimize that very real danger – nor the need for bold international action to prevent it. But I want to highlight that a nuclear Iran would pose an even broader threat – throughout the Arab Gulf, to the entire region and, indeed, to global peace and security.

Already, Iran projects its power throughout the Middle East. Nuclear arms would embolden Tehran to pursue its expansionist agenda even more aggressively. And the international community's options for vigorous response would be constrained, for fear of provoking nuclear retaliation. I will give you a few examples:

A nuclear Iran could dominate the world's most abundant sources of energy – the Gulf and the Caspian Basin. Iran could attempt to close the Strait of Hormuz – through which roughly 20 percent of the world's oil production passes. Or it might seek to realize its expansionist vision by taking territory from one or more of the smaller Gulf States.

Later today, I will be leaving to join several AJC colleagues in a round of consultations in the Gulf, visiting countries allied with the United States in the struggle against terrorism and extremism, and supportive of efforts to advance regional peace. In our previous meetings in the region, Gulf leaders have repeatedly expressed their concern about Iran's quest to assert its regional power, and its attempts to radicalize their societies. It isn't only Israel that perceives the perils of a nuclear Iran. From North Africa to the Levant to the Gulf, pragmatic Arab governments and civil society leaders recognize the danger of a further empowered Iran; many look to the United States for assurance that this nightmare can be averted, and that America will safeguard their security. Unless the United States and other powers act boldly and promptly, these governments may feel compelled to accommodate Iran, procure their own nuclear weapons, or both. These developments would assuredly destabilize the region, challenge U.S. power, and imperil the Nuclear Non-Proliferation Regime.

Iran already has a potent presence in the Palestinian territories and Lebanon – through its active support of Hezbollah and Hamas. The Palestinian Authority, Egypt, Jordan, and others – not to mention Israel – are deeply concerned about Iran's activity. The threat would be magnified, and prospects for regional peace and the protection of human rights severely complicated, were Iran to possess nuclear capability.

These frightening effects would follow from Iran simply having the ability to deploy a nuclear weapon. They pale in comparison with the dangers of Iran actually using one. The possibility cannot be discounted – because the consequences would be so dire – that this reckless and apocalyptic regime could allow an international incident to escalate out of control and launch such a weapon, or that it could transfer a nuclear device to a terrorist proxy. A dirty bomb in the center of Chicago, London, or Tel Aviv becomes a very real possibility. If Iran's leaders wished to make good on their oft-

repeated promise to wipe Israel off the map, we could not necessarily rely on deterrence to dissuade them – not in a country whose rulers have demonstrated their willingness to sacrifice millions of their citizens to achieve their vision.

What can be done to stop Iran's nuclear drive? The best answer is to offer the regime incentives for ending its defiance of international law – and to make it unbearably costly for them to continue. The United States has played a crucial leadership role in trying to mobilize the world's economic powers to impose such tough sanctions. The urgency of the threat and the severe consequences of failing to end it compel the United States to intensify its efforts.

1. Our government should make abundantly clear that we will not allow a nuclear Iran – and that the UN Security Council demand that Iran verifiably suspend enrichment is not negotiable.
2. We should offer Iran incentives for ending its nuclear enrichment and meeting its non-proliferation obligations.
3. We should make it unbearably costly for Iran's regime to continue its defiance – even as we make it clear to Iran's people, against whom we hold no brief, that the choice lies with their regime.

The United States has been a leader in mobilizing international support for addressing the Iranian threat. As Iran closes in on nuclear capability, we must continually ratchet up the price of its defiance.

If our Administration pursues engagement with Iran, simultaneously intensifying sanctions is critical. Only tough sanctions would prevent Iran's rulers from seeing our overtures as a sign of weakness and motivate them to be forthcoming in negotiations. Firm goal posts and deadlines also are crucial to prevent Iran's regime from hiding behind negotiations as it completes its quest for nuclear arms.

Congress, as in the past, has a critical role to play in maintaining the necessary focus on this urgent issue, and in providing the Administration – and now, with the legislation before you, providing state and local authorities across the country – the proper tools to address it.

In addition to existing U.S. efforts and repeated UN Security Council sanctions measures, it is imperative that further, targeted U.S. sanctions be implemented – including ones that Congress has passed but that still have not been implemented. Such further sanctions will discourage large new investments and contracts that help maintain Iran's regime. This is where the Iran Sanctions Enabling Act will make a significant contribution.

Iran's strained economy is the regime's Achilles' heel, and provides our most effective leverage – especially now, with oil prices sharply depressed. Oil and gas exports account for some 80 percent of Iran's export revenue and about half the

government's budget. The regime relies on foreign companies to develop its energy industry, and even to provide it with gasoline for domestic use – because it doesn't have refining capacity to meet its own needs. Foreign energy companies essentially sustain Iran's economy and its regime.

Billions of dollars of U.S. public employee pension funds and other public funds are invested in the foreign corporations that most heavily engage in Iran's oil sector – accounting for a significant portion of investment in these companies. A movement is sweeping the United States to curb investment of public funds in these companies. Ten states have enacted laws – including California, with the largest plans in the country, by far – and others have instituted policies divesting from Iran. Members of the armed forces and first responders – who know first-hand the damage that Iran's activity inflicts – are among those who have advocated for divestment most strongly.

Taken together, the divestment mandates already on the books at the state and local level affect more than half a trillion dollars in assets – a sum that is growing as grassroots concern spreads across the country. As Senator Deutch knows – in fact, in large part because of Senator Deutch's efforts – the State of Florida alone already has directed its pension funds to divest nearly $1.3 billion from these companies, unless the companies change their ways.

Divestment, and the attendant negative publicity, impels companies to reassess their investment in Iran – especially because most of the laws give companies an opportunity to avoid divestment by halting such investments. Many companies already have chosen to do just that. Divestment also discourages companies from beginning new business in Iran.

Thus, divestment discourages the heavy international investment in Iran's oil and gas infrastructure that Iran's regime desperately needs, and thereby significantly adds to the economic pressure on the regime.

Iran is a highly risky investment environment, for numerous reasons. The volatile government and the Iranian Revolutionary Guard own and control much of the economy, especially the energy sector. Corruption is rife, and the business environment opaque. Credit and credit guarantees have become less available, especially with the designation of large Iranian banks for their involvement in proliferation and/or terrorism. Available credit often costs more or comes from less reputable institutions – or both. Iran's deep economic crisis heightens the risk of doing business there. Companies investing heavily in Iran's energy sector also risk U.S., EU, and international sanctions.

For all these reasons, and more, companies that engage heavily in Iran's energy sector are subject to extraordinary risk. Investing in these companies could subject a pension or other fund to undue risk. State and local governments – or investment fund managers – that choose to divest from these companies are acting with prudence and exercising their legitimate authority to protect the assets under their stewardship.

The Iran Sanctions Enabling Act would protect only divestment from companies that invest more than $20 million in Iran's energy sector. These are the very companies that are subject to U.S. sanctions for their activity in Iran – activity that U.S. companies are forbidden from doing.

The American Jewish Committee strongly supports this legislation, and wishes to express our appreciation for the opportunity to testify before the Subcommittee on this critical matter. Thank you.

Written Statement

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Senior Fellow, Foundation for Defense of Democracies

Before the U.S. House of Representatives Committee on Financial Services,
Subcommittee on International Monetary Policy and Trade

Regarding

H.R. 1327, the Iran Sanctions Enabling Act of 2009

March 12, 2009

Chairman Meeks, Ranking Member Miller, and distinguished members of the Subcommittee, thank you for the opportunity to speak with you about H.R. 1327, the Iran Sanctions Enabling Act of 2009. In this testimony I will discuss the following: the grave threat posed to the United States by Iran's nuclear program, the current status of Iran's nuclear program, two examples of how strong sanctions have previously stopped illicit nuclear weapons programs, Iran's vulnerability to sanctions and the current status of those sanctions, and how H.R. 1327 can contribute to increasing the prospects for preventing Iran from acquiring nuclear weapons.

I. The Grave Threat Posed to the United States by Iran's Nuclear Program

Iran's nuclear program is a grave security concern. It is also a grave economic concern. Armed only with boxcutters, the nineteen al Qaeda hijackers on September 11, 2001 killed almost 3,000 people and caused tens of billions of dollars in damage to New York City, the Pentagon, and the global economy.[1] This toll would be dwarfed by a "nuclear 9/11." Detonation of a single small, crude nuclear weapon in a city such as New York or Washington, DC could kill more than 500,000 people and cause over one trillion dollars in damage.[2] Such a "nuclear 9/11" attack on America within the next decade is "more likely than not" according to nuclear nonproliferation experts including Graham

[1] *See, e.g.*, Charles Meade & Roger C. Molander, Rand Ctr. for Terrorism Risk Mgmt. Policy, CONSIDERING THE EFFECTS OF A CATASTROPHIC TERRORIST ATTACK xvi,6 (2006).
[2] *See, e.g.*, Matthew Bunn, Anthony Wier & John P. Holdren, Nuclear Threat Initiative, CONTROLLING NUCLEAR WARHEADS AND MATERIALS: A REPORT CARD AND ACTION PLAN 15–16, 18 (2003).

Allison[3] and Robert Gallucci.[4] The odds of such a devastating "nuclear 9/11" attack on Tel Aviv may be as high or higher.

Where would such a bomb most likely come from? Iran. The Iranian regime's apocalyptic messianism and exaltation of martyrdom may make it impossible to deter Iran's leadership from using, or enabling its terrorist proxies to use, nuclear weapons to achieve its avowed aims of destroying the United States and Israel.[5] While mutual deterrence kept the United States and the Soviet Union from attacking each other during the Cold War, significant elements of Iran's leadership may be undeterrable.[6] Even if Iran's leadership turns out to be deterrable, there would be a considerable risk of rogue elements within Iran taking it upon themselves to transfer nuclear arms to Iran's terrorist allies. As we saw with Pakistan's A.Q. Khan, who proliferated under the comparatively secular and responsible Musharraf government, one key rogue figure can be sufficient to share an insecure country's nuclear technology with others. And with A.Q. Khan now freed from even the very minimal punishment of house arrest which he had received, the message to Iranians who may wish to copy him is that even if they are caught the punishment is likely to be minimal.

Another hazard of relying on deterrence to protect the United States from an Iranian nuclear arsenal is the possibility of miscalculation, which was reflected in several close calls with the Soviet Union/Russia, both during the Cuban Missile Crisis and since then. For example, in 1995 the launch of a Norwegian weather rocket prompted fears in Russia that a surprise attack by the United States was underway, leaving Yeltsin and his top aides to ponder a possible retaliatory strike.[7] Fortunately, relations between the

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[3] Graham Allison, NUCLEAR TERRORISM: THE ULTIMATE PREVENTABLE CATASTROPHE 15 (2004). Allison is former dean of Harvard's Kennedy School of Government and served as Assistant Secretary of Defense for Policy and Plans during the Clinton Administration.

[4] Robert L. Gallucci, *Averting Nuclear Catastrophe: Contemplating Extreme Responses to U.S. Vulnerability*, ANNALS AM. ACAD. POL. & SOC. SCI., Sept. 2006, at 51, 52. Gallucci is current dean of Georgetown University's School of Foreign Service and served as Assistant Secretary of State for Political-Military Affairs during the Clinton Administration.

[5] *See Iranian Leader: Wipe Out Israel*, CNN.com, Oct. 27, 2005 (quoting Iranian President Mahmoud Ahmadinejad as saying, "God willing, with the force of God behind it, we shall soon experience a world without the United States and Zionism" and Israel "must be wiped out from the map of the world."); *Iran: Tehran's NuclearRecklessness and the U.S. Response, Hearing before the Subcomm. on Fed. Fin. Mgmt., Gov't Info. & Int'l Sec. of the S. Comm. on Homeland Sec. & Governmental Affairs*, 109th Cong. (2005) (testimony of former CIA Director R. James Woolsey) (including the following quote from Hassan Abbassi, chief strategist for Iranian President Ahmadinejad: "We have a strategy drawn up for the destruction of Anglo-Saxon civilization."). Some analysts argue that the international community should not be overly concerned by Ahmadinejad's statements because he does not fully control Iran's nuclear policy. In addition to the Presidency, the major power hubs in Iran are the Supreme Leader, Ayatollah Khameini, and the Expediency Council, currently chaired by former Iranian President Rafsanjani. Former Spanish Prime Minister José Maria Aznar has revealed that Khameini told him in a private meeting that "setting Israel on fire" was a preeminent Iranian goal. Khamenei explained to Aznar "why Iran must declare war on Israel and the United States until they are completely destroyed." Verter, *Aznar: Khamenei Said in 2001 Iran Aimed to 'Set Israel Alight'*, Haaretz, Mar. 15, 2006. Rafsanjani, the chair of the other power hub in Iran, said the following in a speech at Tehran University: "the use of even one nuclear bomb inside Israel will destroy everything. However, it will only harm the Islamic world. It is not irrational to contemplate such an eventuality." *Iran: Rafsanjani warns of high cost of US support for Israel*, BBC Worldwide Monitoring, Dec. 15, 2001.

[6] *See, e.g.*, Bernard Lewis, *August 22: Does Iran Have Something in Store?*, WALL ST. J., Aug. 8, 2006, at A10 (in which Lewis, a leading expert on Islam, describes "the apocalyptic worldview of Iran's present rulers" and asserts that "[f]or people with this mindset, MAD [mutual assured destruction] is not a constraint, it is an inducement").

[7] *See, e.g.*, *Rocket that Spooked Moscow in 1995 Goes Up Again*, cnn.com, Jan. 21, 1999, available at http://www.cnn.com/TECH/space/9901/21/rocket.launch/.

United States and Russia were good enough that Yeltsin decided there must be a mistake, that the United States could not possibly be attacking. Absent similar reservoirs of goodwill between the U.S. and Iran, a miscalculation could result in disaster.

However, even before Iran launches a nuclear attack, and indeed even if it never does, an Iranian nuclear arsenal will make Iran far more dangerous than it is today. The current Iranian government is already the world's leading state sponsor of terrorism.[8] An Iranian nuclear arsenal could serve Iran as a "nuclear umbrella," making countries victimized by Iranian-sponsored terrorism even more reluctant to retaliate against Iran. This could make Iran an even more self-confident sponsor of terrorism.

Another danger of Iran acquiring a nuclear arsenal is that many of its neighbors in the Middle East could feel compelled to follow suit. The fear that an Iranian nuclear arsenal will unleash a cascade of proliferation across the Middle East has been heightened by at least twelve Arab states in the last two-and-a-half years announcing plans to pursue nuclear technology.[9] An editorial in the Egyptian government daily newspaper *Al-Ahram* put it as follows: "Iran's nuclear capability . . . will spur many powers in the region to develop a nuclear program."[10] Such a cascade of proliferation in the Middle East would likely lead to the worldwide collapse of the already tottering nuclear non-proliferation treaty (NPT) regime.[11] In addition, the proliferation of nuclear weapons in the Middle East tinderbox, with its border disputes, religious fanaticism, ethnic hatreds, unstable governments, terrorist groups, and tendency for conflicts to spiral out of control, seems likely to result in a devastating nuclear war.

II. Current Status of Iran's Nuclear Program

The international community has thus far responded with remarkable passivity to the grave dangers posed by the Iranian nuclear program. As a result, there is at present nothing but time standing between the Iranian regime and a nuclear arsenal.

The United Nations Security Council, in three Security Council Resolutions including Resolution 1737 of December 2006, has issued an order, binding under

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[8] *See, e.g.,* OFFICE OF THE COORDINATOR FOR COUNTERTERRORISM, U.S. DEPARTMENT OF STATE: COUNTRY REPORTS ON TERRORISM: 2007 (stating that in 2007 "Iran remained the most active state sponsor of terrorism.").

[9] *See, e.g.,* William J. Broad & David E. Sanger, *Fearing Iran, Arab States Seek Nuclear Power*, INT'L HERALD TRIB., April 15, 2007, http://www.iht.com/articles/2007/04/15/news/nuke.php; Richard Beeston, *Six Arab States Join Rush to Go Nuclear*, TIMES (London), Nov. 4, 2006, at 1; INT'L INS. FOR STRATEGIC STUDIES, NUCLEAR PROGRAMS IN THE MIDDLE EAST: IN THE SHADOW OF IRAN 7 (2008), *available at* http://www.iiss.org/publications/strategic-dossiers/nuclear-programmes-in-the-middle-east-in-the-shadow-of-iran/read-the-dossier/.

[10] H. Avraham, Middle Eastern Media Research Institute, *Inquiry & Analysis Series – No. 277, Arab Media Reactions to Iran's Nuclear Project*, May 23, 2006 (quoting editorial *in* AL-AHRAM, Apr. 16, 2006); *see also* Roee Nahmias, *Mubarak Hints: We'll Develop Nukes*, ynetnews.com, Jan. 5, 2007 (stating that Egyptian President Mubarak hinted that if Iran proceeds to attain nuclear weapons, Egypt will follow suit).

[11] The U.N. Secretary-General's High-Level Panel on Threats, Challenges and Change warned of "the erosion and possible collapse of the whole [nuclear nonproliferation] Treaty regime," explaining: "We are approaching a point at which the erosion of the non-proliferation regime could become irreversible and result in a cascade of proliferation." The Secretary-General, *Report of the Secretary-General's High-Level Panel on Threats, Challenges and Change*, at 39-40, U.N. doc. A/59/565 (Dec. 1, 2004).

international law, that "Iran shall without further delay suspend" various "proliferation sensitive nuclear activities" including "all enrichment-related and reprocessing activities, including research and development" and "work on all heavy water-related projects, including the construction of a research reactor moderated by heavy water."[12] Rather than comply with this legally binding Security Council mandate to cease the production of nuclear fuel by enrichment and other methods, Iran has openly and admittedly accelerated its enrichment activities. In its report of February 19, 2009,[13] the International Atomic Energy Agency states that Iran has dramatically increased its installation of centrifuges (now numbering more than 5,400), has accumulated a total of 1,010 kilograms of low enriched uranium, and continues to manufacture uranium fuel rods for Iran's Arak heavy water reactor while refusing to allow IAEA inspection of the reactor. The IAEA report also expresses concern at "the continued lack of cooperation by Iran in connection with the remaining issues which give rise to concerns about possible military dimensions of Iran's nuclear programme."

These unresolved IAEA concerns about possible military dimensions of Iran's nuclear program were discussed in more detail in the February 22, 2008 IAEA report on Iran, which included information about Iranian explosives testing and development activities "which the Agency believes would be relevant to nuclear weapon weapon R&D" and Iranian work on modifications to the Shihab-3 missile which would make it "quite likely to be able to accommodate a nuclear device."[14] The February 2008 IAEA report urged Iran to be more forthcoming in response to this information, which the report said was "a matter of serious concern and critical to an assessment of a possible military dimension to Iran's nuclear programme."[15]

In addition, on February 25, 2008, IAEA Deputy Director Olli Heinonen presented to diplomats evidence of sophisticated research by Iran that Heinonen said was "not consistent with any application other than the development of a nuclear weapon."[16] The evidence, which includes a video showing work done on designing a nuclear warhead capable of fitting atop Iran's Shihab-3 missile,[17] suggests that Iran's nuclear weaponization work continued for at least some time after the NIE said it was suspended.[18]

As Iran's enrichment-related and other nuclear activities have progressed, President Ahmadinejad and other Iranian officials have consistently declared that they are not interested in negotiations over their nuclear activities. For example, Ahmadinejad

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[12] S.C. Res. 1737, U.N. Doc. S/RES/1737 (Dec. 3, 2006).
[13] Available online at http://www.iaea.org/Publications/Documents/Board/2009/gov2009-8.pdf.
[14] Int'l Atomic Energy Agency, *Implementation of the NPT Safeguards Agreement and relevant provisions of Security Council resolutions 1737 (2006) and 1747 (2007) in the Islamic Republic of Iran*, Report by the Director General, IAEA Doc. GOV/2008/4 (Feb. 22, 2008).
[15] *Id.*
[16] William J. Broad and David E. Sanger, *Vienna Meeting on Arms Data Reignites Iran Nuclear Debate*, N.Y. TIMES, March 3, 2008, at A1.
[17] William J. Broad and David E. Sanger, *Vienna Meeting on Arms Data Reignites Iran Nuclear Debate*, N.Y. TIMES, March 3, 2008, at A1.
[18] Joby Warrick and Colum Lynch, *U.N. Says Iran May Not Have Come Clean on Nuclear Past*, WASH. POST, March 2, 2008, at A16.

was quoted as telling Japan's Kyodo News Agency: "This is a non-negotiable subject. Iran is a nuclear country and has no reason to give up the technology."[19]

III. Examples of Strong Sanctions Stopping Illicit Nuclear Weapons Programs

The sanctions imposed on Iran thus far – including by the United Nations Security Council, the European Union and the United States – have obviously thus far failed to dissuade Iran from continuing to pursue its nuclear program. It could be tempting to conclude from this experience that sanctions can under no circumstances succeed in stopping Iran's nuclear weapons program. Such a conclusion would be both unfortunate and incorrect.

The international community has learned in recent years that strong sanctions can stop both illicit nuclear weapons programs and terrorism. For example, it was discovered, in the wake of the U.S. occupation of Iraq, that strong U.N. Security Council sanctions had destroyed Iraq's nuclear weapons program and succeeded in preventing Saddam Hussein from restarting it between the Gulf War in 1991 and the coalition occupation of Iraq in 2003.[20] The sanctions helped discourage Saddam from rebuilding his nuclear weapons program, contained his ability to rebuild it by blocking the import of key materials and technologies, and provided the UN with critical leverage to ensure Iraqi cooperation with UN inspections and monitoring.[21] Rolf Ekeus, chief UN weapons inspector in Iraq from 1991 to 1997, put it as follows: "Keeping the sanctions was the stick, and the carrot was that if Iraq cooperated with the elimination of its weapons of mass destruction, the Security Council would lift the sanctions. Sanctions were the backing for the inspections, and they were what sustained my operation almost for the whole time."[22]

Strong UN Security Council sanctions also induced Libya's government, a regime that had become synonymous with international terrorism, to forsake terrorism and completely and verifiably relinquish its nuclear, chemical, and biological weapons programs. Libya ceased its support for terrorism following the Security Council's imposition on it of strong sanctions in 1992 and 1993.[23] In exchange for removal of the Security Council sanctions, Libya, in August 2003, formally accepted responsibility for the bombing of Pan Am Flight 103 and paid $2.7 billion in compensation to its victims.[24] In addition, Libya announced on December 19, 2003, that it had decided "to get rid of [weapons of mass destruction] materials, equipment and programs, and to become totally

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[19] *Iran Nuclear Drive 'Non-Negotiable,'* IRNA, Apr. 4, 2008.
[20] *See* Central Intelligence Agency, COMPREHENSIVE REPORT OF THE SPECIAL ADVISOR TO THE DCI ON IRAQ'S WEAPONS OF MASS DESTRUCTION (Sept. 30, 2004 and March 2005 addenda); George A. Lopez & David Cortright, *Containing Iraq: Sanctions Worked*, FOREIGN AFF., July/Aug. 2004.
[21] George A. Lopez & David Cortright, *Containing Iraq: Sanctions Worked*, FOREIGN AFF. (July/August 2004).
[22] *Id.* (quoting Rolf Ekeus).
[23] Bruce W. Jentleson and Christopher A. Whytock, *Who "Won" Libya?*, 30 INT'L SECURITY 47, 68 (Winter 05/06).
[24] Felicity Barringer, *Libya Admits Culpability In Crash of Pan Am Plane*, N.Y. TIMES, Aug. 16, 2003, at A6.

free of internationally banned weapons."[25] Libya proceeded to allow a team of British and American government experts to enter the country and completely dismantle its WMD infrastructure by April 2004.[26]

The sanctions on Libya both contained Qaddafi's ability to develop WMD and ultimately coerced Qaddafi, including by threatening his grip on Libya. The sanctions' impact on Libya's ability to purchase replacement parts for its most sophisticated machinery crippled the Libyan air force[27] and eventually ground down Libya's petroleum extraction industry.[28] Production by Libya's oil industry declined from a peak of 3.3 million barrels a day in the late 1970s to 1.1 million in 1999.[29] The World Bank estimated that the UN sanctions cost Libya eighteen billion dollars in oil revenue,[30] and during this period the Libyan economy entered a long recession, resulting in thirty-percent unemployment and a fifty-percent inflation rate.[31] The Qaddafi regime, which "depended for its survival on buying the population's acquiescence," became the target of demonstrations, "at least two military coup attempts and an Islamic insurgency."[32] As with Iraq, the sanctions also reduced Libya's ability to develop WMD, including by making the process more time-consuming and forcing Libya to import "shoddy merchandise at exorbitant prices."[33]

IV. The Current Sanctions on Iran

The sanctions imposed on Iran by the international community thus far are much weaker than the sanctions which stopped the Iraqi and Libyan nuclear weapons programs. Security Council Resolution 687 of April 1991 imposed comprehensive economic sanctions on Iraq. Security Council Resolutions 731 and 748 of 1992 and Resolution 883 of 1993 imposed with respect to Libya mandatory sanctions including a ban on flights destined for or originating in Libya; a ban on the supply of aircraft, aircraft parts, or servicing to Libya; an arms embargo; a freeze on various Libyan assets abroad; and a prohibition on the export to Libya of oil pumping, transport, and refining equipment. In contrast, the mandatory sanctions imposed with respect to Iran by Security Council Resolutions 1737, 1747, and 1803 include merely 1) restrictions on the export to Iran of certain specified nuclear and ballistic missile items, materials, equipment and technology; 2) a freeze of overseas assets of various named Iranian officials and institutions; 3) a ban on the export of arms by Iran; and 4) a ban on overseas travel of a handful of Iranian officials.

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[25] *Libyan Call Against Arms*, N.Y. TIMES, Dec. 20, 2003, at A10 (text of Libyan government statement).
[26] Judith Miller, *Gadhafi's Leap of Faith*, WALL ST. J., May 17, 2006, at A18.
[27] Stephen D. Collins, *Dissuading State Support of Terrorism: Strikes or Sanctions? (An Analysis of Dissuasion Measures Employed Against Libya)*, 27 Stud. Conflict & Terrorism 11 (2004).
[28] Milton Viorst, *The Colonel in His Labyrinth*, FOREIGN AFF., Mar.–Apr. 1999, at 71–72 (quoting Hammouda el-Aswad, head of Libya's National Oil Corporation).
[29] Patrick E. Tyler, *Libyan Stagnation a Big Factor in Qaddafi Surprise*, N.Y. Times, Jan. 8, 2004, at A3; Viorst, *supra* note 39, at 71–72 (quoting Hammouda el-Aswad, head of Libya's National Oil Corporation).
[30] Collins, *supra* note 38, at 12.
[31] *Id.*
[32] Ray Takeyh, *The Rogue Who Came in from the Cold*, FOREIGN AFF., May/June 2001, at 65.
[33] Judith Miller, *Gadhafi's Leap of Faith*, Wall St. J., May 17, 2006, at A18.

Indeed, the Iran sanctions are thus far weaker than the sanctions imposed by the Security Council in response to many lesser threats to international peace and security, including on Liberia and Cote D'Ivoire during their civil wars, Sierra Leone in response to its May 1997 military coup, the Federal Republic of Yugoslavia during the Bosnian crisis, and Haiti in response to its 1991 military coup.

Due to its ideology, the value to the Iranian regime of engaging in nuclear proliferation and sponsoring terrorism is particularly high. Yet, the price the international community has exacted from the Iranian regime for its violations has thus far been remarkably low. Security Council Resolutions 1737, 1747, and 1803 are too weak to coerce Iran into compliance, contain Iran's ability to advance its nuclear weapons program, or deter other states from following Iran's lead and developing their own nuclear weapons program. This is unfortunate, because Iran's heavy dependence on foreign trade leaves it highly vulnerable to strong economic sanctions. For example, Iran depends on other countries to refine forty percent of the gasoline it needs for internal consumption.[34]

Many Iranians have strongly criticized the Iranian government for endangering its economy and international relationships over the nuclear issue. For example, in November 2008, a group of 60 Iranian economists called for the regime to drastically change course, saying that President Ahmadinejad's "tension-creating" foreign policy has "scared off foreign investment and inflicted heavy damage on the economy." Sanctions-induced further weakening of the Iranian economy could strengthen the hands of these opposition figures.

Why are the Security Council sanctions on Iran so weak? In considerable part because Russia and China, which have vetoes over Security Council sanctions, are prioritizing the short-term profits to be gained from business as usual over the long-term security to be gained by forcing Iran to stop before it succeeds in developing nuclear weapons. Indeed, the weakness of the sanctions imposed by the Security Council stands in stark contrast to major Russian and Chinese transactions with Iran that were unaffected by the sanctions and thus represent leverage lost. For example, Russia was, at the very time of the vote on Resolution 1737, in the process of delivering to Iran 29 Tor-M1 anti-aircraft missile systems purchased by Iran for $1.4 billion dollars.[35] The anti-aircraft systems are, by the way, being stationed around Iran's nuclear sites.[36] The Bushehr nuclear reactor which Russia is building in Iran and was exempted from the sanctions is an $800 million project.[37] In addition, during the week prior to the passage of Resolution 1737, China's national oil corporation signed a $16 billion agreement to develop Iranian gas fields.[38]

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[34] Orde F. Kittrie, *How to Put the Squeeze on Iran*, Wall St. J., Nov. 13, 2008, at A19.
[35] *Russian Anti-aircraft Weapons Sales to Syria, Iran on Schedule,* AGENCE FRANCE PRESS, Jan. 2, 2007.
[36] *Id.*
[37] Colum Lynch, Sanctions on Iran Approved by U.N., WASH. POST, Dec. 24, 2006, at A1.
[38] R. Nicholas Burns, Under Sec'y for Political Affairs, U.S. Dep't of State, Conference Call on UN Sanctions Resolution 1737 (Dec. 23, 2006), *available at* http://www.state.gov/p/us/rm/2006/ 78246.htm

In the two years since passage of Resolution 1737, Russia and China have consistently worked to both delay and water down additional sanctions. At this point, United Nations Security Council sanctions on Iran seem to have reached an impasse. It became clear last September that the UN Security Council sanctions process may have run its course. The IAEA's September 15, 2008 report described Iran's rapid progress in enriching uranium contrary to international law, provided evidence that Iran's purpose is to create a nuclear weapon in violation of international law, and detailed Iran's continued lack of cooperation with the IAEA. Eleven days later, the Security Council responded with a fourth resolution, Resolution 1835 of September 27, 2008, which called on Iran to comply with its legal obligations but imposed no additional sanctions.

If the EU, which supplies nearly half of Iran's imports (including all of the forty percent of Iran's gasoline that it imports and nearly all of Iran's sophisticated machinery needs),[39] were to follow the US lead and impose a nearly comprehensive embargo on Iran, it would, in my view, quickly succeed in coercing Iran to cease its nuclear weapons program. The EU exported about $15 billion worth of goods to Iran in 2007. Although vital for Iran, this trade was less than one percent of the EU's total worldwide trade. However, there is no sign that the EU plans to impose such vigorous additional sanctions against Iran.

V. How H.R. 1327 Can Help Prevent Iran from Acquiring Nuclear Weapons

As many of you know, then-Senator Obama in 2007 introduced a bill very similar to H.R. 1327 which is before you today. Senator Obama's bill was titled the Iran Sanctions Enabling Act of 2007 and was a counterpart to Chairman Frank's identically titled bill in the last Congress.

Here are a few of the key statements, right out of the Congressional Record, that then-Senator Obama made about his Iran Sanctions Enabling Act of 2007, which unfortunately did not pass the Senate. As you will see, the reasoning and urgency underpinning then-Senator Obama's eloquent statements of support for a bill nearly identical to H.R. is even more compelling now than it was when then-Senator Obama spoke these words in 2007:

> This bill will enable citizens, institutional investors, and State and local governments to ensure that their money is not being used by companies that help develop Iran's oil and gas industry. This would place additional economic pressure on the Iranian regime with the goal of changing Iranian policies.
>
> . . .
>
> Iranian leaders are exporting militancy, sectarianism, and rejectionism throughout the Middle East. Fueled by the billions of dollars it earns from oil and gas exports, Iran has been pumping money into radical Islamist

[39] European Commission Bilateral Trade Relations: Iran, http://ec.europa.eu/trade/issues/bilateral/countries/iran/index_en.htm.

> terror groups like Hezbollah and Hamas. Every bit as worrying is the rhetoric of President Mahmoud Ahmadinejad publicly calling to "wipe Israel off the map."
>
> . . .
>
> [D]ivestment legislation can dissuade foreign companies from investing in energy operations whose profits will be used to threaten us.
>
> . . .
>
> [W]hile we should take no option, including military action, off the table, sustained and aggressive diplomacy combined with tough sanctions should be our primary means to deal with Iran. It is incumbent upon us to find and implement ways to pressure Iran short of war, ways that demonstrate our deep concern about Iran's behavior, and ways that will help us to exert leadership on this issue. This bill is one of those ways.
>
> I have called for direct engagement with Iran over its efforts to acquire nuclear weapons. But direct dialogue, as we conducted with the Soviet Union during the Cold War, should be part of a comprehensive diplomatic strategy to head off this unacceptable threat. So should the legislation Senator Brownback and I are introducing today.
>
> I hope my colleagues will cosponsor the Obama-Brownback legislation. On the House side, I hope my colleagues in that Chamber sign on to the Frank bill.

As then-Senator Obama said of his Iran Sanctions Enabling Act of 2007, the Iran Sanctions Enabling Act of 2009, H.R. 1327, can contribute to increasing leverage over Iran and thus improving the prospects for preventing Iran from acquiring nuclear weapons. Sanctions, including H.R. 1327, are not a substitute for diplomacy. Rather, they are a tool to increase leverage over Iran in a situation where the leverage is currently insufficient to convince Iran to step back from the nuclear brink. There are two types of leverage in international relations: carrots and sticks. In June 2006, the so-called "Permanent Five Plus 1" (the U.S., Russia, China, France, Britain, and Germany) offered Iran a generous package of incentives if it were to permanently and verifiably curb its nuclear program.[40] Security Council Resolution 1803 of March 2008 confirmed that the June 2006 offer still stands. In conjunction with the June 2006 offer, Iran was also reportedly threatened with various sanctions if it did not agree to curb its nuclear program.[41] Despite Iran's failure to negotiate seriously and notwithstanding Iran's persistence with its nuclear program in defiance of international law, few of those threatened sanctions have thus far been imposed on Iran.

In light of Iran's advancing nuclear program, a failure by the West to quickly improve its peaceful leverage over Iran will inevitably leave us with a terrible choice:

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[40] *See, e.g.*, Kenneth Katzman, *CRS Report For Congress: Iran: U.S. Concerns and Policy Responses*, Jan. 30, 2008, at 20.
[41] *Id.*

taking military action to stop Iran's nuclear weapons program or allowing Iran to obtain a nuclear arsenal.

H.R. 1327 would not likely in and of itself bring an end to Iran's nuclear program. It is impossible to know what measure would be the tipping point that would convince Iran's regime that the price for its nuclear program has become too high, that the risk from sanctions to the regime's survival has become so great that the regime is better served by halting its nuclear program rather than further risking its grip over the Iranian people. In light of the gravity of the danger posed to the United States by the Iranian threat, we must take every possible economic, political and diplomatic measure that might reasonably contribute towards reaching that tipping point. Passage of H.R. 1327 will immediately move us closer to achieving that tipping point.

H.R. 1327 would authorize and facilitate state and local pension fund divestment from certain foreign companies doing business in Iran. State and local pension fund divestment can contribute significantly to discouraging foreign companies from investing in Iran. The threatened withdrawal from such companies of billions of dollars of state and local pension fund investment provides such companies with a strong incentive to withdraw from the Iranian market. Arizona, California, Florida, Georgia, Illinois, Louisiana, Maryland, Michigan, Indiana, and New Jersey have already passed Iran divestment laws. Colorado, New York, Ohio, Texas, and Washington have implemented Iran divestment policies. Passage by Congress of Iran divestment enabling legislation would encourage more states to take that positive step.

I have testified in favor of Iran pension divestment bills before the state legislatures of Maryland, Virginia, and Ohio, as well as before the DC City Council, and have advised several other state legislatures that were considering such bills. I have heard concerns expressed about the issues addressed by this bill, H.R. 1372, and am convinced that if H.R. 1327 is enacted into law, more states will choose to divest their pensions from companies involved with Iran's energy sector.

In voting for H.R. 1327, you would be empowering the states to provide the federal government with one more tool with which to convince Iran to peacefully step back from the nuclear brink. You would also be enabling states to ensure that their investments reflect the values of the good people of that state rather than supporting terrorism and a terrorist Iranian regime bent on developing nuclear weapons. You would be enabling the people of each state to dissociate themselves and their pensions from an Iranian regime which supports terrorism, violates human rights, threatens genocide, and is working to develop nuclear weapons capability. You would be enabling them to send the foreign firms from which they divest a powerful message: "Your firm may choose to invest in Iran, but you won't do so with the money of the people of my state."

You would also be sending an important message to the people of Iran. As Chairman Frank noted in his markup of a similar bill last year:

> We have heard from some of the Iranian propagandists that, "Oh, the American people are not anti what the Iranian government is doing. It is the big bad American government." One of the advantages of this approach is that it makes it very clear that the actions taken under this bill will be actions taken by the American people, by elected state governments, by elected state officials, by individuals acting with regard to their own money. And, in addition to the real impact this could have, it makes a very important political point that the revulsion at the way in which the Iranian government has conducted itself in so many aspects is widespread throughout the United States. It transcends partisan and ideological and ethnic and other bounds. This bill gives voice to that.

Some will argue that H.R. 1327 is wrong because it encourages unilateral sanctions on the part of the United States and its state and local government entities. This is an argument that you should reject.

The weak multilateral sanctions imposed thus far on Iran by the United Nations Security Council are simply not up to the task of slowing Iran's nuclear program. Nor is there the prospect of sufficiently stronger U.N. or other multilateral sanctions if things proceed as at present. Each of the three binding Security Council resolutions in response to Iran's nuclear program has requested a report from the IAEA Director General on whether Iran has complied. The resolutions have also stated that in the event that the report shows Iran has not complied, the Council will "adopt further appropriate measures . . . to persuade Iran to comply." The idea has been to slowly ramp up the pressure on Iran.

This race between Iran's advancing nuclear program and tightening Security Council sanctions is a race Iran is clearly winning. Even in the face of Iran's explicit defiance, the resolutions have been too slow in coming and each has added incrementally less tightening than the one before, with the most recent Security Council Resolution in response to Iran's continued noncompliance adding no tightening of sanctions at all. The net result thus far is sanctions far weaker than those which stopped the Iraqi and Libyan nuclear weapons programs.

Indeed, the Iran sanctions are thus far weaker than the sanctions imposed on Liberia and Cote D'Ivoire during their civil wars, Sierra Leone in response to its May 1997 military coup, the Federal Republic of Yugoslavia during the Bosnian crisis, and Haiti in response to its 1991 military coup. Were Liberia, Cote D'Ivoire, Sierra Leone, and Haiti greater threats to international peace and security than Iran is today? No, there was simply less profit to be made from those countries than there is to be made from Iran today. That calculus is not going to change unless we make it change, unless we make it clear to foreign countries and companies that the profits to be made in Iran from continuing to do business with Iran will be dwarfed by the profits they will lose in the United States from continuing to do business with Iran. We cannot allow our national security to be held hostage to the lowest common denominator of the United Nations Security Council. H.R. 1327 would help return our fate to our own hands.

The U.S.'s recent successes with banking sanctions on Iran show that unilateral sanctions can be very effective in both directly impacting the target country and persuading third countries to lessen their ties to the target country. The U.S. Treasury Department's outreach to foreign banks has reportedly convinced more than 80 banks, including most of the world's top financial institutions, to cease all or some of their business with Iran. H.R. 1327 would help build on those successes.

Proposed Amendment

I recommend that the Committee slightly broaden the scope of this bill. In section 3 (c)(1)(B), the bill provides a list of types of energy sector related activities in Iran. The bill supports and facilitates the decision of state governments and others to divest from entities that engage in these types of activities in Iran. I recommend that the bill be amended so as to insert the phrase "refined petroleum" in 3(c)(1)(B), so that it reads as follows:

(B) in a person that provides oil or liquefied natural gas tankers, refined petroleum, or products used to construct or maintain pipelines used to transport oil or liquefied natural gas, for the energy sector in Iran . . .

Iran has an economic Achilles heel—its extraordinarily heavy dependence on imported refined petroleum (and especially imported gasoline) – that has yet to be exploited. The amendment I propose could contribute to peacefully creating decisive leverage over the Islamic Republic.

Iranian oil wells produce far more petroleum (crude oil) than Iran needs. Yet, remarkably for a country investing so much in nuclear power, Iran has not developed sufficient capacity to refine that crude oil into gasoline and other refined petroleum products such as diesel fuel. Iran must import some 40% of the gasoline it needs for internal consumption.

In recent months, Iran has, according to the respected trade publication International Oil Daily and other sources, purchased nearly all of this gasoline from just five companies. During the campaign, then-Senator Obama declared his support for peacefully cutting off gasoline sales to Iran until its stops its illicit nuclear activities. For example, during the presidential candidates' debate on Oct. 7, Obama said, "Iran right now imports gasoline . . . if we can prevent them from importing the gasoline that they need . . . that starts changing their cost-benefit analysis. That starts putting the squeeze on them."

How do we stop the gasoline from flowing? The U.S. should put these companies to a choice between doing business with Iran and doing business in the United States. For those companies that supply refined petroleum to Iran and are publicly traded, the divestment from them of state and local pension funds could help convince the

companies that continuing to supply gasoline to Iran is simply not worth the opportunity costs.

VI. Conclusion

Iran's nuclear program is a grave threat to U.S. national and economic security. The international community has thus far responded with remarkable passivity to Iran's dangerous insistence on developing its nuclear capabilities in explicit violation of three mandatory U.N. Security Council resolutions. As a result, there is at present nothing but time standing between the Iranian regime and a nuclear arsenal. The international community presently has insufficient leverage to persuade Iran to halt its nuclear program.

In light of Iran's advancing nuclear program, a failure to exert American leadership in quickly improving our leverage over Iran will inevitably leave us with a terrible choice: taking military action to stop Iran's nuclear weapons program or allowing Iran to obtain a nuclear arsenal. In light of the gravity of the danger posed to the United States by that Iranian threat, we must take every possible economic, political and diplomatic measure to convince Iran's regime that the price for its nuclear program has become too high, that the risk from sanctions to the regime's survival has become so great that the regime is better served by halting its nuclear program rather than further risking its grip over the Iranian people.

H.R. 1327 can contribute to increasing leverage over Iran and thus improving the prospects for preventing Iran from acquiring nuclear weapons. I urge its passage.

Thank you.

PREPARED TESTIMONY OF
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HOUSE FINANCIAL SERVICES COMMITTEE
SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE

March 12, 2009

Changing Iran's behavior

Mr. Chairman and Congressman Miller, thank you for allowing me to come before you to discuss our policies towards Iran, particularly efforts to change Iranian foreign policy behavior through instruments of economic pressure such as divestment. As a representative of the largest grassroots organization representing Americans of Iranian decent in the U.S. - The National Iranian American Council - I want to emphasize that no group of Americans has suffered more from the policies of the Iranian government than our community. Whether they were victims of political or religious persecution, arbitrary arrest or detention, imprisonment or killings of family members, the vast majority of Iranian Americans have made America their home precisely because they have differences with the Iranian government.

In recent years, we have also seen what seems to be a specific targeting by the Iranian government of Iranian Americans. Esha Momeni, an Iranian-American student born in California, was imprisoned a few months ago while visiting Iran to write a Master's thesis on the country's vibrant women's movement. Roxana Saberi, an Iranian-American journalist with NPR and a Miss America finalist, was arrested a few weeks ago while working in Tehran and is still being detained in Evin prison. In both cases, the human rights of these young Iranian-American women were violated by initially denying them legal counsel and by holding them without revealing the charges against them. And the 2007 imprisonment of Dr. Haleh Esfandiari, Director of the Middle East Program at the Woodrow Wilson International Center for Scholars, is of course known to all.

Yet, at the same time, no other group of Americans has visited Iran in the numbers that Iranian Americans have and with each visit, we bear witness to the effects of economic sanctions on the Iranian economy, on the Iranian people and on the Iranian government. Though mostly anecdotal, their observations are instrumental into understanding why U.S. sanction policies have failed to reach their objectives, why further sanctions will likely make little difference, and how the dynamics of Iranian society and Iran's political system can be better utilized to bring about a change in Iranian behavior.

My prepared remarks today will focus on how America's objectives with Iran can best be achieved – ensuring a peaceful Iran that contributes to regional stability, that does not develop a nuclear bomb, and that ceases to support militant organizations.

The cornerstone of our policy towards Iran for the last three decades has been pressure and coercion, particularly instruments of economic pressure. There is no doubt that US economic sanctions have hurt the Iranian economy. Investments in the Iranian energy sector have been reduced, assessment of

the business risk in investing in Iran has increased, and some major oil contracts have been cancelled or put on hold.

Recent financial sanctions in particular have created significant obstacles for the Iranian economy. Banks have had great difficulty in financing projects, export credits have not been made available and capital flight has increased.

Yet, with all the economic pain the sanctions have imposed on the Iranian economy, there has not been a single instance in which that pain has translated into a desirable change in the Iranian government's policies. The sanctions have been effective in hurting the Iranian economy, but they have failed to change the Iranian government's behavior.

As a result, we stand here today, more than fifteen years after the first round of comprehensive US sanctions were imposed, faced with a more powerful and problematic Iran than ever before. Clearly, the sanctions approach has not produced desirable results.

What's worse, the sanctions and economic pressure have actually contributed to several unhelpful developments inside Iran. First, the Iranian people– who tend to have great admiration and respect for America, for American values and for the American people – have suffered the brunt of the economic pressures. The Iranian government, meanwhile, has remained relatively unscathed. While the government can use oil revenues as a cushion to offset the effects of sanctions, ordinary people in Iran do not have that option and bear the brunt of the economic pain.

While the hope has been that the people's anger for their economic duress would be directed towards the Iranian government in order to pressure it to change its policies, this has clearly not happened. Instead, much of the people's anger has been directed towards the United States itself.

Second, wherever sanctions are imposed, a "sanctions economy" emerges in which entities reap a profit from smuggling sanctioned goods. In the Iranian case, this has benefited the Iranian government in two ways. Absent competition from international companies and the demands for transparency and efficiency that accompany outside investments, state controlled industries have become insulated through the protection that sanctions have provided. As a result, sanctions have strengthened the hardline elements' hold and control over the economy, which in turn has strengthened their grip on power. Secondly, entities connected to the government, such as the Iranian Revolutionary Guard Corps, have profited from their involvement in the smuggling trade that has emerged, further benefitting from Iran's economic isolation.

Third, the Iranian government's success in circumventing sanctions has made Iran less sensitive to new sanctions. There is a diminishing return on additional sanctions. By now, the threat of new sanctions on Iran is even more unlikely to compel Iran to change its behavior. Indeed, the last few years of UN Security Council sanctions and financial sanctions have not changed Iran's nuclear course in the slightest. In December 2004, President George Bush recognized this when he said "We've sanctioned ourselves out of influence with Iran. In other words, we don't have much leverage with the Iranians right now."

Paradoxically, by cutting Iran's access to American trade and investments, we have made the Iranians less sensitive to threats or implementation of additional measures to further deprive them of such access.

Finally, economic sanctions have undermined Iran's pro-democracy movement by weakening Iran's civil society and by hampering the emergence of a wealthy middle class – key components of any

indigenous process of democratization. The creation of a middle class whose income is dependent on the advancement of the non-state economy in Iran is essential, mindful of the significant portion of Iranians who are dependent on and tied to the state-controlled economy. As long as the lion's share of the economy is controlled by the state, room for pushing for political liberalization will be severely limited. Here, the impact of economic sanctions has been very detrimental to Iran's indigenous pro-democracy movement, which will have severe implications as Iran continues to move towards a nuclear capability.

But don't we need more leverage over Iran in any future negotiations, and wouldn't additional sanctions provide that leverage, proponents of sanctions may ask? My answer to both questions would be no.

The failure of past U.S. sanctions is not necessarily due to their lack of bite. On the contrary, as explained earlier, the bite has been there and considerable damage has been done to the Iranian economy. What has been lacking, however, is confidence in Tehran that a change in behavior would lead to the lifting of these sanctions. When a government is under the impression that the sanctions it is faced with will be there regardless of the government's behavior, incentives for changing that behavior in the desired direction simply evaporate.

That is the case with regard to Iranian attitudes towards the sanctions regime. It is a sentiment that was cemented during the Bush Administration when several attempts at outreach by Tehran were rebuffed. The most famous case was the May, 2003 proposal, when Washington rejected an Iranian invitation to wide ranging negotiations with the U.S., including on the nuclear issue.

Reality is that Washington has significant leverage over Tehran if willingness exists to trade away existing sanctions for extensive changes in Iranian policies. Tehran is aware that its key objective of political and economic rehabilitation in the region – in which Iran is included into the region's security architecture and granted a role commensurate with its geopolitical weight – cannot be achieved unless it mends fences with Washington. As such, Washington is the gatekeeper of Iran's political future in the region. That is leverage – if, again – there is a willingness to provide Iran with a seat at the table in return for changes in its policies.

In that sense, it is not the threat or imposition of new sanctions that is likely to achieve the desired changes in Iranian behavior, but the promise of lifting existing ones. The leverage sought by proponents of new sanctions already exists – we simply have not utilized that leverage in an efficient manner yet.

It is important to note that this leverage only can be utilized in the context of a negotiation between the United States and Iran. Neither threats nor promises are likely to succeed if they are made from a distance. This is why the President has emphasized repeatedly his desire for diplomacy with Iran. And this is why the timing of the proposed legislation is of concern.

Washington and Tehran currently find themselves in a phase in which both have expressed a desire for diplomacy, but mutual distrust and lack of confidence in the other side's intentions is making it difficult for them to find their way to the negotiating table.

In this atmosphere of mistrust, neither side has much room for error. As difficult as the process of negotiations will be, the process of reaching the negotiating table may be even more sensitive. The slightest misstep – whether a misguided comment or actions that are interpreted as hostile – may set the effort for diplomacy back or even prevent the two parties from reaching the negotiation table to begin with.

The Obama administration has recognized this and spent its first weeks seeking to create a more positive atmosphere through numerous positive signals, including the offer to reach out a hand if the other side unclenches its fist. The Obama administration should be commended for its much needed efforts in this arena.

These efforts, however, will be undermined if Congress passes additional sanctions before diplomacy has begun. Such a step would only reduce the prospects for diplomacy by poisoning the atmosphere and further increasing mistrust between the two capitals, which in turn lessens America's ability to tap into its reservoir of leverage over Iran in the first place.

After a decade-and-a-half of failed sanctions and economic pressure, and three decades of hostility, it is not sanctions or divestment that deserves another chance. It is diplomacy – and the opportunity to use the leverage that sanctions provide in the context of a negotiation – that should be given the space and time to succeed.

JOINT EXPERTS' STATEMENT ON IRAN

Among the many challenges that will greet President-elect Obama when he takes office, there are few, if any, more urgent and complex than the question of Iran. There are also few issues more clouded by myths and misconceptions. In this Joint Experts' Statement on Iran, a group of top scholars, experts and diplomats - with years of experience studying and dealing with Iran - have come together to clear away some of the myths that have driven the failed policies of the past and to outline a factually-grounded, five-step strategy for dealing successfully with Iran in the future.

Despite recent glimmers of diplomacy, the United States and Iran remain locked in a cycle of threats and defiance that destabilizes the Middle East and weakens U.S. national security.

Today, Iran and the United States are unable to coordinate campaigns against the Taliban and al-Qaeda, their common enemies. Iran is either withholding help or acting to thwart U.S. interests in Iraq, Afghanistan, Lebanon, and Gaza. Within Iran, a looming sense of external threat has empowered hard-liners and given them both motive and pretext to curb civil liberties and further restrict democracy. On the nuclear front, Iran continues to enrich uranium in spite of binding U.N. resolutions, backed by economic sanctions, calling for it to suspend enrichment.

U.S. efforts to manage Iran through isolation, threats and sanctions have been tried intermittently for more than two decades. In that time they have not solved any major problem in U.S.- Iran relations, and have made most of them worse. Faced with the manifest failure of past efforts to isolate or economically coerce Iran, some now advocate escalation of sanctions or even military attack. But dispassionate analysis shows that an attack would almost certainly backfire, wasting lives, fomenting extremism and damaging the long-term security interests of both the U.S and Israel. And long experience has shown that prospects for successfully coercing Iran through achievable economic sanctions are remote at best.

Fortunately, we are not forced to choose between a coercive strategy that has clearly failed and a military option that has very little chance of success.

There is another way, one far more likely to succeed: Open the door to direct, unconditional and comprehensive negotiations at the senior diplomatic level where personal contacts can be developed, intentions tested, and possibilities explored on both sides. Adopt policies to facilitate unofficial contacts between scholars, professionals, religious leaders, lawmakers and ordinary citizens. Paradoxical as it may seem amid all the heated media rhetoric, sustained engagement is far more likely to strengthen United States national security at this stage than either escalation to war or continued efforts to threaten, intimidate or coerce Iran.

Enclosed are five key steps the United States should take to implement an effective diplomatic strategy with Iran.

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Five Key Steps the United States Should Take to Implement an Effective Diplomatic Strategy with Iran

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Just Foreign Policy
National Iranian American Council

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Disclaimer

This statement is the product of a large group of experts with diverse knowledge, experience and affiliations. While all members strongly support the general policy thrust and judgments reflected in this statement, they may not necessarily all concur with every specific assertion or recommendation contained therein.

1. Replace calls for regime change with a long-term strategy: Threats are not cowing Iran and the current regime in Tehran is not in imminent peril. But few leaders will negotiate in good faith with a government they think is trying to subvert them, and that perception may well be the single greatest barrier under U.S. control to meaningful dialogue with Iran. The United States needs to stop the provocations and take a long-term view with this regime, as it did with the Soviet Union and China. We might begin by facilitating broad-ranging people-to-people contacts, opening a U.S. interest section in Tehran, and promoting cultural exchanges.

2. Support human rights through effective, international means: While the United States is rightly concerned with Iran's worsening record of human rights violations, the best way to address that concern is through supporting recognized international efforts. Iranian human rights and democracy advocates confirm that American political interference masquerading as "democracy promotion" is harming, not helping, the cause of democracy in Iran.

3. Allow Iran a place at the table – alongside other key states – in shaping the future of Iraq, Afghanistan and the region: This was the recommendation of the bipartisan Iraq Study Group with regard to Iraq. It may be counter-intuitive in today's political climate – but it is sound policy. Iran has a long-term interest in the stability of its neighbors. Moreover, the United States and Iran support the same government in Iraq and face common enemies (the Taliban and al-Qaeda) in Afghanistan. Iran has shown it can be a valuable ally when included as a partner, and a troublesome thorn when not. Offering Iran a place at the table cannot assure cooperation, but it will greatly increase the likelihood of cooperation by giving Iran something it highly values that it can lose by non-cooperation. The United States might start by appointing a special envoy with broad authority to deal comprehensively and constructively with Iran (as opposed to trading accusations) and explore its willingness to work with the United States on issues of common concern.

4. Address the nuclear issue within the context of a broader U.S. - Iran opening: Nothing is gained by imposing peremptory preconditions on dialogue. The United States should take an active leadership role in ongoing multilateral talks to resolve the nuclear impasse in the context of wide-ranging dialogue with Iran. Negotiators should give the nuclear talks a reasonable deadline, and retain the threat of tougher sanctions if negotiations fail. They should also, however, offer the credible prospect of security assurances and specific, tangible benefits such as the easing of U.S. sanctions in response to positive policy shifts in Iran. Active U.S. involvement may not cure all, but it certainly will change the equation, particularly if it is part of a broader opening.

5. Re-energize the Arab-Israeli peace process and act as an honest broker in that process: Israel's security lies in making peace with its neighbors. Any U.S. moves towards mediating the Arab-Israeli crisis in a balanced way would ease tensions in the region, and would be positively received as a step forward for peace. As a practical matter, however, experience has shown that any long-term solution to Israel's problems with the Palestinians and Lebanon probably will require dealing, directly or indirectly, with Hamas and Hezbollah. Iran supports these organizations, and thus has influence with them. If properly managed, a U.S. rapprochement with Iran, even an opening of talks, could help in dealing with Arab-Israeli issues, benefiting Israel as well as its neighbors.

Long-standing diplomatic practice makes clear that talking directly to a foreign government in no way signals approval of the government, its policies or its actions. Indeed, there are numerous instances in our history when clear-eyed U.S. diplomacy with regimes we deemed objectionable – e.g., Soviet Union, China, North Korea, Libya and Iran itself (cooperating in Afghanistan to topple the Taliban after 9/11) – produced positive results in difficult situations.

After many years of mutual hostility, no one should expect that engaging Iran will be easy. It may prove impossible. But past policies have not worked, and what has been largely missing from U.S. policy for most of the past three decades is a sustained commitment to real diplomacy with Iran. The time has come to see what true diplomacy can accomplish.

Basic Misconceptions abou

U.S. policies towards Iran have failed to achieve their objectives. A key reason for their failure is that they are rooted in fundamental misconceptions about Iran. This annex addresses eight key misconceptions that have driven U.S. policy in the wrong direction.

Myth # 1. President Ahmadinejad calls the shots on nuclear and foreign policy...

President Mahmoud Ahmadinejad has grabbed the world's attention with his inflammatory and sometimes offensive statements. But he does not call the shots on Iran's nuclear and foreign policy. The ultimate decision-maker is Supreme Leader Ali Khamenei, the commander-in-chief of Iran's forces. Despite his frequently hostile rhetoric aimed at Israel and the West, Khamenei's track record reveals a cautious decision-maker who acts after consulting advisors holding a range of views, including views sharply critical of Ahmadinejad. That said, it is clear that U.S. policies and rhetoric have bolstered hard-liners in Iran, just as Ahmadinejad's confrontational rhetoric has bolstered hard-liners here.

Myth # 2. The political system of the Islamic Republic is frail and ripe for regime change.

In fact, there is currently no significant support within Iran for extra-constitutional regime change. Yes, there is popular dissatisfaction, but Iranians also recall the aftermath of their own revolution in 1979: lawlessness, mass executions, and the emigration of over half a million people, followed by a costly war. They have seen the outcome of U.S.-sponsored regime change in Afghanistan and in Iraq. They want no part of it.

Myth # 3. The Iranian leadership's religious beliefs render them undeterrable.

The recent history of Iran makes crystal clear that national self-preservation and regional influence -- not some quest for martyrdom in the service of Islam -- is Iran's main foreign policy goal. For example:

- In the 1990s, Iran chose a closer relationship with Russia over support for rebellious Chechen Muslims.

- Iran actively supported and helped to finance the U.S. invasion of Afghanistan.

- Iran has ceased its efforts to export the Islamic revolution to other Persian Gulf states, in favor of developing good relations with the governments of those states.

- During the Iran-Iraq War, Iran took the pragmatic step of developing secret ties and trading arms with Israel, even as Iran and Israel denounced each other in public.

Myth # 4. Iran's current leadership is implacably opposed to the United States.

Iran will not accept preconditions for dialogue with the United States, any more than the United States would accept preconditions for talking to Iran. But Iran is clearly open to broad-ranging dialogue with the United States. In fact, it has made multiple peace overtures that the United States has rebuffed. Right after 9/11, Iran worked with the United States to get rid of the Taliban in Afghanistan, including paying for the Afghan troops serving under U.S. command. Iran helped establish the U.S.-backed government and then contributed more than $750 million to the reconstruction of Afghanistan. Iran expressed interest in a broader dialogue in 2002 and 2003. Instead, it was labeled part of an "axis of evil."

In 2005, reform-minded President Khatami was replaced by the hardliner, Mahmoud Ahmadinejad. But the same Supreme Leader who authorized earlier overtures is still in office today and he acknowledged, as recently as January 2008, that "the day that relations with America prove beneficial for the Iranian nation, I will be the first one to approve of that." All this does not prove that Iran will bargain in good faith with us. But it does disprove the claim that we know for sure they will not.

Myth # 5. Iran has declared its intention to attack Israel in order to "wipe Israel off the map."

This claim is based largely on a speech by President Ahmadinejad on Oct. 26, 2005, quoting a remark by Ayatollah Khomeini made decades ago: "This regime that is occupying Qods [Jerusalem] must be wiped off/eliminated from the pages of history/our times." Both before and since, Ahmadinejad has made numerous other, offensive, insulting and threatening remarks about Israel and other nations -- most notably his indefensible denial of the Holocaust. However, he has been criticized within Iran for these remarks. Supreme Leader Khamenei himself has "clarified" that "the Islamic Republic has never threatened and will never threaten any country" and specifically that Iran will not attack Israel unless Iran is attacked first. Ahmadinejad also has made clear, or been forced to clarify, that he was referring to regime change through demographics (giving the Palestinians a vote in a unitary state), not war. What we know is that Ahmadinejad's recent statements do not appear to have materially altered Iran's long-standing *policy* -- which, for

decades, has been to deny the legitimacy of Israel; to arm and aid groups opposing Israel in Lebanon, Gaza and the West Bank; but also, to promise to accept any deal with Israel that the Palestinians accept.

Myth # 6. U.S.-sponsored "democracy promotion" can help bring about true democracy in Iran.

Instead of fostering democratic elements inside Iran, U.S.-backed "democracy promotion" has provided an excuse to stifle them. That is why champions of human rights and democracy in Iran agree with the dissident who said, "The best thing the Americans can do for democracy in Iran is not to support it."

Myth # 7. Iran is clearly and firmly committed to developing nuclear weapons.

If Iraq teaches anything, it is the need to be both rigorous and honest when confronted with ambiguous evidence about WMDs. Yet once again we find proponents of conflict over-stating their case, this time by claiming that Iran has declared an intention to acquire nuclear weapons. In fact, Iranian leaders have consistently denied any such intention and even said that such weapons are "against Islam."

The issue is not what Iran is saying, but what it is doing, and here the facts are murky. We know that Iran is openly enriching uranium and learning to do it more efficiently, but claims this is only for peaceful use. There are detailed but disputed allegations that Iran secretly worked on nuclear weapons design before Ahmadinejad came to power, concerns that such work continues, and certainty that Iran is not cooperating fully with efforts to resolve the allegations. We also know that Iran has said it will negotiate on its enrichment program – without preconditions – and submit to intrusive inspections as part of a final deal. Past negotiations between Iran and a group of three European countries plus China and Russia have not gone anywhere, but the United States, Iran's chief nemesis, has not been active in those talks.

The facts viewed as a whole give cause for deep concern, but they are not unambiguous and in fact support a variety of interpretations: that Iran views enrichment chiefly as a source of national pride (akin to our moon landing); that Iran is advancing towards weapons capability but sees this as a bargaining chip to use in broader negotiations with the United States; that Iran is intent on achieving the capability to build a weapon on short notice as a deterrent to feared U.S. or Israeli attack; or that Iran is seeking nuclear weapons to support aggressive goals. The only effective way to illuminate – and constructively alter – Iran's intentions is through skillful and careful diplomacy. History shows that sanctions alone are unlikely to succeed, and a strategy limited to escalating threats or attacking Iran is likely to backfire – creating or hardening a resolve to acquire nuclear weapons while inciting a backlash against us throughout the region.

Myth # 8. Iran and the United States have no basis for dialogue.

Those who favored refusing Iran's offers of dialogue in 2002 and 2003 – when they thought the U.S. position so strong there was no need to talk – now assert that our position is so weak we cannot afford to talk. Wrong in both cases. Iran is eager for an end to sanctions and isolation, and needs access to world-class technology to bring new supplies of oil and gas online. Both countries share an interest in stabilizing Iraq and Afghanistan, which border Iran. Both support the Maliki government in Iraq, and face common enemies (the Taliban and al-Qaeda) in Afghanistan. Both countries share the goal of combating narco-trafficking in the region. These opportunities exist, and the two governments have pursued them very occasionally in the past, but they have mostly been obscured in the belligerent rhetoric from both sides.

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Dr. Boroujerdi is the author of *Iranian Intellectuals and the West: The Tormented Triumph of Nativism* (1996). His articles have appeared in numerous scholarly journals and more than a dozen edited books and Persian-language journals. He is the general editor of the Modern Intellectual and Political History of the Middle East series published by Syracuse University Press and served for seven years (2000 to 2007) as the book review editor of the International Journal of Middle East Studies. He is currently engaged in a major study of the current and next generation of political leaders in Iran.

Juan R.I. Cole
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Juan Cole commands Arabic, Persian and Urdu, and has lived in various places in the Muslim world for extended periods of time. He also brings three decades of experience in studying and writing about contemporary Islamic movements and the relationship of the West and the Muslim world. His most recent book, *Engaging the Muslim World*, will be published by Palgrave Macmillan in March 2009. He has a regular column at Salon.com and is a frequent guest commentator on national radio and television news shows.

Ambassador James F. Dobbins
Former Special Envoy for Afghanistan and Representative to the Afghan opposition in the wake of September 11, 2001

For over three decades, Ambassador Dobbins has served both Republican and Democratic administrations in diplomatic roles around the world, often in times of crisis. Immediately after September 11, 2001, he served as the Bush administration's Special Envoy for Afghanistan and Representative to the Afghan opposition, interacting successfully with the Iranians in a cooperative effort to topple the Taliban and promote the emergence of a friendly and democratic government in Kabul. His many other high-level posts include service as Assistant Secretary of State for Europe; Special Assistant to the President for the Western Hemisphere; Special Adviser to the President and Secretary of State for the Balkans; Ambassador to the European Community; and the Clinton Administration's Special Envoy for Somalia, Haiti, Bosnia, and Kosovo.

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Rola el-Husseini specializes in Lebanon and Shi'a political thought. She is finishing a book on elite politics in postwar Lebanon, along with a comparative study of the impact of Iran on Iraqi and Lebanese Shi'a political thought. At the Bush School, she teaches courses on Middle East Politics, Political Islam, and Authoritarianism in the Arab World.

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Farideh Farhi is the author of *States and Urban-Based Revolutions in Iran and Nicaragua* along with numerous articles and book chapters on contemporary Iranian politics and foreign policy. She also authored the Asia Society's report on Iran's 2001 elections; the International Crisis Group's report on the presidency of Mahmoud Ahmadinejad in Iran; and, a soon to be published World Bank study, *Contested Governance and the Need for Reform: The Case of the Islamic Republic of Iran*. She has taught at the University of Colorado, Boulder; University of Hawai'i; University of Tehran and Shahid Beheshti University in Tehran. Her research sponsors include the United States Institute of Peace, the Rockefeller Foundation, and the Woodrow Wilson International Center for Scholars where she was recently a Public Policy Scholar. She travels widely and lectures regularly on Iranian politics and foreign relations at research institutions in Washington, D.C. and around the country.

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Geoffrey Forden is among America's foremost experts on how proliferators acquire the know-how and industrial infrastructure to produce weapons of mass destruction. In 2002-2003, Dr. Forden served as the first Chief of Multidiscipline Analysis Section for UNMOVIC, the UN agency responsible for verifying and monitoring the dismantlement of Iraq's weapons of mass destruction. He has also served as a strategic weapons analyst in the National Security Division of the Congressional Budget Office.

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Hadi Ghaemi is the coordinator of the International Campaign for Human Rights in Iran, and an internationally recognized expert on the situation of human rights in Iran. Ghaemi's reports and writings have focused international attention on the Iranian government's repression of free speech and persecution of civil society activists. He works closely with human rights defenders inside Iran to document and report on human rights violations. In 2003, he received a research and writing grant from the MacArthur Foundation. He served as the Iran and UAE researcher for Human Rights Watch until 2007. Ghaemi received his Ph.D. in physics from Boston University in 1994, and he was on the faculty at the City University of New York until 2000.

Philip Giraldi
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Philip Giraldi is a former CIA counter-terrorism specialist and military intelligence officer who served eighteen years overseas in Turkey, Italy, Germany, and Spain, where he was Chief of Base in Barcelona from 1989 to 1992. As a recognized authority on international security and counterterrorism issues he has appeared often on radio and TV, including "Good Morning America," "60 Minutes," MSNBC, NPR, BBC World News, FOX News, Polish National Television, Croatian National Television, al-Jazeera, and al-Arabiya. Currently, he is President of San Marco International, a consulting firm that specializes in international security management and risk assessment, and also a partner in Cannistraro Associates, a security consultancy located in McLean Virginia.

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As a leading scholar on issues of the Middle East, Dr. Kazemi is a member of the Advisory Group for Public Diplomacy in the Arab and Muslim World, appointed in 2003. He is also President of the Middle Eastern Studies Association, former President of the Society for Iranian Studies, and a leading member of such organizations as the American Political Science Association, the Council on Foreign Relations, and the Atlantic Council.

Stephen Kinzer
Author and award-winning foreign correspondent

Stephen Kinzer is an award-winning foreign correspondent who has covered more than 50 countries on five continents – primarily for the New York Times, where he worked for more than 20 years. He is the author of numerous books and articles focusing on Iran and the Middle East, including *All the Shah's Men: An American Coup and the Roots of Middle East Terror* and *Overthrow: America's Century of Regime Change from Hawaii to Iraq*. He now teaches journalism and political science at Northwestern University, contributes articles to the New York Review of Books and other periodicals, and writes a world affairs column for The Guardian.

Ambassador William G. Miller
Senior Fellow, Woodrow Wilson International Center for Scholars

Ambassador Miller has led a long and distinguished career in the U.S. Foreign Service, U.S. Senate staff, academia, foundations, and non-profit organizations. Ambassador Miller served as political officer for the U.S. Embassy in Tehran from 1962 to 1964 as well as the U.S. Consulate in Isfahan, Iran from 1959 to 1962. He then spent 14 years on Capitol Hill, where he served as the staff director for three different Senate committees, including the Select Committee on Intelligence. Ambassador Miller has taught at Harvard University's Kennedy School of Government, Tufts

University's Fletcher School of Law & Diplomacy, and Johns Hopkins University's School of Advanced International Studies.

Emile A. Nakhleh

Retired Senior Intelligence Service Officer and Director of the Political Islam Strategic Analysis Program in the Directorate of Intelligence at the CIA

During his fifteen years of service at the CIA, Dr. Emile A. Nakhleh held a variety of key positions, including Director of the Political Islam Strategic Analysis Program in the Directorate of Intelligence and Chief of the Regional Analysis Unit in the Office of Near Eastern and South Asian Analysis. Dr. Nakhleh was a founding member of the Senior Analytic Service and chaired the first SAS Council. He was awarded several senior intelligence commendation medals, including the Intelligence Commendation Medal (1997), the William Langer Award (2004), the Director's Medal (2004), and the Distinguished Career Intelligence Medal (2006). His research has focused on political Islam in the Middle East and the rest of the Muslim world as well as on political and educational reform, regime stability, and governance in the greater Middle East.

Augustus Richard Norton

Professor of International Relations and Anthropology at Boston University

A. Richard Norton served as an advisor to the Iraq Study Group (Baker-Hamilton Commission), and he is a member of the Council on Foreign Relations. His research experience in the Middle East spans near three decades, including residences in Egypt, Jordan, Kuwait and Lebanon. His current research interests include inter-sectarian relations in the Middle East, reformist Muslim thought, and strategies of political reform and opposition in authoritarian states. In the 1990s he headed a widely-cited three-year project funded by the Ford Foundation that examined the state-society relations in the Middle East and the question of civil society in the region. He is also a co-founder of the *Boston Forum on the Middle East* and the *Conference Group on the Middle East.*

Richard Parker

Executive Director, American Foreign Policy Project; Professor, University of Connecticut School of Law

Dr. Parker is a professor at University of Connecticut School of Law and Founder and Executive Director of the new American Foreign Policy Project (AFPP). AFPP convenes large teams of top experts to collaboratively develop sound policy on the toughest national security and foreign policy issues of the day. It translates these policies into effective messages in ready-to-use talking point format, and then disseminates these messages to leaders, key influencers and the public through a variety of channels – briefings, traditional media, blogs, and a unique, highly-searchable website, americanforeignpolicy.org. Dr. Parker has served as Assistant General Counsel in the Office of the United States Trade Representative and Special Counsel to the Deputy Administrator of the U.S. Environmental Protection Agency. He holds a B.A. in Public and International Affairs from Princeton University, a J.D. from Yale Law School, and a D.Phil. in International Relations from Oxford University, which he attended as a Rhodes Scholar.

Trita Parsi

Award-winning author; President, National Iranian-American Council

Trita Parsi is the author of *Treacherous Alliance: The Secret Dealings of Iran, Israel and the United States*, which won the 2008 Silver Medal Recipient of the Council on Foreign Relations Arthur Ross Book Award. Fluent in Persian/Farsi, Dr. Parsi is regularly consulted by Western, Middle Eastern and Asian governments on Middle East affairs, and he is a co-founder and current President of the National Iranian American Council, a non-partisan, non-profit organization promoting Iranian-American participation in American civic life. His articles on Middle East affairs have been published in the Financial Times, Jane's Intelligence Review, the Nation, The Wall Street Journal, The American Conservative, the Jerusalem Post, and elsewhere. He is also a frequent commentator on Middle Eastern affairs and has appeared on BBC World News, PBS NewsHour, CNN, Al Jazeera, and NPR, to name a few. He has also worked for the Swedish Permanent Mission to the UN, serving in the Security Council handling the affairs of Afghanistan, Iraq, Tajikistan and Western Sahara, and the General Assembly's Third Committee addressing human rights in Iran, Afghanistan, Myanmar and Iraq. Dr. Parsi was born in Iran and grew up in Sweden.

Ambassador Thomas Pickering

Vice-Chairman, Hills & Company; Former U.S. Ambassador to the UN, Russia, Israel and other nations

Ambassador Pickering has had a career spanning five decades as a U.S. diplomat, serving as Under Secretary of State for Political Affairs, Ambassador to the United Nations, Ambassador to Russia, India, Israel, Nigeria, Jordan and El Salvador. He also served on assignments in Zanzibar and Dar es Salaam, Tanzania. He holds the personal rank of Career Ambassador, the highest in the U.S. Foreign Service. He has held numerous other positions at the State Department, including Executive Secretary and Special Assistant to Secretaries Rogers and Kissinger and Assistant Secretary for the Bureau of Oceans, Environmental and Scientific Affairs. He is currently Vice-chairman of Hills & Company, an international consulting firm providing advice to U.S. businesses on investment, trade, and risk assessment issues abroad, particularly in emerging market economies. He is based in Washington, DC.

Barnett R. Rubin

Director of Studies and Senior Fellow at the Center on International Cooperation of New York University; Former Special Advisor to the UN Special Representative of the Secretary-General for Afghanistan

Barnett Rubin has written numerous books and articles on conflict prevention, state formation, and human rights. His articles have appeared in Foreign Affairs, International Affairs, The New York Times, The Washington Post, The New York Review of Books, and elsewhere. In late 2001, he served as Special Advisor to the UN Special Representative of the Secretary-General for Afghanistan during the negotiations that produced the Bonn Agreement, and he also advised the United Nations on the drafting of the constitution of Afghanistan, the Afghanistan Compact, and the Afghanistan National Development Strategy. He has served as the Director of the Center for Preventive Action, and Director, Peace and Conflict Studies, at the Council on Foreign Relations, as well as the Director of the Center for the Study of Central Asia at Columbia University. Currently, he is Director of Studies and Senior Fellow at the Center on International Cooperation of New York University, where he directs the program on the Reconstruction of Afghanistan.

Gary G. Sick

Senior Research Scholar at Columbia University SIPA's Middle East Institute; Adjunct Professor of International Affairs at SIPA

Professor Sick served on the National Security Council under Presidents Ford, Carter, and Reagan. He was the principal White House aide for Iran during the Iranian Revolution and the hostage crisis. Sick is a Captain (Ret.) in the U.S. Navy, with service in the Persian Gulf, North Africa, and the Mediterranean. He was the deputy director for International Affairs at the Ford Foundation from 1982 to 1987, where he was responsible for programs relating to U.S. foreign policy. He is also a member of the board (emeritus) of Human Rights Watch in New York and the chairman of the Advisory Committee of Human Rights Watch/ Middle East.

John Tirman

Executive Director & Principal Research Scientist, Center for International Studies, MIT

Tirman is the author or co-author and editor of ten books on international affairs and U.S. foreign policy, including *Terror, Insurgency, and States* (2007), *The Maze of Fear: Security & Migration After 9/11* (2004) and *By the Crusader's Sword: The Human Toll of American Wars (forthcoming)*. His articles on Iran have appeared in a wide variety of periodicals, including the Boston Globe, Strategic Insights, and AlterNet, as well as reports published by MIT. He has organized projects on Iran, Iraq, and the Persian Gulf at the Social Science Research Council (SSRC) and MIT, as well as a major historical research effort on the history of the U.S.-Iran relationship in partnership with The National Security Archive and Brown University's Watson Institute.

James Walsh

Research Associate, Massachusetts Institute of Technology

Dr. Walsh's research and writings focus on international security, and in particular, topics involving weapons of mass destruction and terrorism. He has testified before the United States Senate on the issue of nuclear terrorism as well as on Iran's nuclear program. He has also chaired the Harvard University International Working Group on Radiological Terrorism. Among his current projects are two series of dialogues on nuclear issues, one with representatives from North Korea and one with leading figures in Iran. He has appeared frequently in the media as an expert on weapons of mass destruction and terrorism issues, including more than 300 appearances on CNN. His most recent publications include a chapter on Iran's nuclear program in *Terrorist Attacks and Nuclear Proliferation: Strategies for Overlapping Dangers* and a chapter on nuclear weapons in *A Muslim-Christian Study and Action Guide to the Nuclear Weapons Danger.* He has also published *Learning from Past Success: The NPT and the Future of Non-proliferation* for the Commission on Weapons of Mass Destruction, chaired by Hans Blix (2006).