104TH CONGRESS 2d Session } HOUSE OF REPRESENTATIVES { REPT. 104–523 Part 1

IRAN OIL SANCTIONS ACT OF 1996

APRIL 17, 1996.—Ordered to be printed

Mr. GILMAN, from the Committee on International Relations, submitted the following

R E P O R T

together with

Additional Views

[To accompany H.R. 3107]

[Including cost estimate of the Congressional Budget Office]

The Committee on International Relations, to whom was referred the bill (H.R. 3107) to impose sanctions on persons exporting certain goods or technology that would enhance Iran's ability to explore for, extract, refine, or transport by pipeline petroleum resources, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments are as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the "Iran Oil Sanctions Act of 1996".

SEC. 2. FINDINGS.

The Congress makes the following findings:

(1) The efforts of the Government of Iran to acquire weapons of mass destruction and the means to deliver them and its support of international terrorism endanger potentially the national security and foreign policy interests of the United States and those countries with which the United States shares common strategic and foreign policy objectives.

(2) The objective of preventing the proliferation of weapons of mass destruction and international terrorism through existing multilateral and bilateral initiatives requires additional efforts to deny Iran the financial means to sustain its nuclear, chemical, biological, and missile weapons programs.

(3) The Government of Iran uses its diplomatic facilities and quasi-governmental institutions outside of Iran to promote acts of international terrorism and assist its nuclear, chemical, biological, and missile weapons programs.

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SEC. 3. DECLARATION OF POLICY.

The Congress declares that it is the policy of the United States to deny Iran the ability to support international terrorism and to fund the development and acquisition of weapons of mass destruction and the means to deliver them by limiting the development of Iran's ability to explore for, extract, refine, or transport by pipeline petroleum resources of Iran.

SEC. 4. IMPOSITION OF SANCTIONS.

(a) IN GENERAL.—Except as provided in subsection (d), the President shall impose 2 or more of the sanctions described in paragraphs (1) through (5) of section 5 if the President determines that a person has, with actual knowledge or reason to know, on or after the date of the enactment of this Act—

(1) exported, transferred, or released to Iran, nationals of Iran, or entities owned or controlled by Iran or nationals of Iran any items included under subparagraph (A) or (B) of section 9(a)(1) on the List of Petroleum and Natural Gas-Related Goods and Technology established under section 9 (in this Act referred to as the "List") if the provision of such items would significantly and materially enhance Iran's ability to develop petroleum resources of Iran—

(A) whether or not the items are exported from the United States; and

(B) whether or not the items are subject to the jurisdiction of the United States; or

(2) made an investment of $40,000,000 or more (or any combination of investments of at least $10,000,000 each, which in the aggregate equals or exceeds $40,000,000 in any 12-month period), that directly contributed to the enhancement of Iran's ability to develop petroleum resources of Iran.

(b) PERSONS AGAINST WHICH THE SANCTIONS ARE TO BE IMPOSED.—The sanctions described in subsection (a) shall be imposed on—

(1) any person the President determines has carried out the activities described in subsection (a); and

(2) any person the President determines—

(A) is a successor entity to the person referred to in paragraph (1);

(B) is a wholly owned subsidiary of the person referred to in paragraph (1);

(C) is any other subsidiary of the person referred to in paragraph (1) if that subsidiary, with actual knowledge or reason to know, engaged in the activities referred to in paragraph (1);

(D) is a parent of the person referred to in paragraph (1) if that parent had actual knowledge or reason to know of the activities referred to in paragraph (1); or

(E) is an affiliate of the person referred to in paragraph (1) if that affiliate, with actual knowledge or reason to know, engaged in the activities referred to in paragraph (1).

For purposes of this Act, any person or entity described in this subsection shall be referred to as a "sanctioned person".

(c) PUBLICATION IN FEDERAL REGISTER.—The President shall cause to be published in the Federal Register a current list of sanctioned persons. The removal of persons from, and the addition of persons to, the list, shall also be so published.

(d) EXCEPTIONS.—The President shall not be required to apply or maintain the sanctions under subsection (a)—

(1) in the case of procurement of defense articles or defense services—

(A) under existing contracts or subcontracts, including the exercise of options for production quantities to satisfy requirements essential to the national security of the United States;

(B) if the President determines in writing that the person to which the sanctions would otherwise be applied is a sole source supplier of the defense articles or services, that the defense articles or services are essential, and that alternative sources are not readily or reasonably available; or

(C) if the President determines in writing that such articles or services are essential to the national security under defense coproduction agreements;

(2) to products or services provided under contracts entered into before the date on which the President publishes his intention to impose the sanctions;

(3) to—

(A) spare parts which are essential to United States products or production;

(B) component parts, but not finished products, essential to United States products or production; or

(C) routine servicing and maintenance of products, to the extent that alternative sources are not readily or reasonably available;

(4) to information and technology essential to United States products or production; or

(5) to medicines, medical supplies, or other humanitarian items.

SEC. 5. DESCRIPTION OF SANCTIONS.

The sanctions to be imposed on a sanctioned person under section 4(a) are as follows:

(1) EXPORT-IMPORT BANK ASSISTANCE FOR EXPORTS TO SANCTIONED PERSONS.—The President shall direct the Export-Import Bank of the United States not to guarantee, insure, extend credit, or participate in the extension of credit in connection with the export of any goods or services to any sanctioned person.

(2) TRADE SANCTION.—The President shall both—

(A) order the United States Government not to issue any specific license and not to grant any other specific permission or authority to export any goods or technology to a sanctioned person under—

(i) the Export Administration Act of 1979;

(ii) the Arms Export Control Act;

(iii) the Atomic Energy Act of 1954; or

(iv) any other statute that requires the prior review and approval of the United States Government as a condition for the export or re-export of goods or services; and

(B) prohibit the importation into the United States of products produced by any sanctioned person.

Subparagraph (B) includes application to the importation of any finished product or component part, whether shipped directly by the sanctioned person or by another entity.

(3) LOANS FROM UNITED STATES FINANCIAL INSTITUTIONS.—The United States Government shall prohibit any United States financial institution from making loans or providing credits to any sanctioned person totaling more than $10,000,000 in any 12-month period unless such person is engaged in activities to relieve human suffering and the loans or credits are provided for such activities.

(4) PROHIBITIONS ON FINANCIAL INSTITUTIONS.—The following prohibitions shall be imposed against a sanctioned person that is a financial institution:

(A) DESIGNATION AS PRIMARY DEALER.—Neither the Board of Governors of the Federal Reserve System nor the Federal Reserve Bank of New York may designate, or permit the continuation of any prior designation of, such financial institution as a primary dealer in United States Government debt instruments.

(B) GOVERNMENT FUNDS.—Such financial institution shall not serve as agent of the United States Government or serve as repository for United States Government funds.

(5) PROCUREMENT SANCTION.—The United States Government shall not procure, or enter into any contract for the procurement of, any goods or services from a sanctioned person.

SEC. 6. ADVISORY OPINIONS.

The Secretary of State may, upon the request of any person, issue an advisory opinion to that person as to whether a proposed activity by that person would subject that person to sanctions under this Act. Any person who relies in good faith on such an advisory opinion which states that the proposed activity would not subject a person to such sanctions, and any person who thereafter engages in such activity, may not be made subject to such sanctions on account of such activity.

SEC. 7. TERMINATION OF SANCTIONS.

(a) IN GENERAL.—The requirement under section 4 to impose sanctions shall no longer have force or effect if the President determines and certifies to the appropriate congressional committees that Iran—

(1) has ceased its efforts to design, develop, manufacture, or acquire—

(A) a nuclear explosive device or related materials and technology;

(B) chemical and biological weapons; and

(C) ballistic missiles and ballistic missile launch technology; and

(2) has been removed from the list of countries the governments of which have been determined, for purposes of section 6(j) of the Export Administration Act of 1979, to have repeatedly provided support for acts of international terrorism.

(b) ADDITIONAL REQUIREMENT WITH RESPECT TO LIBYA.—The requirement under section 4 to impose sanctions shall no longer have force and effect with respect to Libya only if the President, in addition to making the determination required by subsection (a), determines and certifies to the appropriate congressional committees that Libya has fulfilled the requirements of United Nations Security Council Resolution 731, adopted January 21, 1992.

SEC. 8. DURATION OF SANCTIONS; PRESIDENTIAL WAIVER.

(a) DELAY OF SANCTIONS.—

(1) CONSULTATIONS.—If the President makes a determination described in section 4(a) with respect to a foreign person, the Congress urges the President to initiate consultations immediately with the government with primary jurisdiction over that foreign person with respect to the imposition of sanctions under this Act.

(2) ACTIONS BY GOVERNMENT OF JURISDICTION.—In order to pursue consultations under paragraph (1) with the government concerned, the President may delay imposition of sanctions under this Act for up to 90 days. Following such consultations, the President shall immediately impose sanctions unless the President determines and certifies to the Congress that the government has taken specific and effective actions, including, as appropriate, the imposition of appropriate penalties, to terminate the involvement of the foreign person in the activities that resulted in the determination by the President under section 4(a) concerning such person.

(3) ADDITIONAL DELAY IN IMPOSITION OF SANCTIONS.—The President may delay the imposition of sanctions for up to an additional 90 days if the President determines and certifies to the Congress that the government with primary jurisdiction over the person concerned is in the process of taking the actions described in paragraph (2).

(4) REPORT TO CONGRESS.—Not later than 45 days after making a determination under section 4(a), the President shall submit to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on International Relations of the House of Representatives a report on the status of consultations with the appropriate foreign government under this subsection, and the basis for any determination under paragraph (3).

(b) DURATION OF SANCTIONS.—A sanction imposed under section 4(a) shall remain in effect for a period of not less than 2 years from the date on which it is imposed.

(c) PRESIDENTIAL WAIVER.—

(1) AUTHORITY.—The President may waive the requirement in section 4(a) to impose a sanction or sanctions on a person described in section 4(b), and may waive the continued imposition of a sanction or sanctions under subsection (b) of this section, 30 days or more after the President determines and so reports to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on International Relations of the House of Representatives that it is important to the national interest of the United States to exercise such waiver authority.

(2) CONTENTS OF REPORT.—Any report under paragraph (1) shall provide a specific and detailed rationale for the determination under paragraph (1), including—

(A) a description of the conduct that resulted in the determination;

(B) in the case of a foreign person, an explanation of the efforts to secure the cooperation of the government with primary jurisdiction over the sanctioned person to terminate or, as appropriate, penalize the activities that resulted in the determination;

(C) an estimate as to the significance of the provision of the items described in section 4(a)(1) or the investment described in section 4(a)(2), as the case may be, to Iran's ability to develop its petroleum resources; and

(D) a statement as to the response of the United States in the event that the person concerned engages in other activities that would be subject to section 4(a).

(3) EFFECT OF REPORT ON WAIVER.—If the President makes a report under paragraph (1) with respect to a waiver of sanctions on a person described in section 4(b), sanctions need not be imposed under section 4(a) on that person during the 30-day period referred to in paragraph (1).

SEC. 9. GOODS AND TECHNOLOGY SUBJECT TO EXPORT CONTROL RESTRICTIONS.

(a) CONTROL LIST.—

(1) CONTENTS OF LIST.—For purposes of the determinations to be made under section 4(a), the President, in consultation with the Secretary of State, the Secretary of Energy, and the heads of other appropriate departments and agencies,

shall establish and maintain the List of Petroleum and Natural Gas-Related Goods and Technology. The List shall consist of—

(A) all items listed in the Annex to Resolution 883 of the Security Council of the United Nations, adopted November 11, 1993, and all types of equipment, supplies, and grants of licenses prohibited by paragraph 5 of that resolution; and

(B) any other goods or technology (including software and technical data) that the President determines could significantly or materially contribute to Iran's ability to develop its petroleum resources, including goods and technology that are required for the development, production, or use of facilities (including the repair, maintenance, or operation of equipment) for the development of petroleum resources.

(2) PUBLICATION.—The President, within 60 days after the date of the enactment of this Act, shall cause the List to be published in the Federal Register, together with any regulations issued with respect thereto. Thereafter, any revisions to the List or amendments to the regulations shall be published in the same manner.

(3) ADVANCE NOTICE TO CONGRESS.—Not less than 30 days in advance of the publication of the List, it shall be provided to the Committee on Banking, Housing, and Urban Affairs of the Senate and to the Committee on International Relations of the House of Representatives. The President shall consult with each such Committee regarding the content of the List and shall respond to questions regarding the basis for the inclusion on, or exclusion from, the List of specified items.

(b) STATUTORY CONSTRUCTION.—Nothing in this section prevents the inclusion on the List of any items that may be produced in and traded internationally by persons or entities in countries other than the United States.

SEC. 10. REPORTS REQUIRED.

(a) REPORT ON CERTAIN INTERNATIONAL INITIATIVES.—Not later than 6 months after the date of the enactment of this Act, and every 6 months thereafter, the President shall transmit a report to the appropriate congressional committees describing—

(1) the efforts of the President to mount a multilateral campaign to persuade all countries to pressure Iran to cease its nuclear, chemical, biological, and missile weapons programs and its support of international terrorism;

(2) the efforts of the President to persuade other governments to ask Iran to reduce the presence of Iranian diplomats and representatives of other government and military or quasi-governmental institutions of Iran and to withdraw any such diplomats or representatives who participated in the takeover of the United States embassy in Tehran on November 4, 1979, or the subsequent holding of United States hostages for 444 days;

(3) the extent to which the International Atomic Energy Agency has established regular inspections of all nuclear facilities in Iran, including those presently under construction; and

(4) Iran's use of Iranian diplomats and representatives of other government and military or quasi-governmental institutions of Iran to promote acts of terrorism or to develop or sustain Iran's nuclear, chemical, biological, and missile weapons programs.

(b) OTHER REPORTS.—The President shall ensure the continued transmittal to the Congress of reports describing—

(1) the nuclear and other military capabilities of Iran, as required by section 601(a) of the Nuclear Non-Proliferation Act of 1978 and section 1607 of the National Defense Authorization Act for Fiscal Year 1993; and

(2) the support provided by Iran for acts of international terrorism, as part of the Department of State's annual report on international terrorism.

SEC. 11. APPLICATION OF THE ACT TO LIBYA.

(a) IN GENERAL.—The sanctions of this Act, including the terms and conditions for the imposition, duration, and termination of sanctions, shall apply to persons making investments with respect to the development of petroleum resources of Libya, or exporting, transferring, or releasing of certain items to Libya, nationals of Libya, or entities owned or controlled by Libya, in the same manner as those sanctions apply under this Act to persons making investments with respect to the development of petroleum resources of Iran, or exporting, transferring, or releasing of certain items to Iran, nationals of Iran, or entities owned or controlled by Iran.

(b) APPLICATION OF SPECIFIC PROVISIONS.—In applying the provisions of this Act with respect to Libya under subsection (a), each reference to "Iran" shall be deemed to be a reference to "Libya".

SEC. 12. DETERMINATIONS NOT REVIEWABLE.

A determination to impose sanctions under this Act shall not be reviewable in any court.

SEC. 13. DEFINITIONS.

As used in this Act:

(1) ACT OF INTERNATIONAL TERRORISM.—The term "act of international terrorism" means an act—

(A) which is violent or dangerous to human life and that is a violation of the criminal laws of the United States or of any State or that would be a criminal violation if committed within the jurisdiction of the United States or any State; and

(B) which appears to be intended—

(i) to intimidate or coerce a civilian population;

(ii) to influence the policy of a government by intimidation or coercion; or

(iii) to affect the conduct of a government by assassination or kidnapping.

(2) AFFILIATE.—For purposes of section 4(b), a person is an "affiliate" of another person if more than 50 percent of the outstanding capital stock of or other beneficial interest in both persons is owned, directly or indirectly, by a third person or both persons are otherwise controlled by a third person.

(3) APPROPRIATE CONGRESSIONAL COMMITTEES.—The term "appropriate congressional committees" means the Committee on Banking, Housing, and Urban Affairs and the Committee on Foreign Relations of the Senate and the Committee on International Relations of the House of Representatives.

(4) COMPONENT PART.—The term "component part" has the meaning given that term in section 11A(e)(1) of the Export Administration Act of 1979 (50 U.S.C. App. 2410a(e)(1)).

(5) DEVELOP AND DEVELOPMENT.—To "develop", or the "development" of, petroleum resources means the exploration for, or the extraction, refining, or transportation by pipeline of, petroleum resources.

(6) FINANCIAL INSTITUTION.—The term "financial institution" includes—

(A) a depository institution (as defined in section 3(c)(1) of the Federal Deposit Insurance Act), including a branch or agency of a foreign bank (as defined in section 1(b)(7) of the International Banking Act of 1978);

(B) a credit union;

(C) a securities firm, including a broker or dealer;

(D) an insurance company, including an agency or underwriter;

(E) any other company that provides financial services; and

(F) any subsidiary of an entity described in any of subparagraphs (A) through (E).

(7) FINISHED PRODUCT.—The term "finished product" has the meaning given that term in section 11A(e)(2) of the Export Administration Act of 1979 (50 U.S.C. App. 2410a(e)(2)).

(8) FOREIGN PERSON.—The term "foreign person" means—

(A) an individual who is not a United States person or an alien lawfully admitted for permanent residence into the United States; or

(B) a corporation, partnership, or other nongovernment entity which is not a United States person.

(9) GOODS AND TECHNOLOGY.—The terms "goods" and "technology" have the meanings given those terms in section 16 of the Export Administration Act of 1979 (50 U.S.C. app. 2415).

(10) INVESTMENT.—The term "investment" means—

(A) the entry into a contract that includes responsibility for the development of petroleum resources located in Iran or Libya (as the case may be), or the entry into a contract providing for the general supervision and guarantee of another person's performance of such a contract;

(B) the purchase of a share of ownership in that development;

(C) the entry into a contract providing for the participation in royalties, earnings, or profits in that development, without regard to the form of the participation; or

(D) the entry into or performance of—

(i) a contract for the financing of the development of petroleum resources located in Iran or Libya (as the case may be); or

(ii) a guaranty of another person's performance under such a contract.

(11) IRAN.—The term "Iran" includes any agency or instrumentality of Iran.

(12) IRANIAN DIPLOMATS AND REPRESENTATIVES OF OTHER GOVERNMENT AND MILITARY OR QUASI-GOVERNMENTAL INSTITUTIONS OF IRAN.—The term "Iranian diplomats and representatives of other government and military or quasi-governmental institutions of Iran" includes employees, representatives, or affiliates of Iran's—

(A) Foreign Ministry;
(B) Ministry of Intelligence and Security;
(C) Revolutionary Guard Corps;
(D) Crusade for Reconstruction;
(E) Qods (Jerusalem) Forces;
(F) Interior Ministry;
(G) Foundation for the Oppressed and Disabled;
(H) Prophet's Foundation;
(I) June 5th Foundation;
(J) Martyr's Foundation;
(K) Islamic Propagation Organization; and
(L) Ministry of Islamic Guidance.

(13) LIBYA.—The term "Libya" includes any agency or instrumentality of Libya.

(14) NUCLEAR EXPLOSIVE DEVICE.—The term "nuclear explosive device" means any device, whether assembled or disassembled, that is designed to produce an instantaneous release of an amount of nuclear energy from special nuclear material (as defined in section 11aa. of the Atomic Energy Act of 1954) that is greater than the amount of energy that would be released from the detonation of one pound of trinitrotoluene (TNT).

(15) PARENT.—For purposes of section 4(b), a person is a "parent" of another person if that person owns, directly or indirectly, more than 50 percent of the outstanding capital stock of or other beneficial interest in that other person, or otherwise controls that other person.

(16) PERSON.—The term "person" means—

(A) a natural person;
(B) a corporation, business association, partnership, society, trust, any other nongovernmental entity, organization, or group, and any governmental entity operating as a business enterprise; and
(C) any successor to any entity described in subparagraph (B).

(18) PETROLEUM RESOURCES.—The term "petroleum resources" includes petroleum and natural gas resources.

(19) SUBSIDIARY.—(A) For purposes of section 4(b), and subject to subparagraph (B), a person is a "subsidiary" of another person if that other person owns, directly or indirectly, more than 50 percent of the outstanding capital stock of or other beneficial interest in that person, or otherwise controls that person.

(B) A person is a "wholly owned" subsidiary of another person if that other person owns all of the outstanding capital stock of or other beneficial interests in that person.

(20) UNITED STATES OR STATE.—The term "United States" or "State" means the several States, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, American Samoa, Guam, the United States Virgin Islands, and any other territory or possession of the United States.

(21) UNITED STATES PERSON.—The term "United States person" means—

(A) a natural person who is a citizen of the United States or who owes permanent allegiance to the United States; and
(B) a corporation or other legal entity which is organized under the laws of the United States, any State or territory thereof, or the District of Columbia, if natural persons described in subparagraph (A) own, directly or indirectly, more than 50 percent of the outstanding capital stock or other beneficial interest in such legal entity.

Amend the title so as to read:

A bill to impose sanctions on persons exporting certain items that would enhance Iran's ability to develop its petroleum resources and on persons making certain investments directly contributing to the enhancement of Iran's ability to develop its petroleum resources, and for other purposes.

BACKGROUND AND PURPOSE

The "Iran Oil Sanctions Act of 1996" imposes sanctions on persons exporting certain goods or technology or making investments that would enhance the ability of Iran or Libya to explore for, extract, refine, or transport by pipeline petroleum resources. The bill will help deter the two countries from supporting international terrorism or acquiring weapons of mass destruction and associated delivery vehicles.

The measure would require the President to impose two or more specified sanctions on persons that (1) export to Iran or Libya any goods or technology on a list of key petroleum technology items or (2) make investments to Iran or Libya of $40 million or more in one year to enhance the petroleum industries of these two countries.

The legislation directs the President to establish a list of petroleum-related goods and technologies comprised of the list of choke point technology already in force on Libya pursuant to the annex of UN Security Council Resolution 883, as well as other goods or technology that the President determines could significantly or materially contribute to Iran's ability to develop its petroleum resources. The sanctions are to be imposed on any successor, parent, subsidiary, or affiliate of the sanctioned person.

The legislation also requires the President to impose two or more of the following penalties on a sanctioned person: (1) denial of Eximbank assistance for any exports to the sanctioned person; (2) denial of specific licenses for exports of controlled technology to the sanctioned person and prohibition on imports from that company; (3) a prohibition on a sanctioned financial institution from serving as a primary dealer in U.S. Government bonds or as a repository for U.S. Government funds; (4) a prohibition on any U.S. financial institution from making any loan to a sanctioned person over $10 million per year; and (5) a ban on any U.S. Government procurement of any goods or services from a sanctioned person.

The legislation allows the President the flexibility to delay imposition of sanctions for 90 days to pursue consultations with the government of the sanctioned person to terminate the sanctionable activities. An additional 90-day delay is provided for if that government is in the process of terminating those activities. The President may waive any of the sanctions if he determines that doing so is in the national interest.

The Iran Oil Sanctions Act of 1996 requires the President to continue to report to Congress on Iran's nuclear and military capabilities, and on its support for international terrorism. To carry out the legislation, the President is given appropriate regulatory authority and exemption from judicial review in regard to the imposition of sanctions.

It is the view of the committee that enactment of this legislation will be a key element in United States policy of cutting off sources of funding to those rogue regimes such as Iran and Libya who continue to support acts of terrorism and develop weapons of mass destruction.

For Libya in particular, the Committee is convinced that there is an urgent need to increase pressure on Tripoli to gain compliance with the UN Security Council resolutions regarding the Pan

Am 103 bombing. In regard to Iran, our current policies limiting their revenues and petroleum resources must be continued and further strengthened.

In his remarks before the Senate in October of last year, Under Secretary of State Peter Tarnoff said "A straight line links Iran's oil income and its ability to sponsor terrorism, build weapons of mass destruction, and acquire sophisticated armaments". In his testimony before the Committee on International Relations on November 9, 1995, Under Secretary Tarnoff spelled out these concerns in detail: ". . . by pressuring Iran's economy, we seek to limit the government's finances and thereby constrict Tehran's ability to fund rogue activities. We launched an initiative to block Iran's access to international capital its economy needs. We have worked bilaterally and within international financial institutions to keep other governments from providing Iran with credit. On May 6, President Clinton issued Executive Order 12959, which imposed an embargo against Iran. The President's decision to sever American trade and investment with Iran signaled our commitment to exert the maximum efforts of this country to deny Iran financial resources. In particular, by barring American investment in Iran and prohibiting U.S. companies from buying Iranian oil, we have stopped the flow of money from the United States to Iran. We are now seeking to dissuade the international community from investing in Iran's petroleum sector. With these efforts, we are taking advantage of Iran's economic vulnerabilities, particularly its shortages in hard currency. We recognize that economic pressure takes time, but we are convinced that making Iran pay a price for its unacceptable activities is the best way to convince the Iranian leadership that it is in their country's best interest to abandon these policies."

Since the November 4, 1979 seizure of the U.S. hostages in Tehran, economic sanctions have formed a major part of U.S. policy toward Iran. Ten days after the seizure of the Embassy, President Carter declared a national emergency with respect to Iran, which the President has renewed every year since 1979. The United States broke diplomatic relations with Iran on April 7, 1980. After an Administration determination of Iran's involvement in the bombing of the Marine barracks in Beirut in October 1983, Iran was placed on the U.S. list of state sponsors of terrorism on January 19, 1984. This disqualified Iran from receiving U.S. foreign aid, sales of items on the U.S. munitions list, Eximbank credits, and U.S. support for foreign loans, and requires strict licensing requirements for any U.S. exports of controlled goods or technology.

On March 15, 1995, in response to reports that the U.S. firm Conoco, Inc. had initialed a contract with Iran to develop oil fields around Iran's Sirri Island, President Clinton issued Executive Order No. 12957 (60 Fed. Reg. 14615, March 17, 1995). The Executive order declared a national emergency with respect to Iran pursuant to the International Emergency Economic Powers Act (50 U.S.C. 1703(c)(IEEPA) and prohibited the financing, management, or supervision by U.S. persons of the development of Iranian petroleum resources. Conoco, Inc., withdrew from its contract with Iran shortly thereafter.

Following the imposition of the new restrictions, the Administration determined that Iran continued to engage in activities that represent a threat to the peace and security of all nations, including support for international terrorism and for acts that undermine the Middle East peace process, and intensified efforts to acquire weapons of mass destruction. On May 6, 1995, President Clinton issued Executive Order No. 12959 (60 Fed. Reg. 24757, May 9, 1995) to further respond to the Iranian threat.

The May 6 Executive order prohibited U.S. goods, technology, and services to Iran and the reexport of certain U.S. goods and technology to Iran from third countries. It also prohibited new investments by U.S. persons in Iran and any brokering and other dealing by U.S. persons in goods and services of Iranian origin or owned or controlled by Iran. The order prohibited any U.S. persons or companies from approving, facilitating, or financing performance by any entity owned or controlled by a U.S. person of reexport, investment, and trade transactions that a U.S. person is prohibited from performing.

The Executive order thereby closed the loophole under which foreign affiliates of U.S. oil companies were purchasing approximately 25% of Iran's oil exports for overseas trade. (Under a 1987 Executive order, no Iranian goods could be imported into the United States; that prohibition was continued by the May 6, 1995 order.) As justification for issuing the trade and investment ban, the Administration had said that the trading of large amounts of Iranian oil by U.S. companies and their foreign affiliates, as well as continued exportation of U.S. products to Iran, had undermined U.S. efforts to persuade its allies to help isolate Iran.

The U.S. trade ban represented a major new step in U.S. policy toward Iran, and the Administration stressed that the trade ban had made Iran more isolated and that U.S. allies were not extending Iran any new credits. Japan suspended the second tranche of a development loan for construction of a hydroelectric dam over Iran's Karun River. However, U.S. allies did not join the trade and investment ban, or even substantially alter their policy of "critical dialogue" with Iran, an attempt to moderate Iranian behavior through engagement. Administration officials testified before both houses of Congress that Iran was able to find new buyers for almost all the oil previously purchased by affiliates of U.S. oil companies.

The most significant setback to U.S. efforts to multilateralize the isolation of Iran was the July 13, 1995 signing of a contract between Total SA and Iran to develop the Sirri islands—the same contract abandoned by Conoco, Inc. The French government said it would not provide official credits to finance the deal. Several months later, Iran opened up ten major petroleum development projects to foreign investment, each project exceeding $50 million. These projects and potential investments led the Administration and many in Congress to agree that new steps were needed to choke off foreign investment in Iran's oil industry. It is expected that doing so would, over the long term, deny Iran the revenues and resources to develop weapons of mass destruction and fund groups that commit international terrorism and acts designed to derail the Arab-Israeli peace process.

On September 8, 1995, Senator Alfonse D'Amato introduced S. 1228 sanctioning persons that assist in the development of Iran's petroleum resources. A subsequent version of S. 1228, including provisions relating to Libya, passed the Senate on December 20 of 1995. Approved without dissent, this measure has a shorter list of sanctions and requires the President to apply one of them on foreign companies only in the case of major investments in Iran or Libya.

The prospect for the enactment of a comprehensive sanctions regime in the House and Senate has already a strong deterrent effect on potential oil field investors and suppliers in Iran despite consistent efforts by the Government of Iran to attract foreign capital and expertise in the development of its off-shore petroleum resources.

The Committee would note that the prospect for the implementation of sanctions on Libya has also refocused the efforts of the administration to increase pressure on the Libyan regime to comply fully with all pending UN Security Resolutions, including the release of the two suspects in the Pan Am 103 bombing.

COMMITTEE ACTION

On May 2, 1995, the Subcommittee on International Economic Relations held a hearing on U.S. Policy Toward Iran and how it can be made more effective. Witnesses included the Honorable Peter King; Assistant Secretary of State Robert H. Pelletreau; Patrick Clawson, Senior Fellow at the Institute for National Strategic Studies at the National Defense University; Geoffrey Kemp, Senior Associate at the Carnegie Endowment for International Peace; Jeffrey Schott, Senior Fellow at the Institute for International Economics; Arthur T. Downey, Vice President of Baker Hughes, Inc. on behalf of the National Foreign Trade Council, Inc.; and John H. Lichtblau, Chairman of the Petroleum Industry Research Foundation, Inc.

On October 12, 1995, Chairman Benjamin A. Gilman introduced H.R. 2458, a bill imposing sanctions on foreign persons providing oilfield equipment and technology to Iran.

On November 9, 1995, the Committee on International Relations held a hearing on U. S. Policy Toward Iran with witnesses from the administration and the private sector including: The Honorable Peter Tarnoff, Under Secretary of State for Political Affairs; Mr. Bruce Reidel, Deputy Assistant Secretary of Defense for Near East and South Asia; Mr. Patrick Clawson with the Institute for National Strategic Studies at the National Defense University; Mr. Geoffrey Kemp at the Nixon Center for Peace and Freedom; Mr. Michael Eisenstadt, Senior Fellow at the Washington Institute for Near East Policy; and Mr. Arthur Downey representing the National Foreign Trade Council.

On March 19, 1996, Chairman Benjamin A. Gilman introduced H.R. 3107, The Iran Oil Sanctions Act of 1996 requiring the President to impose two or more sanctions on any person annually providing $40 million or more of investments to Iran or Libya or exporting key oilfield goods and technology to these same countries. Original cosponsors of the legislation include Representatives Berman, Gejdenson, Burton, King, Shaw and Forbes. Additional cosponsors of the legislation include Representatives Lantos,

Torricelli, Royce, English, Zimmer, Filner, Fox, Bunn, Barcia, Diaz-Balart, Meehan, Ehrlich, Cunningham, Collins (MI), Lipinski, Engel, Frank, Sanford, Funderburk, Pryce, Kasich, Meek, McCollum, Traficant, Knollenberg, Stark, Porter, Paxon, Deutsch, Hall, Smith (NJ), Burton, Frazer, Metcalf, Evans, Bryant, Saxton, Houghton, Durbin, Kaptur, Souder, McHugh, Roybal-Allard, Wyden, Markey, Oberstar, Thurman, Sisisky, Lofgren, LoBiondo, Lowey, Shays, LaTourette, Cardin, Kleczka, Foley, Yates, Ackerman, Torres, Coyne, Towns, Cooley, Pelosi, DeFazio, Ward, Lewis (GA), Frelinghuysen, and Furse.

On March 21, 1996, the Committee on International Relations received testimony from Senator D'Amato strongly endorsing the provisions in H.R. 3107. The Committee subsequently debated the measure and reported out H.R. 3106 by a vote of 32 to 0.

ROLLCALL VOTES AND AMENDMENTS AND FINAL PASSAGE

In compliance with clause (2)(l)(2)(B) of rule XI of the Rules of the House of Representatives, the record of committee rollcall votes taken on final passage or amendments during the committee's consideration of H.R. 3107, as amended, is set out on the following pages, as is a report of the committee's final action on the bill.

DESCRIPTION OF AMENDMENT, MOTION, ORDER, OR OTHER PROPOSITION

By voice vote, the committee accepted several amendments including an en bloc amendment offered by Chairman Gilman clarifying certain definitions in the bill, specifying a two year time frame for the duration of sanctions and making other technical and conforming changes.

It also accepted an amendment offered by Mr. Torricelli requiring an additional condition for the lifting of sanctions on Libya, specifying that the two Libyan nationals indicted for their role in the destruction of Pan American Flight 103 be made available for prosecution pursuant United Nations Security Council Resolution 731 of January 21, 1992.

The Committee accepted an amendment offered by Mr. Campbell specifying that the requirement in the bill preventing a sanctioned person from receiving a loan or credit in an amount exceeding $10 million be modified to ensure that it is determined on an annual basis.

The Bereuter motion that the bill be reported to the House with the recommendation that the bill, as amended, do pass.

Totals: 32 yeas, 0 nays.

Name and State	Yea	Nay	Name and State	Yea	Nay
Benjamin A. Gilman, NY., Chmn	X		Lee H. Hamilton, IN	X	
William F. Goodling, PA	X		Sam Gejdenson, CN	X	
James A. Leach, IA			Tom Lantos, CA	X	
Toby Roth, WI	X		Robert G. Torricelli, NJ	X	
Henry J. Hyde, IL			Howard L. Berman, CA	X	
Doug Bereuter, NE	X		Gary L. Ackerman, NY		
Christopher H. Smith, NJ			Harry Johnston, FL		
Dan Burton, IN			Eliot L. Engel, NY	X	
Jan Meyers, KS	X		Eni F.H. Faleomavaega, Am. Samoa		

Name and State	Yea	Nay	Name and State	Yea	Nay
Elton Gallegly, CA			Matthew G. Martinez, CA	X	
Ileana Ros-Lehtinen, FL	X		Donald M. Payne, NJ		
Cass Ballenger, NC	X		Robert E. Andrews, NJ	X	
Dana Rohrabacher, CA	X		Robert Menendez, NJ	X	
Donald A. Manzullo, IL			Sherrod Brown, OH	X	
Edward R. Royce, CA	X		Cynthia A. McKinney, GA	X	
Peter T. King, NY	X		Alcee L. Hastings, FL		
Jay Kim, CA	X		Albert Russell Wynn, MD	X	
Sam Brownback, KS	X		James P. Moran, VA	X	
David Funderburk, NC	X		Victor O. Frazer, VI		
Steven J. Chabot, OH	X		Charlie Rose, NC		
Marshall ''Mark'' Sanford, SC	X		Pat Danner, MO	X	
Matt Salmon, AZ	X				
Amo Houghton, NY	X				
Tom Campbell, CA	X				

The Committee notes that Messrs. Ackerman and Payne arrived in the Committee room shortly after the conclusion of the vote and after the Committee had adjourned and told the Chairman that had they been present they would have voted "aye."

The Committee notes the receipt of the following statement from Mr. Manzullo:

MARCH 21, 1996.

Hon. BEN GILMAN,
Chairman, Committee on International Relations,
Washington, DC.

DEAR BEN: I was unavoidably detained in a meeting with constituents from the 16th District of Illinois that prevented me from casting the only and final vote during the committee's mark-up of the Iranian sanctions legislation. If I were present, I would have voted "aye." I ask that my remarks appear in the committee record reflecting my vote preference on this legislation.

Thank you for your kind attention to my request.

Best wishes.

Sincerely,

DONALD A. MANZULLO,
Member of Congress.

SECTION-BY-SECTION ANALYSIS

Section 1. Short title

The title of the bill is the "Iran Oil Sanctions Act of 1996".

Section 2. Findings

This section states that the efforts of the Government of Iran to acquire weapons of mass destruction and the means to deliver them as well as its support for international terrorism endanger the interests of the United States and those countries sharing common strategic and foreign policy objectives.

Furthermore, additional bilateral and multilateral efforts are needed to deny Iran the financial means to develop its nuclear, chemical, biological and missile weapons programs. While multilateral efforts to reduce the flow of new credits, sensitive dual use technology and new weapons systems going to Iran are now under-

way, much more remains to be done by the United States to implement its containment policy and to ensure that Iran does not attract significant new investment from any foreign company.

This section also states that Iran uses its diplomatic facilities and quasi-governmental institutions outside that country to promote terrorism and the acquisition of materials and technology for its weapons of mass destruction programs.

Section 3. Declaration of policy

In this section, Congress declares that it is U.S. policy to deny Iran the means to threaten U.S. interests and those of our allies by limiting its ability to extract, refine, process, store, or transport petroleum resources.

Section 4. Imposition of sanctions

This section defines those persons to be subjected to sanctions as any person that the President determines has exported to Iran any goods on a List of Petroleum and Natural Gas-Related Goods and Technology. Also subject to sanctions would be any person that the President determines has with knowledge or reason to know made investments in Iran of at least $40 million in any one year that directly contributed to enhancement of Iran's ability to develop its petroleum resources. Any person determined by the President to be a successor or wholly owned subsidiary of the sanctioned person also would be subject to sanctions as would any parent that knew of the activity or affiliate that with knowledge or reason to know engaged in the activity.

The Committee would note that the intent of the legislation is not to apply sanctions on the transfer of all petroleum and natural gas-related products being acquired by Iran or Libya. The Administration is specifically given the discretion of deciding which goods and services would significantly and materially enhance Iran's ability to develop its petroleum resources. In the view of the Committee, the administration has the flexibility it needs in implementing this provision with a view toward denying Iran those key goods and technology items needed to develop its offshore oil resources.

In making a determination to impose the sanctions contained in this section, the administration must use this so-called "trade trigger" or the $40 million investment trigger, but it has broad latitude in making such a determination based on the circumstances of each discrete export to or investment in Iran. The Committee would note that the $40 million investment threshold in Section 4(A)(2) is intended as an absolute cap on each person's investment in any project or projects increasing the ability of Iran to develop its petroleum resources. The Committee does not intend that the sanctions provided in this section would extend to portfolio investments made by any other person in a sanctioned person.

Section 5. Description of sanctions

This section describes five specified sanctions, at least two of which shall be imposed on a person sanctioned under the provisions of the previous section:

denial of Eximbank assistance for exports to a sanctioned person;

trade sanction, including denial of licenses for exports of controlled technology to the sanctioned person, and a prohibition on imports into the United States of products produced by the sanctioned person;

prohibition of loans by U.S. financial institutions totaling more than $10 million in one year to a sanctioned person unless such person is engaged in activities to relieve human suffering and the loans and credits are provided for such purpose;

prohibition of sanctioned financial institutions from serving as a primary dealer in U.S. Government debt instruments or as a repository of U.S. Government funds or an agent of the U.S. Government;

prohibition of U.S. government procurement from a sanctioned person.

Section 6. Advisory opinions

This section provides an opportunity for any person to request the Secretary of State to issue an advisory opinion as to whether a proposed activity by that person would subject that person to sanctions under the Act. Any person who relies in good faith on an advisory opinion stating that the activity would not lead to the imposition of sanctions would not be made subject to sanctions for that specific activity.

Section 7. Termination of sanctions

This section terminates sanctions imposed pursuant to the Act if the President determines and certifies to the appropriate congressional committees that Iran has ceased its efforts to acquire weapons of mass destruction and has been removed from the U.S. list of state sponsors of terrorism established pursuant to section 6(j) of the Export Administration Act of 1979. It also provides a further requirement with respect to Libya that the President certify to the appropriate congressional committees that Libya has fulfilled the requirements of United Nations Security Council Resolution 731 adopted on January 21, 1992.

Section 8. Duration of sanctions; Presidential waiver

This section urges the President to begin consultations with the government with primary jurisdiction over any foreign person sanctioned under the provisions of this Act. The President may delay imposition of sanctions under this Act for up to 90 days in order to pursue consultations with this government. He shall then immediately impose sanctions on this person unless he can certify to Congress that the government has taken very specific actions, including imposing appropriate penalties, to terminate the activities giving rise to the sanctions. The Committee would expect that certification to establish that these actions were fully implemented and were having a demonstrable impact on the sanctioned person.

An additional 90-day delay period is also provided if the President determines and certifies to Congress that the government with primary jurisdiction over the person is taking actions to terminate the sanctionable activities. The President is also directed to submit a report to the appropriate congressional committees 45 days after making a determination regarding sanctionable activi-

ties, on the status of his negotiations with the foreign government with primary jurisdiction. This report would also lay out in detail the circumstances leading to any delays in the implementation of sanctions.

Consistent with the sanctions provisions in previously-enacted proliferation-related statutes, including the Iran-Iraq Non-proliferation Act of 1992, sanctions shall be imposed for a period of at least two years.

The President may waive the requirement to impose sanctions 30 days after reporting to the appropriate congressional committees that doing so is important to the national interest of the United States. In the view of the Committee, this waiver standard and the provisions in this section permitting delay in the implementation of sanctions should give the administration enough flexibility and opportunity for negotiation sufficient to avoid the imposition of sanctions in nearly all circumstances.

Section 9. Goods and technology subject to export control restrictions

This section directs the President, in consultation with the appropriate departments and agencies, to establish and maintain a list of petroleum and natural gas-related goods and technology consisting of a United Nations-approved list contained in the Annex to resolution 883 of the UN Security Council of November 11, 1993, together with other equipment and supplies prohibited in other parts of that resolution, as well as any other goods and technology that the President determines could significantly and materially contribute to the ability of Iran to develop its petroleum resources. It is the intent of the Committee that the administration use the United Nations-approved list as a basis for the construction of a comprehensive and updated list of items that are essential to Iran's ability to further develop its petroleum development resources.

Section 10. Report required

The President is directed to continue to report to Congress on Iran's nuclear and other military capabilities, and its support for international terrorism.

The bill requires a new Administration report to Congress on efforts to isolate Iran and curb its ability to promote terrorism and Islamic revolution and clandestinely procure high technology components of weapons of mass destruction. The required report must describe Administration efforts to mount a multilateral campaign to isolate Iran; Administration efforts to persuade other governments to ask Iran to limit its diplomatic presence; Iran's use of its diplomats, diplomatic facilities, and quasi-governmental institutions to promote terrorism or sustain its weapons of mass destruction programs; and the extent to which the International Atomic Energy Agency has established regular inspections of Iran's nuclear facilities.

The Committee is requiring this new report because the annual report to Congress on terrorism addresses only a few of these issues. There is no mention in the annual terrorism report of U.S. efforts to persuade its allies in Europe to expel certain Iranian diplomats who were allegedly linked to the holding of the American hostages during 1979-81. Each of the past few annual terrorism re-

ports have addressed only a few Iranian diplomats, usually the most well-known, alleged to be involved in promoting terrorism. The list of Iranian ministries allegedly involved in such activity, which are to be reported on by the Administration, are defined in Section 13.

The annual terrorism report does not assess Iran's use of parastatal organizations, such as the foundation for the Oppressed, to support terrorist groups or procure technology. The Foundation is one of many Foundations, and controls billions of dollars in companies and financial assets. There are consistent reports, not cited in the annual terrorism report, that the Foundation, which is headed by the former Minister of the Revolutionary Guard, uses its funds to procure technology in Europe. Other such foundations, such as the June 5th Foundation that offers a $2 million reward for the killing of Salman Rushdie, are included in a comprehensive list in section 13 of Iranian Diplomats and Representatives of Other Government and Military or Quasi Governmental Institutions of Iran.

Section 11. Application of the Act to Libya

This section applies all the terms and conditions of the Act with respect to the imposition, duration, and terminations of sanctions to persons making investments in the petroleum resources of Libya or exporting or transferring certain items to Libya. All the other provisions in the Act shall apply equally to Libya, with each reference in the Act to Iran considered to be a reference to Libya.

Section 12. Determinations not reviewable

In light of the growing threats to U.S. national security interests posed by Iran and Libya, the Committee believes that once a determination is made to impose sanctions under this Act, the imposition of these sanctions should be carried out in a timely fashion and, as in the case of similar sanctions laws, should not be subject to judicial review. The Committee would also note that Section 8 of the legislation provides for delays in the imposition of sanctions and a careful and a deliberate review of their implementation by the administration in consultation with the Congress.

Section 13. Definitions

This section defines the terms contained in the Act, including: act of international terrorism; appropriate congressional committees; component part; develop and development; financial institution; finished product; foreign person; goods and technology; investment; Iran; Iranian diplomats and representatives; Libya; nuclear explosive device; parent; person; petroleum resources; subsidiary; United States or State; and United States person.

COMMITTEE OVERSIGHT FINDINGS

In compliance with clause 2(l)(3)(A) of rule XI of the Rules of the House of Representatives, the Committee reports that the findings and recommendations of the Committee, based on oversight activities under clause 2(b)(1) of rule X of the Rules of the House of Representatives, are incorporated in the descriptive portions of this re-

port. Among the principal oversight activities which were contributed to the Committee's formulation of H.R. 3107 were:

On May 2, and November 9, 1995 hearings were held on U.S. policy toward Iran, and numerous consultations and briefings took place on U.S.-Iran issues from January through March of 1996 between staff, Committee Members and Executive branch officials.

As a result of these oversight activities, the Committee recommends that the House approve H.R. 3107 as reported.

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT FINDINGS

No findings or recommendations of the Committee on Government Reform and Oversight were received as referred to in clause 2(l)(3)(D) of rule XI of the Rules of the House of Representatives.

NEW BUDGET AUTHORITY AND TAX EXPENDITURES

The Committee adopts the cost estimate of the Congressional Budget Office, set out below, as its submission of any required information on new budget authority, new spending authority, new credit authority, or an increase or decrease in the national debt required by clause 2(l)(3)(B) of rule XI of the House of Representatives.

INFLATIONARY IMPACT STATEMENT

In compliance with clause 2(l)(4) of rule XI of the Rules of the House of Representatives, the Committee estimates that H.R. 3107 will have no significant inflationary impact on prices and costs in the operation of the national economy.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

In compliance with clause 2(l)(3)(C) of rule XI of the Rules of the House of Representatives, the Committee sets forth with respect to H.R. 3107 the following estimate and comparison prepared by the Director of the Congressional Budget Office under section 403 of the Budget Act of 1974:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, March 27, 1996.

Hon. BENJAMIN A. GILMAN,
Chairman, Committee on International Relations,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed H.R. 3107, Iran Oil Sanctions Act of 1996, as ordered reported by the House Committee on International Relations on March 21, 1996. The bill would require the President to impose sanctions on any person who he determines has enhanced the development of the petroleum resources of Iran or Libya through the export, transfer, or release of goods or technology or through direct investment.

The bill would not affect receipts or direct spending and would not be subject to pay-as-you-go procedures under section 252 of the

Balanced Budget and Emergency Deficit Control Act of 1985. The bill could increase spending subject to appropriations action to cover the cost of gathering and analyzing information, publishing lists of sanctioned persons, and providing advisory opinions. Based on information provided by the Administration, CBO estimates that such costs would total less than $1 million a year.

Section 4 of the Unfunded Mandates Reform Act of 1995, P.L. 104–4, excludes legislative provisions that are necessary for the national security from the application of that act. CBO has determined that all provisions of H.R. 3107 fit within that provision.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contacts are Joseph C. Whitehill for impacts on the federal budget, Pepper Santalucia for impacts on state, local, and tribal governments, and Eric Labs and Amy Downs for private sector impacts.

Sincerely,

JUNE E. O'NEILL, *Director.*

JURISDICTIONAL ISSUES

H.R. 3107, as ordered reported by the Committee on International Relations, contains several provisions which fall within the shared jurisdiction of other committees of the House, including the Committee on Ways and Means, Banking and Financial Services and Government Reform and Oversight.

ADDITIONAL VIEWS OF THE HONORABLE LEE H. HAMILTON AND THE HONORABLE JAMES P. MORAN

We supported this bill because we agree with the sponsors that the United States should take steps to limit Iran's earnings from exports of oil and gas, which directly contribute to its ability to develop weapons of mass destruction and to promote terrorism.

We have several concerns about the bill as it was reported from the International Relations Committee, however, and we hope those concerns will receive further consideration as this bill moves forward.

NO DISAGREEMENT ON OBJECTIVES

When it comes to Iran, Members of the International Relations Committee disagree neither on the problem, nor on the goal of U.S. policy.

Iran threatens vital U.S. national interests. It is actively pursuing weapons of mass destruction, it is a confirmed sponsor of terrorism, and it is working to undermine the Middle East peace process. In response to these threats, the President last year imposed a total embargo on U.S. trade with Iran, a step which all of us supported.

Members of the Committee agree that a key goal of U.S. policy should be to persuade Iran's major trading partners and creditors to take similar steps to isolate Iran and press for changes in its policies.

Where we sometimes disagree is not on strategy, but on the best tactics with which to pursue that strategy and our shared policy goals in Iran.

CONCERNS ON THE BILL

We have three principal reservations about the bill in its current form.

First, we are concerned that the bill could be counterproductive to the goal of increasing multilateral economic and political pressure on Iran.

The sanctions in the bill will penalize foreign firms for commercial activity which, though objectionable to us, is legal in their home countries. We understand that other governments are likely to charge that the bill's import and government procurement sanctions, at a minimum, violate trade and other international agreements to which the United States is a party.

In official demarches, other governments have already notified us that they object to these measures on sovereignty grounds. Past experience suggests they will take blocking measures. Retaliatory measures against U.S. trade, perhaps authorized by international adjudicatory bodies, are also possible.

Our concern here is not that we may offend our allies, for we object to their unwillingness to adopt tougher measures to isolate Iran economically and politically. Our concern is more practical: The United States cannot adequately pressure Iran's economy alone. A strong adverse reaction by other governments to a U.S. effort to penalize their firms will put us at odds with some of our closest friends. That could ultimately reduce, rather than increase, multilateral cooperation on Iran.

We believe recent history is instructive. Western efforts to confront another dangerous country—the former Soviet Union—were set back in 1982 when the United States tried to sanction firms participating in the development of a Soviet gas pipeline.

The target of U.S. pressure in 1982 was subsidiaries of U.S. firms, yet the reaction in Europe was intense. And U.S. sanctions did not achieve their goal: the sanctions were not sustainable, and the United States ultimately had to lift them. The bill before us today would hit foreign firms. We can expect at least as strong a response.

We do not object in principle to pressuring foreign firms or their home governments to cease commercial activity that helps Iran increase its export earnings. But we hope that as this bill moves forward, an effort will be made to weigh likely international responses to it, because those responses will influence the effectiveness of our effort to change Iranian government behavior.

In this regard, we would also like more attention focused on the relative merits of sanctioning investment versus sanctioning trade. We believe investment is more critical to Iran's energy sector than trade. The marginal benefit of trying to cut off trade in this area would be relatively small when compared with the international diplomatic and economic costs of such efforts.

Our second concern about this bill relates to the costs it may impose on the U.S. economy.

We note that four of the five sanctions called for in this bill will—if imposed—result in lost sales or business for U.S. firms. That could cost jobs. Retaliation by other governments could cost more jobs.

We believe the United States must sometimes pay an economic price to ensure its security. But we also believe that successful U.S. sanctions must harm the target country more than they harm the United States. If they do not, they will not earn public support and will be difficult to sustain.

To ensure this result, the President needs sufficient flexibility to weigh the economic and security implications of different sanctions measures. It is not clear to us that the sanctions provisions of this bill give the President that flexibility.

The bill requires the President to impose two of five possible sanctions. But all of the sanctions won't be available in each case:

Some would only apply to foreign contractors.

Some would only apply to foreign financial services companies.

We are hopeful that Congress will be able to give the President the full range of policy tools he needs to do what only he can: balance U.S. foreign policy and economic interests.

Third, we would have preferred that this bill had treated Iran and Libya differently.

Members of the Committee agree that Libya and Iran each threaten U.S. national interests, but they do so in different ways, and the international response to each country has also been different.

There is already considerable multilateral cooperation on isolating Libya. UN sanctions are already in place. We are concerned that new unilateral U.S. sanctions could jeopardize current multilateral cooperation and could undercut current U.S. efforts to expand existing UN sanctions.

Furthermore, since there is already substantial foreign investment in Libya's energy sector, investment sanctions will not have much of a deterrent effect.

We believe the Administration has put forward a constructive proposal on Libya—one that treats it differently from Iran, but with equal firmness. Under the Administration's proposal, U.S. sanctions would be linked to compliance with existing UN sanctions. We think this proposal deserves serious consideration.

CONCLUSION

We voted for this bill because we agree with its fundamental objective—changing Iranian government behavior. We would like this bill to move forward.

We raise these concerns in an effort to be constructive. We want this legislation to be effective. It will not be effective if it generates excessive conflict with our allies and hurts American workers more than it hurts Iran. We do not know whether that would be the case if the bill were enacted in its current form, but we hope Congress and the Administration can carefully evaluate these issues as the bill moves forward.

LEE H. HAMILTON.
JAMES P. MORAN.

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