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“Punish the Proliferators and Sponsors of Terror: Using Financial and
Economic Sanctions to Change Regime Behavior”

INTRODUCTION

Thank you Chairman Sherman, Chairman Gutierrez, Ranking Member Royce, Ranking Member Paul, and members of the subcommittees for this opportunity to discuss the economic dimensions of our strategy to address unacceptable behavior by regimes such as Iran, Sudan, and North Korea. “Smart sanctions”, in combination with other diplomatic and financial levers, represent a useful tool to bring pressure to bear on these regimes to change course.

By “smart sanctions,” we mean carefully targeted sanctions that directly focus on specific bad behavior and bad actors – rather than broad country-wide embargoes. Of course, the U.S. government can also be “smart” about comprehensive sanctions by calibrating their application through judicious use of licensing to show that our focus is on the regime, not the people. However, the United States has been moving away from country-wide sanctions in favor of “smart” sanctions. Targeted or calibrated sanctions make it clear that we are not taking aim at innocent civilian populations, but rather at those who control, and therefore can stop, the dangerous behavior of a particular regime. It is also easier to gain multilateral support for targeted sanctions, a crucial element in successfully bringing international pressure to bear on regimes to change their behavior. This holds true whether one is talking about preventing proliferation, stopping support for terrorism, keeping the diamond trade from financing brutal rebel movements or seeking to halt the violence in Darfur.

Multilateral sanctions often require patient diplomacy, but are worth the effort, as we have seen with the ultimate success in convincing Libya to end its WMD program and support for international terrorism. Effectively coordinated multilateral efforts also can produce dramatic results in other kinds of sanctions programs. The 71 countries participating in the Kimberley Process have successfully reduced the world's trade in "conflict diamonds" to less than one percent of the market. The cooperation of the diamond industry has been a critical element in this success.

IRAN

The Administration's sanctions policy toward Iran makes it clear that we target bad behavior by the regime but support the Iranian people.

Unfortunately, the government of Iran has engaged in a lot of bad behavior: pursuing nuclear proliferation; supporting terrorism; and contributing to regional instability. Other actions such as President Ahmadinejad's denial of the Holocaust, Iran's support for militants in Iraq, and the recent detention of British sailors in Iraqi waters have further underscored how out of step Iranian government policies are with the interests and concerns of the international community.

A sustained multilateral diplomatic strategy offers the best path to blocking Iran's dangerous ambitions. Some of the sanctions are aimed directly at increasing the difficulty for the regime to acquire the tools it needs for its unacceptable activities. Others are designed somewhat more broadly, to make clear to the Iranian regime that it will pay a high price - in terms of lost economic opportunities and international stature - for its reckless policies.

We have seen this approach bear fruit at the UN with the unanimous adoption on March 24 of UNSCR 1747 which reaffirms and expands those measures of UNSCR 1737 (December 2006) in targeting Iran's nuclear and missile programs. Among other requirements, the March resolution obligates states to freeze the assets of additional and specific entities and individuals associated with those programs. The resolution also calls on states and international financial institutions not to enter into new loans or grants with the Iranian government. World leaders have closed ranks against the Iran regime's refusal to comply with its international obligations. For example, the French Foreign Minister noted after its passage that the

resolution reaffirmed the “clear choice confronting the Iranian leaders” – cooperate with the international community or worsen still further their international isolation.

Other financial measures have effectively leveraged this kind of message. State and Treasury officials have engaged with foreign governments and private firms to convey the notion that Iran’s reckless behavior makes doing business with the regime a bad risk. Reinforcing the financial and reputational risks of doing business with Iran has had an impact on the availability of export credits from countries like France, Germany, and Japan and has led to reductions in access to banking services by several financial heavyweights.

We worked closely with Congress last year on the reauthorization and amendment of the Iran and Libya Sanctions Act (ILSA), which became the Iran Sanctions Act (ISA). Like its predecessor, ISA underscores the depth of U.S. concerns about Iran and provides a basis for continually raising those concerns with others. U.S. officials have vigorously engaged with key companies and countries about their potential investments in Iran’s oil and gas sector. In making clear our opposition to such deals, we have emphasized the potential implications under the ISA, as well as the negative impact of such deals on international efforts to pressure Iran to suspend its enrichment-related and reprocessing activities and to enter negotiations pursuant to the P-5+1 offer of last year. Despite its resources, Iran continues to encounter great difficulty in attracting new investment to its hydrocarbon sector. Iran’s own policies and actions have contributed to this situation, but ILSA/ISA and USG actions, including Treasury’s efforts to discourage bank dealings with Iran, have played a role in creating the negative environment for investment that exists today in Iran. At the same time we think the focus of our sanctions efforts should be on Iran - as is the case with many of the sanctions we are discussing today - not on our allies. It vital that we maintain the unprecedented coalition that has come together to address Iran’s problematic nuclear activities.

In addition, the U.S. government maintains comprehensive economic sanctions on Iran. These sanctions prohibit Americans and American companies from engaging in virtually all trade and investment activities with Iran. These prohibitions remain in full force but are carefully calibrated through licensing to permit a range of activities that make clear our support for the Iranian people.

The State Department provides foreign policy guidance to Treasury's Office of Foreign Assets Control - OFAC - on licenses involving Iran. The U.S. government reviews licenses for agricultural and medical sales, authorized under the Trade Sanctions Reform and Export Enhancement Act of 2000. This is the biggest license category. In 2006, State recommended approval on 502 of these licenses, covering tens of millions of dollars of exports. We draw on the Department's technical experts to ensure there are no possible dual use concerns, but still seek to expedite these licenses that benefit the general population of Iran, not the regime. We are especially concerned with swift processing of medicines for diseases like HIV and leukemia. We have also favorably reviewed a variety of other license applications for activities that can benefit the Iran public. Recent examples include civil society development, business school exchanges, earthquake safety seminars, conservation of endangered plants and animals, and medical training. On rare occasions, most recently in November 2006, we have permitted carefully controlled exports that are essential for the safety of civilian aviation. In short, the licensing process is an important part of comprehensive sanctions, allowing us to make it clear that our sanctions are intended to target the regime and its policies, rather than the general population.

Sudan

The United States maintains extensive sanctions on Sudan. Sudan has been on our State sponsors of Terrorism list since 1997. In addition, the United States designated three Sudanese companies under Iran and Syria Non Proliferation Act sanctions in December of 2006.

The three main USG policy goals for Sudan at the moment are: a) provide life-saving humanitarian assistance to the millions of people who have been displaced or affected by violence in Darfur; b) promote a political settlement to the conflict and deploy a UN-AU hybrid international peacekeeping force to protect civilians; and c) support implementation of the Comprehensive Peace Agreement.

President Bashir's resistance to fulfilling his previous commitments regarding the UN-AU peacekeeping force have led the U.S. to seek additional ways to pressure the regime to change its behavior. Targeted sanctions are a useful tool in this regard, and the USG is actively engaged in

increasing the pressure on Sudan using this tool both unilaterally and multilaterally.

The USG can also use sanctions to reward good behavior. Following the 2006 Darfur Peace and Accountability Act, we eased certain sanctions in Southern Sudan whose government is playing a constructive role in Sudan's peace efforts. Southern Sudan is taking advantage of this easing to develop new export industries such as gum Arabic, a natural resin much sought after by beverage, pharmaceutical, and printing industries. The easing of sanctions is also making it easier for Southern Sudan to attract expertise and materials for desperately needed infrastructure projects.

In terms of the comprehensive sanctions that remain in place on Northern Sudan, the USG uses licensing as a way to show that we are not targeting the people of Sudan. Sudan licenses are most common for food, medicine, and humanitarian efforts. Indeed, the USG has issued 161 NGO registrations and hundreds of specific licenses to groups performing relief work in Sudan. Other recent specific licenses have included water well mapping, community development initiatives, and archaeological research on Sudan's rich historical patrimony.

Smart sanctions and multilateral efforts remain the best way to achieve our policy objectives for Sudan.

North Korea

The International community is deeply troubled by North Korea's destabilizing nuclear and ballistic missile programs, as reflected by the adoption of UNSCRs 1695 and 1718, which remain in effect. ISN and Treasury can best address our efforts to curb the regime's nuclear and missile proliferation ambitions in greater depth, but would like to simply emphasize here that in North Korea we need to continue with the multilateral approach as this is the best way to build an effective coalition that can have an impact on regime behavior. The Six-Party talks yielded a promising agreement to shut down the Yongbyon nuclear reactor and readmit inspectors. If North Korea meets its commitments, the U.S. will continue to work toward normalizing relations with the DPRK. From a sanctions perspective, this may include removing the designation of the DPRK as a State sponsor of terrorism, in accordance with the applicable

statutory provisions, and advancing the process of terminating application of the Trading with the Enemy Act with respect to the DPRK.

Syria

Syria is a country of concern as well, given its track record with regard to missile proliferation, support for terrorism, and contributions to regional instability. This is why the USG maintains prohibition on the export to Syria of any items that appear on the United States Munitions List (e.g., arms and defense weapons or ammunition) or Commerce Control List (e.g., dual-use items such as chemicals, nuclear technology, propulsion equipment, lasers). We also maintain other prohibitions including the export to Syria of American products, other than food and medicine and certain other excepted categories of goods.

Cuba

The Cuban embargo denies the Castro dictatorship hard currency that it would use to oppress the Cuban people and to prop up the regime. The Cuban Democracy Act of 1992 and the Cuban Liberty and Democratic Solidarity Act of 1996 (the “Libertad Act”) increased the restrictions on trade with Cuba, but also included provisions for allowing exports of food, medicine and medical equipment in support of the Cuban people. The State Department provides foreign policy guidance on approximately 30-50 Commerce and Treasury Department license applications each month. Easing sanctions, as defined in the Libertad Act, against Cuba will require verifiable movement toward democracy and an open market economy, which includes the release of political prisoners, respect for human rights, and a real commitment to hold free and fair elections.

How to Define Success

Success in any sanctions program is when changed behavior lets us remove sanctions. Libya is of course the prime example of a regime choosing to give up its nuclear ambitions and support for terrorism because of pressure brought to bear by sanctions, diplomacy, and other measures. However, we can also see success in other kinds of sanctions programs. For example, the UN has lifted sanctions on Liberian timber, and may soon allow Liberian diamond exports, so that those sectors can now be positive forces for Liberia’s economic development. Some individual designations of arms

traffickers, perpetrators of violence, and corrupt officials associated with former dictator Charles Taylor remain in place, but the positive evolution of Liberia's post-war reconstruction permits a gradual removal of the broader UN and USG sanctions.

Sanctions are a useful tool in our diplomatic arsenal. Admittedly, like any tool, they have their limits. Used properly, sanctions help bring pressure to bear on regimes responsible for nuclear proliferation, terrorism, and other breaks from international norms of acceptable behavior. The most effective sanctions are applied multilaterally and take aim at the leaders responsible for bad actions, not the general population.