



PROJECT *on* Middle East Democracy

www.pomed.org ♦ 1820 Jefferson Place NW ♦ Washington, DC 20036

“Iran Sanctions: Why Does the U.S. Government Do Business With Companies Doing Business in Iran?”

Senate Homeland Security and Government Affairs Committee
342 Dirksen Senate Office Building
May 12, 2010, 11:00 AM – 12:00 PM

The Senate Homeland Security and Government Affairs Committee held a hearing to explore the history, efficacy, and enforcement of sanctions that target companies who do business with both the United States and Iran. The committee invited three individuals to provide testimony: **Danielle Pletka**, Vice President of Foreign and Defense Policy Studies at the American Enterprise Institute; **Joseph Christoff**, Director of International Affairs and Trade at the Government Accountability Office; and Congressman **Ted Deutch** (D-FL).

Committee Chairman **Joseph Lieberman** (I-CT) opened by insisting that companies can “either do business with Iran, or do business with America, but you can’t do business with both.” And because the U.S. government holds a tremendous amount of market power, Lieberman thinks that the administration and Congress must create a new mechanism of enforcement that punishes those companies who take U.S. taxpayer money and then initiate commercial relationships with Iran. Senator **Susan Collins** (R-ME) agreed, and lamented the fact that in the 14 years since the original Iranian sanctions act was passed, not a single company has been sanctioned for its behavior.

Congressman **Ted Deutch** then delivered his testimony, recounting his time as a Florida state senator when he helped craft legislation to prevent the Florida pension fund from investing in Iran. **It laid out a procedure for identifying and divesting from companies who partner with both the U.S. and Iran, and Deutch alluded to campaigns in 19 other states to enact similar policies.** “The federal government can easily match and replicate these efforts,” he said, recommending that the government not wait for a new sanctions law to compile a list of companies who violate existing law. “A company’s decision to do business in Iran certainly makes any such Iranian investment material and worthy of full notice to shareholders and the public,” and the government should demand, and enforce through punishments, that companies divulge this information.

Next, **Joseph Christoff** explained that under the original Iranian sanctions act, companies may lose U.S. government contracts if they invest more than \$20 million in Iran’s energy sector in any 12-month period. As part of its report released in March, the GAO attempted to identify companies who have commercial interests in Iran. **All in all, it discovered that 41 foreign firms had commercial activity in Iran’s energy sector from 2005 until 2009, seven of whom also had U.S. government contracts (amounting to \$880 million).** But Christoff acknowledged that his office did not determine whether the activities of these firms meet the legal criteria for investment – “the secretary of state is responsible for making such determinations.”

Danielle Pletka followed with her own testimony, quipping that the U.S. government does business with these sorts of international companies “because it can.” She alluded to a New York Times report that uncovered 74 companies that have done business with both Iran and the U.S. over the past decade, 49 of whom continue to do business with Iran. “For the last decade and a half,” she said, “the U.S. government has not taken the Iran sanctions legislation passed by the Congress seriously.” **The history of Iranian sanctions, she continued is that “Congress acts to force the Executive Branch to seriously pursue a stringent sanctions regime against Iran, and the Executive Branch – whether led by either a Democratic or a Republican administration – resists.”** She believes that the current administration is once again seeking to weaken the provisions of an updated Iranian sanctions bill. And although AEI has tracked 18 companies who have recently pulled out of Iran, she attributes that largely to state divestment efforts, the terror-free investment movement, Iran’s own mafia-like business environment, growing fear of an Israeli military strike and changing perceptions in European countries.

As for federal policy, “companies should be required to certify that they are not engaged in sanctionable transactions with Iran under the Iranian sanctions act.” **But rather than leave enforcement to the discretion of the executive branch, “it must be the Congress that sets the agenda, identifies the problems, closes the loopholes and guarantees enforcement of the law of the land.”**

Lieberman then asked Pletka to explain the reluctance of the executive branch to enforce sanctions legislation. **Pletka replied that it is difficult to identify companies in violation of the law without a shadow of a doubt, and perhaps the executive branch has been leery about putting out false information, which could complicate U.S. diplomacy and allow Iran to drive a wedge between us and our allies.** Another problem, she said, is the culture of the foreign service, “which is why Congress has to be behind this.”

In response to Lieberman’s question about the effect of Florida’s divestment campaign, Deutch explained that some companies defended their actions, some confirmed Florida’s findings, and some simply ignored the process altogether. “But there have been no threats, no lawsuits, and a growing recognition that this is something to pay attention to.”

Senator Collins asked if more stringent enforcement would truly be an effective disincentive for companies, and Pletka responded by conceding a degree of uncertainty, mostly because “they’ve never been forced to make that choice.” Many of them would think twice, she said, but the existing waiver in the law for extenuating circumstances – pertaining mostly to defense contracts in remote regions with limited options – is still problematic for across-the-board enforcement.

As a follow up, Collins asked Deutch if Florida’s new policy has had an impact on companies, to which he replied that “Florida’s decision alone wasn’t sufficient, but as a result of Florida and 19 other states, there have been decisions by companies not to proceed on contracts, or to withhold a decision to go forward” just to see how divestment laws pan out. **Deutch also espoused the belief that when you shine a light on companies – simply through the investigatory process of identifying who invests where – “then that kind of pressure may move companies to make decisions that ultimately affect the Iranian regime.”**

Senator **Scott Brown** (R-MA) then spoke and conveyed his support for “draconian sanctions” to prevent Iran from going nuclear. “I’m surprised the administration hasn’t really put its foot down.” He asked if denying CEOs of companies that do business in Iran entry into the U.S. would be effective,

and Pletka replied that visa restrictions are always useful, but they must not be applied in a blanket fashion. Brown then asked whether a new sanctions law is needed, and Pletka answered that successive presidents have already had enormous authority to do “all sorts of things” to pressure companies. But she also conceded that **“we live in a world where most of us believe in free trade and globalization, and when we go after companies, we may invite retaliation by other countries.”** So she insisted that the government be thoughtful and targeted in its approach by going after people who are responsible for directly endangering American lives.

Senator **John Ensign** (R-NV) asked why the State Department hasn’t invoked the Iranian sanctions act once in its 14 years on the books. “There’s always an excuse, always something going on in diplomacy,” Pletka answered. “Part of the difficulty in our government, is when the department of state is responsible for both diplomacy and sanctions, they tend to weigh one against the other.”

In response to a question from Senator **Kirsten Gillibrand** (D-NY) about the scope of sanctions, Pletka reminded that it’s important to be consistent, specific, and targeted, not only to create pressure on things that are key to the production and advancement of nuclear weapons, but also to ensure that we’re not creating new loopholes in the system. More precisely, **Pletka advocated for new sanctions on banks owned by the Iranian Revolutionary Guard (IRGC)**. And although she believes the administration is doing “exactly the right thing” in targeting the IRGC, she doesn’t think the federal government is up to speed on identifying exactly which companies the IRGC owns.