USA*ENGAGE

December 14, 2009

The Honorable Neil Abercrombie
U.S. House of Representatives
1502 Longworth House Office Building
Washington, DC 20515-1101

Dear Congressman Abercrombie:

The National Foreign Trade Council and USA*ENGAGE support the Obama administration's stated commitment to build a multilateral negotiating consensus to engage Iran's decisionmakers to forego the acquisition of nuclear weapons. It may be that multilateral economic sanctions on Iran become part of that engagement. If so, it is critical that the sanctions be conceived and implemented so that they have the greatest chance of producing their desired effect.

For thirty years, unilateral economic sanctions have been have been the principal instruments of U.S. policy towards the Islamic Republic of Iran. Unsurprisingly, the iron law of unintended consequences has characterized that policy. The sanctions have empowered and enriched the ruling regime, stifled ordinary engagement between citizens of the two countries, benefited American companies' foreign competitors, and provided third countries opportunities for geopolitical game-playing at the expense of U.S. national interests.

In working with allies, the Administration can avoid these past mistakes. Nonetheless, members of Congress appear set to legislate yet more unilateral sanctions on Iran -- this time by targeting foreign companies in any way connected with the importation of refined petroleum products into Iran. Since Iran currently relies on imported petroleum products to satisfy its highly-subsidized gasoline consumption, proponents of H.R. 2194 assert these measures will deal a "crippling blow" to the Iranian regime. The facts on the ground, however, strongly suggest the opposite.

Iran has had an established and effective "smart card" gasoline rationing system in place for several years. The regime therefore can reduce existing quotas of subsidized gasoline -- subsidies that make up a large part of the government's annual budget -- and move the system to market prices, to the degree that sanctions actually restrict supplies. Moreover, in three years, expansions underway in Iran's refining sector will eliminate Iran's need to import petroleum products. The fact is sanctions on petroleum products could save the regime billions of dollars and accomplish what domestic politics have thus far prevented.

Should the regime wish to circumvent the sanctions, Iran's geography and the highly adaptive nature of the global petroleum market will enable it to do so, further tightening the regime's control over the domestic economy. Some proponents of sanctions acknowledge this fact, when they call for a naval blockade -- an act of war -- to enforce the sanctions. One can only conclude, given the inevitable ineffectiveness of the proposed legislation -- that the sanctions are understood to be a "check the box" prior to military action. Yet, Secretary of Defense Robert

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Gates has stated publicly that military action would not stop Iran from acquiring nuclear weapons.

The proposed legislation would also amend the Iran Sanctions Act so that U.S. companies with no involvement in Iran's energy sector would nevertheless be penalized. Specifically, the bill would change the definition of "person" to include financial institutions, underwriters, guarantors, any other business organizations, including any foreign subsidiaries, parents or affiliates of such a business organization, and export credit agencies. Adding insurers and re-insurers, as well as ECAs that might have any connection to Iran's energy sector, including petroleum product imports, could preclude Ex-Im Bank from doing business with them to co-finance major U.S. exporters that have no relation to Iran's energy sector. Moreover, any U.S. company with business dealings with a foreign based company that in turn has any relation with Iran's energy sector could be subject to sanctions. Given the realities of global commerce, such an outcome would harm the U.S. and alienate our allies.

For all these reasons, we urge you to oppose HR 2194. Please feel free to contact the Director of USA*Engage, Richard Sawaya, at (202) 887-0278, if we can be of assistance to you and your office.

Sincerely,

William A. Reinsch
President, National Foreign Trade Council
and Co-Chairman USA* Engage

Richard N. Sawaya
Director, USA* Engage