

PREPARED TESTIMONY OF
DR. TRITA PARSI
PRESIDENT, NATIONAL IRANIAN AMERICAN COUNCIL
ADJUNCT SCHOLAR, THE MIDDLE EAST INSTITUTE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
SUBCOMMITTEE ON NATIONAL SECURITY AND FOREIGN AFFAIRS

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Hearing on Iran Sanctions: Options, Opportunities, and Consequences

Mr. Chairman, thank you for allowing me to submit this testimony on US policies towards Iran. In light of the Iranian people's ongoing struggle for their rights and the effort to find a diplomatic solution to the nuclear impasse, the issue of sanctions in particular deserves a thorough discussion. As a representative of the largest grassroots organization representing Americans of Iranian descent in the U.S. - The National Iranian American Council - I want to emphasize that no group of Americans is more concerned about the fate of the pro-democracy movement in Iran and no group of Americans has suffered more from the policies of the Iranian government than our community.

What we have witnessed in Iran in the past six months is nothing short of a tectonic shift. Never before in the 30 year-old history of Iran's current governing system have people poured out in the streets in such numbers, demanding that their votes and their rights be respected. And never before has the government been as divided as it is now. The intensity and brutality of the infighting between insiders of Iran's political system should not be underestimated.

The disputed June elections were followed by a brutal crackdown in which flagrant human rights violations were committed by the Iranian authorities. Human rights violations in Iran are now as bad as at any time in the past 20 years, according to an Amnesty International report released last week. The report accused the Iranian government of being "more concerned with covering up abuses than getting at the truth."

Yet, in spite of the repression, the torture, rape and killings in Iran's jails, the opposition movement has not relented. As late as last week, new demonstrations took place in Iran, with the demands of the demonstrators getting bolder rather than meeker in reaction to the brutality of authorities.

The opposition movement has succeeded in depriving the Ahmadinejad government of any sense of normalcy. The Green movement's stamina and determination have taken both Iran's hardliners and the international community by surprise. Assuming that the protests are mere passing phenomena that can't fundamentally change the political landscape in Iran would be unwise.

In the midst of this tectonic shift, America has embarked on a groundbreaking shift of its own – the pursuit of diplomacy with Iran with the aim of reducing US-Iran tensions and preventing the spread of nuclear weapons. The Obama administration made it clear from the outset that talks would not be without a time limit, and that unless progress was made, the administration would pursue tough sanctions against Iran.

I will not address in this testimony whether the modalities of diplomacy were adequate, whether enough time was given to overcome the obstacles to an interim deal on the nuclear issue, or whether

these last weeks before the December 31 deadline for diplomacy should be used to find a diplomatic solution or whether they should be used to lay the ground work for sanctions. Rather, given the current movement towards sanctions, I would like to address some of the factors that need to be taken into consideration when assessing various sanctions options.

First, the impact of sanctions on the people of Iran has rarely factored into our calculations. The Iranian people have suffered the brunt of the economic pressures precisely because existing sanctions have been broad and untargeted. The Iranian government, meanwhile, has remained relatively unscathed and has shifted the pain of the sanctions towards the people. While the government has the resources to offset the effects of sanctions, ordinary people in Iran do not have that option and bear the brunt of the economic pain. Furthermore, sanctions that have inhibited communications and exchanges with the Iranian people have had a direct, negative impact on the people's ability to push for political reform.

For instance, prior to the Iranian elections, Microsoft and Google both shut down instant messenger services in Iran, citing US sanctions. Inhibiting Iranians' ability to communicate with the outside world only aids the elements in Iran who seek to cement their grip on power by isolating their own people. As was made evident this past summer when footage of the demonstrations slipped out of Iran via Facebook and Youtube, Iranians' ability to communicate with the globalized world is pivotal to their struggle for political liberalization. Our sanctions policies should not make this already burdensome struggle for democracy more difficult.

It is consequently no surprise that leaders of the Green movement have made their opposition to sanctions clear. In late September, Moussavi stated new sanctions "would impose further pain on a nation that has already suffered a great deal by its schizophrenic rulers. We are against any kind of sanctions on people."

Indeed, after the groundbreaking developments of this past summer, continuing to ignore the impact additional broad sanctions will have on the Iranian people's struggle for democracy will only come at our own peril.

If we are serious about standing with - and not on the backs of - the Iranian people, we will need a new paradigm when it comes to sanctions on Iran. Though a democratic Iran would not in and of itself resolve the many problems the US has with Iranian policies, it would make the likelihood of finding solutions significantly greater. As such, pursuing sanctions that undermine the pro-democracy movement in Iran by hurting ordinary people directly contradicts our long-term national security interests with respect to Iran and the Middle East as a whole.

Second, the events of this past summer also shattered one of the myths about the ability of sanctions to bring about internal change in Iran. One effect of proposed gasoline sanctions, it has been argued, would be that ordinary Iranians, infuriated by skyrocketing gasoline prices, would increase their pressure on the Iranian government. However, past behavior of the Iranian populace does not support this theory. When the Ahmadinejad government began rationing gasoline in 2007, riots broke out in Iran for two days and an estimated 1,000 people partook in protests against the government's economic policies.

Contrast that to the estimated 3,000,000 people who took to the streets in Tehran alone in immediate aftermath of the elections, demanding that their votes be counted. Six months later, those protests are yet to die down.

What caused Iranians to rise up in June was not economic hardship, but dashed hopes in anger over the fraudulent election. Whereas economic hardships have prompted sporadic protests, hope has brought millions into the streets in a sustained manner. Experience shows that when broad, untargeted sanctions hitting the Iranian people are adopted, the first casualty is hope. Economic misery breeds despair, which in turn kills people's faith in their ability to bring about change. The result is political apathy, which only cements the status quo and serves the interest of the political faction around Ayatollah Khamenei.

Broad untargeted sanctions may serve to strengthen the Iranian government in other ways as well. Particularly sanctions hitting Iran's gasoline industry rest on a questionable economic foundation. Iran imports roughly 25-40 percent of its domestic gasoline consumption at world prices and then sells it along with domestically refined gasoline at a government-subsidized price of about 40 cents per gallon. As a result, domestic gasoline consumption is high. It is also smuggled and sold to neighboring countries.

Over the past 10 years, this policy has cost Iran in the range of 10 to 20 percent of its G.D.P. annually, depending on world prices and the government-mandated pump price. In need of additional revenues, the regime has wanted to eliminate this subsidy, raise the price to world levels and reduce consumption, but has been paralyzed by the specter of a domestic backlash.

Even assuming that a gasoline embargo would be effective, what would be its result? Consumption would sharply decline and government revenues would go up, because no payment would be needed for gasoline imports.

If Tehran allowed the reduced supply of gasoline to be sold at a price that would equate demand to supply, the price would increase to a level that would eliminate the subsidy, meaning no subsidy for imported gasoline and no subsidy for domestically refined gasoline. The government would have more revenue to spend elsewhere – possibly on Iran's nuclear program. The sanctions could end up doing what Tehran has wanted to do for years.

Third, the ability of sanctions to generate change is partly a function of international participation in the sanctions regime. Creating international consensus is pivotal, particularly when targeting an energy exporting state like Iran. The Obama administration has successfully pulled the UN Security Council together by working with our allies rather than targeting them through extraterritorial sanctions. Unilateral US sanctions that would penalize our allies risk shattering the existing consensus. The ultimate winner in such a scenario is the government in Tehran, who would be presented with opportunities to take advantage of divisions within the international community. When it comes to effectively addressing the challenges posed by the government of Iran within the international community, the US must be a uniter, not a divider, and our sanctions policies must be calibrated as such.

This does not mean that past US sanctions have not hurt the Iranian economy. On the contrary, there is little doubt that US economic sanctions have inflicted economic pain on the Iranians. Recent financial sanctions in particular have created significant obstacles for their economy. Banks have had great difficulty in financing projects, export credits have not been made available and capital flight has increased.

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

Going forward, Washington must carefully calculate its policies vis-à-vis Iran and the utility sanctions can play within a larger Iran policy. Factors such as the impact of sanctions on the Iranian people and their struggle for democracy, the unintended effect sanctions can have on strengthening Iran's ruling hardliners, and the ability of sanctions to divide rather than unite the international community must all be taken into account.

In particular, the alternative cost of the sanctions path must be carefully weighed. Broad sanctions and diplomacy rarely go hand in hand. A sanctions escalation that closes the window of opportunity for diplomacy, which is unlikely to change Iran's nuclear calculations based on past experiences, can create a scenario in which both diplomacy and sanctions have been deemed a failure in the coming few years. This all the while Iran's nuclear program has continued to expand. That would leave the United States with only one, highly unattractive option left at its disposal. It is important to make decisions today that do not leave us on an inevitable trajectory towards that scenario.