National Post

Sanctions against Iran may destabilize, topple regime by 'ratcheting up hassle factor': expert

Peter Goodspeed Jan 28, 2012 – 5:29 PM ET

AFP/Getty Images

<u>HB 2 Iran Divestment</u>

Credit: provided by Sen. Wielechowski, Sponsor of SB 131

A handout picture obtained from the Iranian president's office shows Iranian President Mahmoud Ahmadinejad delivering a speech during a visit to the city of Kerman, 1,000km southeast of Tehran, on January 26, 2012.

The 9/11 terrorist attacks drove Mark Dubowitz, a young business whiz who worked as a Bay Street lawyer and high-tech venture capitalist in Toronto, to change careers.

He moved to Washington and became executive director of the Foundation for the Defense of Democracies (FDD), an aggressive new neo-conservative think-tank that helps shape U.S. thinking on war, terrorism and the Middle East.

Now, he is a recognized international expert on developing sanctions that might cripple Iran's oil industry.

Yuri Gripas

Mark Dubowitz is at his office in Washington on januray 26, 2012.

Many of the ideas generated over the past five years by the FDD and Mr. Dubowitz have made their way into the international sanctions package now being applied to Iran — restrictions on gasoline sales, curbed investments in natural gas development, embargoed oil exports, targeted sanctions aimed at its Revolutionary Guards Corps and bans on business dealings with its Central Bank.

"Oil is the lifeblood of the regime," Mr. Dubowitz said. "Iran is essentially a one-crop country: They sell oil. It also has the second-largest natural gas resources in the world, but it can't get it out of the ground because of investment restrictions. It can't distribute it. It is actually a net importer of gas. At the end of the day, the Iranians sell oil."

That's the main source of Iran's strength and its Achilles' heel.

"I think that it is probably very unlikely that economic pressure is going to change [Iran's Supreme Leader Ali] Khamenei's commitment to building a [nuclear] bomb," Mr. Dubowitz said.

"Men who talk about crushing the 'enemies of God' won't give up their enriched uranium because transaction costs have increased. The acquisition of the bomb is now probably inseparable from the ruling elite's religious identity."

But sanctions that cripple Iran's oil industry and rapidly deprive its government of crucial revenue could destabilize the country to a point where the regime might be in danger of falling.

"Designing sanctions to make Khamenei relent is a delusion," Mr. Dubowitz wrote recently. "Sanctions that could contribute to popular unrest and political tumult are not. The Great Arab Revolt and its forerunner, the Iranian summer of 2009, were propelled by profound frustration as well as indignation at tyranny. A democratic revolution might be reborn."

In the past five years, sanctions are estimated to have cost the government in Tehran dearly. It has lost more than US$60-billion in energy investment and US$14-billion in oil sales; gasoline exports to Iran have been cut by 90%, while an estimated US$4.4-trillion of Iranian natural gas has been prevented from reaching markets.

More recent sanctions imposed by Washington on companies doing business with Iran's Central Bank have made it enormously complicated for Iran to receive payment for its oil, particularly from China, India and South Korea.

But Mr. Dubowitz is still looking for ways to increase the pressure.

"My whole theory is that the goal of sanctions is not to impose a complete embargo on Iranian oil or to cut Iran off completely from international global markets, but to significantly ratchet up the hassle factor in doing business with Iran and to persuade 'white-hatted companies' from doing business with Iran, leaving the 'black-hatted companies' who would never comply with sanctions to negotiate significant concessions from the Iranians in the form of discounts on the price of oil or premiums on the supply of gasoline," he said.

"That's what the Chinese are doing now. They have literally and figuratively got the Iranians over a barrel so they are driving for discounts and better prices for oil. On the other side of it, the Chinese are selling the Iranians gasoline and charging them 25% to 30% premiums."

Similarly, there are banks around the world that are willing to do business with Iranian banks controlled by the Revolutionary Guard Corps and the Central Bank of Iran, but they are being forced to pay significantly for the increased risks.

"The ultimate goal is to see sanctions that aren't airtight, because they can never be airtight, but to see sanctions designed in a way that significantly drains the Iranian treasury of its hard earnings," he said.

"Sanctions should never be thought of as a 'silver bullet.' But they can be thought of as 'silver shrapnel' — part of a comprehensive strategy. I think they can significantly wound the regime."

Mr. Dubowitz, who was born in South Africa and raised in Toronto, studied at the University of Western Ontario and McGill University, before taking a law degree and a master's of business administration at the University of Toronto. After he moved to Washington, he picked up a master's in international public policy from John Hopkins University's School of Advanced International Studies.

He spent eight years working as a lawyer and venture capitalist in Toronto, focusing on fundraising for early-stage technology companies. He was also director of international business development for Doubleclick, a global Internet advertising company that was ultimately purchased by Google, and director of corporate development and manager of European and Asian operations for FloNetwork, an email messaging marketing company later bought by Doubleclick.

In his work at the FDD, Mr. Dubowitz said he found "the intersection of foreign policy, law and business."

"I had experience in all three," he said. "I wasn't some PhD who spoke Farsi and understood the inner workings of the theocratic regime. I wasn't an award-winning economist or an international trade lawyer. I didn't have particular depth in any one issue or area, but I had a pretty good experience in all three and an ability to integrate them."

Using that experience, he has produced eight reports that provide research and analysis in support of strong, broad-based energy sanctions on Iran.

Six of those reports are documents that have been shared only with the Obama administration and selected congressional offices.

"There are a lot of people who deserve credit for what has already happened," Mr. Dubowitz said.

"There are members of Congress and their particular, hard-working staff and people within the administration and internationally. It's one of those rare issues where there is broad and deep bipartisan support, which is rare in Washington, and there is a really impressive international coalition."

But time may be running out for sanctions to work and convince Iran to abandon its quest for nuclear weapons.

"I think sanctions have to impose severe economic pressure on this regime over the next 12 months or even sooner. If we are in June or July this year and these oil market sanctions, for whatever reason, are not leading to a significant drop in Iranian oil revenues, then we are in a situation where the range of peaceful alternatives is almost exhausted."

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C.

SECRETARY OF THE TREASURY

December 1, 2011

The Honorable Carl Levin
Chairman
Committee on Armed Services
Unites States Senate
Washington, D.C. 20510

Dear Chairman Levin:

I am writing to address amendment 1414 to S. 1867, the National Defense Authorization Act for Fiscal Year 2012, regarding the imposition of sanctions on foreign financial institutions that conduct business with the Central Bank of Iran (CBI).

The Obama Administration's determination to prevent Iran from acquiring nuclear weapons is unwavering. We are resolved to build and sustain as much pressure as necessary to bring Iran to meet its international obligations and address the international community's grave concerns with its nuclear program. I know that you and your colleagues in the Senate share this commitment.

We understand that this amendment was offered in this spirit. However, I am writing to express the Administration's strong opposition to this amendment because, in its current form, it threatens to undermine the effective, carefully phased, and sustainable approach we have undertaken to build strong international pressure against Iran. In addition, the amendment would potentially yield a net economic benefit to the Iranian regime.

We have steadily increased the pressure on Iran by tightening sanctions, closing loopholes, and encouraging other countries to do the same. Congress has been absolutely critical in providing some of the tools that we have used to accomplish that goal, and we are seeing genuine results. The collaborative approach the U.S. has taken with our international partners has led many to impose sanctions on Iran that were not even contemplated three years ago, including on Iran's energy sector.

Iran's greatest economic resource is its oil exports. Sales of crude oil line the regime's pockets, sustain its human rights abuses, and feed its nuclear ambitions like no other sector of the Iranian economy. We are committed to doing as much as possible to reduce Iran's oil revenue while concurrently working to stabilize global oil markets. Today, the United States does not permit the import of Iranian crude. Other countries have already begun to reduce their consumption of Iranian crude and the Administration is working hard to discourage anyone from taking advantage of the responsible policies of these countries. Our closest allies are seriously considering curtailing their own crude purchases altogether in the near future and we are doing everything possible to encourage them to make the right decision.

However, as currently conceived, this amendment threatens severe sanctions against any commercial bank or central bank if they engage in certain transactions with the CBI. This could negatively affect many of our closest allies and largest trading partners. Rather than motivating these countries to join us in increasing pressure on Iran, they are more likely to resent our actions and resist following our lead – a consequence that would serve the Iranians more than it harms them. Further, there is a substantial likelihood that this amendment, particularly if passed into law at this time and in its current form, could have the opposite effect from what is intended and increase the Iranian regime's revenue, literally fueling their suspect nuclear ambitions. The Administration is prepared at your convenience to share the details of our analysis on this point, in a classified briefing.

The Obama Administration strongly supports increasing the pressure on Iran significantly, including through properly designed and well-targeted sanctions against the CBI. The Administration has several legislative proposals to both enhance and expand the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA) and to strike at the CBI that we would like to discuss with you and your colleagues. We intend to work with our partners to achieve the objectives of this amendment, but in a fashion that we believe will have a greater and more sustainable impact on Iran. We ask that you continue to work with us on ways to improve this amendment and to consider other, more immediate and more effective steps that we can take to accomplish our shared goals while we work with our partners to bring about the effects this amendment is intended to achieve.

Sincerely,

Timothy F. Geithner