

I. Introduction

We all agree that we must act on the multiple threats posed by Iran:

- Its indefatigable march to acquire nuclear weapons. Its missile technology.
- Its direct funding, training, and supplying of forces attacking Americans in Iraq.
- Its support of Hezbollah, Hamas, and other terrorist groups, including the Taliban in Afghanistan.
- Its incarceration of American citizens on trumped up charges. And more.

These actions confirm what was said in the Administration's "National Security Strategy" of 2006 that the United States "may face no greater challenge from a single country than Iran."

Yet Western nations react as if a nuclear armed Iran is no big deal. Why? And what should we be doing about all of this? Should we at least be taking actions commensurate with our declarations about this threat?

Two comparisons come to mind: one with disastrous consequences, one which resulted in victory: the run up to World War II and our victory over the Soviet Union in the Cold War.

During the run up to World War II, Europe failed to heed the warnings, not just of those like Winston Churchill, but of the Nazis' own promises. As Thomas Sowell noted in a column earlier this week quoting Churchill, "there never was a war in all history easier to prevent by timely action."

Many who cheered on Chamberlain's disastrous policies then - seeking peace at any price - returned during our long battle with the Soviet Union. They told us that our strategy

towards the Soviets should be détente featuring bilateral mutual accommodations to allow peaceful coexistence with the Soviets.

In the end, we prevailed by taking a series of small but decisive steps that undermined Soviet credibility and economic strength. Natan Sharansky knew we would win when he read Ronald Reagan's characterization of the U.S.S.R. as the evil empire. Once you understand your enemy, you can defeat him. If you have the will!

II. Iran's Soft Underbelly

As with any conflict, one begins by surveying the field, assessing your assets and liabilities, your problems and opportunities.

There are opportunities in Iran. Time limits my discussion, so I will outline 4 areas of Iranian vulnerability and then discuss ways we could take advantage of the opportunities present to change the course of history regarding Iran – to potentially eliminate the threat without military action.

A. THE FIRST IS IRANIAN PUBLIC SENTIMENT

The Wall Street Journal recently discussed a new poll by the Terror Free Tomorrow foundation. This poll, conducted in Farsi by telephone with over 1,000 interviews covering all 30 provinces of Iran, offered empirical evidence of discontent with the current system of government, the state of Iran's economy, and isolation from the West:

- Close to 70% of Iranians favor normal relations and trade with the U.S.
- Indeed, in exchange for normal relations, *a majority of Iranians even favor recognizing Israel and Palestine as independent states*, ending Iranian support for any armed groups inside Iraq, and giving full transparency by Iran to the U.S. to ensure there are no Iranian endeavors to develop nuclear weapons.
 - In this context, nuclear weapons are the lowest priority for the Iranian people.

- 61% of Iranians were willing to tell pollsters -- over the phone no less -- that they oppose the current Iranian system of government.
- More telling, over 79% of Iranians support a democratic system instead, in which the supreme leader, along with all leaders, can be chosen and replaced by a free and direct vote of the people.
- The survey also leaves no doubt that the Iranian economy is the number one issue of concern for Iranians from every age, region, education level and class.
- 80% think the present economic situation in Iran is fair or poor, and 9 out of every 10 Iranians believe that creating new jobs and curbing inflation should be very important priorities for their government.
- Indeed, three-quarters favor Western investment to create more jobs, as well as medical, education and humanitarian assistance from Western countries to Iranian people in need.

After reading this polling data, I am reminded of what Ayatollah Khamenei said in a TV interview in December of 2005, “What destroys regimes is the peoples' resistance, their determination, and their struggle.”

B. SECOND, WE SHOULD BE AWARE OF RECENT REVERSALS FOR AHMANINEJAD.

Ahmadinejad suffered a profound humiliation at the polls in last December’s municipal elections — about 90% of his allies lost. As a result, his critics have been emboldened.

Additionally, many Iran experts believe that Supreme Leader Khamenei is trying to curb Ahmadinejad’s authority in order to limit confrontation with the international community. It has been reported that Khamenei has given a green light to parliament to criticize the President's performance.

However, Ahmadinejad's ties to the Revolutionary Guard and other revolutionary institutions likely position him to weather this criticism. But at what cost and for how long?

C. THIRD, IRAN'S WEAK ECONOMY

With its enormous natural resources, endowments and talented people, Iran should be among the most prosperous countries in the world. But counterproductive economic policies, mismanagement, widespread corruption, and misguided goals such as the dangerous quest for nuclear weaponry, have dimmed Iran's economic prospects.

Unemployment was 11.5% in the year ending in March, 1.2% higher than the previous year, according to the Iran Statistical Center. Between 700,000 and one million people annually enter a job market that creates only 300,000 to 500,000 decent jobs for them.

Additionally, the World Bank has noted that, "unless the country moves quickly to a faster path of growth with employment, discontent and disenchantment could threaten its economic, social, and political system."

Ahmadinejad's decision to inject huge amounts of oil money into the Iranian economy and engage in deficit spending has stoked inflation, which has made it even more difficult for the poor to make ends meet. The prices of such basic items as beef, poultry, fruits and bread have increased by 25%, and rents have risen 30%.

This economic deterioration has occurred in spite of a 37% increase in Iran's hard currency earnings, derived mainly from oil. Iran's oil revenue was \$50 billion last year.

Where is all of Iran's money going? Much is being spent on a WMD program, on Hezbollah and on insurgents in Iraq and Afghanistan.

None of the economic promises that Ahmadinejad and others have made have been kept. And the people realize that he is to blame, not some external antagonist. Witness a recent open letter by 57 Iranian economists, or that this past January, one half the parliament criticized Ahmadinejad for his economic results, or lack thereof. *That is something that is a real force on the street.*

D. FOURTH, ENERGY IS A DOUBLE-EDGED SWORD

We know that Iran holds an estimated 10 percent of the world's proven oil reserves. Its oil exports generate 80 to 90 percent of the country's total export earnings and 40 to 50 percent of its total government budget.

However, Iran's oil production is declining, from a high of 6 million barrels per day when the Shah was in power, to less than 4 million barrels per day since then. Further, this output is continuing to decline as the country has to struggle to pump from aging fields.

Roger Stern, an economist at Johns Hopkins University, has predicted that Iranian oil exports could decline to zero by 2015 without a significant increase in investment or a decline in domestic consumption.

Despite its plentiful oil reserves, Iran right now has got a refining shortfall and imports 42 percent of its gasoline.

Costs for the Iranian fiscal year ending March 2007 are expected to be similarly high—nearly \$7 billion in regime funds to defray the high cost of gasoline to Iranian consumers. In fact, *Iran will spend more money on gas and other subsidies next year than it will receive from oil and gas revenue, according to IMF projections.*

Given these realities, Tehran was faced with the choice of either raising the price of gasoline at the domestic pump or begin petroleum rationing.

Recently, the regime has chosen to attempt rationing. The result was that mass protests broke out, including attacks on gas stations, as the rationing went into effect. Beyond burning gas stations and looting stores in Tehran, riots took place in major cities like the holy city of Mashhad and Arak, where Iran's heavy water plant is located, according to Iran's official news agency, IRNA.

It is clear that all is not well in Iran. So we must now determine, what are the steps we can take to use the opportunities we have been presented.

III. Options to take advantage of Iran's troubles

Through a careful strategy of disinvestment, smart sanctions and asset freezing, international trade limits, and better targeting of Iran's leaders, we can follow up on the existing discontent on the street. The eventual result could be regime change; nearer term, pressure could cause policy shifts with the existing regime.

Amazingly, neither Washington nor our international allies have yet seriously tackled the economic dimension of the current crisis with Iran—or explored the financial levers by which the Islamic Republic can be influenced. This is surprising, given the formidable arsenal of economic tools that are currently available to the West and assuming we understand the threat.

It is fashionable to blame our international allies for this. But the U.S. must focus on our own shortcomings first. For example, we push and push our allies to pass tougher sanctions, such as Security Council Resolution 1747, and then we take months to slowly

implement it here. Such an approach undermines our authority to expect more of our allies. And this is merely one example.

A. FIRST, THE SUBJECT OF TODAY'S EVENT IS DISINVESTMENT.

Thanks to the work of AEI, the Conflict Securities Advisory Group, the Center for Security Policy and others, we know with certainty that there are a large number of companies that are key participants in Iran's economy which could be affected by a disinvestment policy.

These companies are among the largest in the world and are held in most American investors' portfolios and public pension funds, including the Thrift Savings Plan that invests on behalf of Members of Congress and many other U.S. public officials. The investments represent hundreds of billions of dollars. U.S. disinvestment could have a significant affect on their ability to raise capital.

Disinvestment, to work, must be broadly applied. I am troubled by those efforts that only seek to target one or two economic sectors. While it is true that Iran's energy sector is ripe for targeting, money is fungible. Any investment in Iran will free up capital that Ahmadinejad can use to stay in power and invest in pursuits such as developing more advanced ballistic missiles and nuclear weapons.

I believe we must therefore target total disinvestment from Iran, as well as other state sponsors of terror: Syria, North Korea, Sudan, and Cuba. For public sector holdings, this means divesting from all companies that choose to do business with terror sponsoring states. At the same time, this means revealing publicly which companies are doing business in countries like Iran, making them answer to the public for providing investments that fuel terrorism.

State and federal legislators and public pension fund managers should work together publicly and vigorously to develop a divestment plan effective in the short-term. This will inform companies, and the regime in Tehran, that we mean business.

When divestment from the apartheid regime in South Africa was the popular rage, nearly 200 public pension funds participated in that campaign. And that regime was not killing Americans nor threatening to obliterate other nations. We should be at least as aggressive against Iran.

Obviously, divestment as national policy is risky. It should be reserved for only the most egregious and threatening regimes or else every faddish, politically correct cause will foster calls for divestment policy. But that is clearly not the case with Iran today – a regime that denies the Holocaust, threatens nations with extinction, and sponsors terrorism against America and her allies.

B. WE SHOULD TAKE ADVANTAGE OF IRAN’S WEAK ENERGY SECTOR.

While Congress congratulated itself for passing the Iran Sanctions Act (ISA), formerly known as ILSA, it has never been used. This is another example of how U.S. policy fails to live up to our rhetoric. Never using a tool you’ve been given is worse than not having it in the first place.

For example, since the beginning of the year, at least two Chinese companies — the China National Offshore Oil Corporation (CNOOC), and PetroChina, which is a subsidiary of the Chinese National Petroleum Corporation (CNPC) — have signed deals in excess of \$100 billion with Iran for the next 25 years. And there are billions of additional projects pending with countries like Malaysia, Spain, Pakistan and India.

Under ISA, there is a broad array of sanctions – a menu of 7 – the President may invoke. I believe the original deterrent effect of ILSA, and more importantly, the starvation of the Iranian energy sector, could be achieved if the State Department or the President were to announce tomorrow that any one of these pending deals, or the deals consummated with Iran since 1999, are “investments in the Iranian energy sector” within the reach of ISA and the entities involved will be subject to sanctions, for example, restricting the investing company’s ability to import into the United States.

This will not be painless. As you will recall, in 1998, when the French Total oil company invested in Iran’s energy sector, we backed down from using ISA because of the threat of a trade confrontation with Europe.

But, we must ask ourselves, which do we fear more, a trade dispute with Europe or with China, or what Tehran will do with the revenues of a fully reconstituted energy sector? If the Administration continues to do one thing while saying another, Congress may have to force the matter by removing the waiver authority presently provided by ISA.

C. THE NEXT STEP IN MULTILATERAL SANCTIONS

Security Council Resolution 1747 demands Iran suspend uranium enrichment activities by May 24, 2007. The IAEA report of May 23, 2007 indicated that Iran did not comply, and new negotiations have begun on another resolution.

With the expiration of the deadline for Iranian compliance under Security Council Resolution 1747, we should make it a top priority and test of good relations with our allies to see that a new Security Council resolution is swiftly passed. We must not buy into Iranian ploys for delay to buy more time for its nuclear program.

We must immediately seek sanctions that will not merely require reporting when an Iranian government official travels, but ban that travel. We must not merely ban arms transfers by Iran, we must ban transfers of arms and arms technology to Iran. And we must not simply freeze assets of specific Iranian entities or banks, but of all Iranian financial assets abroad. If cutting off Bank Saderat from the U.S. financial system caused pain to the regime, then cutting the entire Iranian financial system out of the world's commerce will make doing the regime's ability to do business nearly, if not completely, impossible.

Achieving these sanctions will not be easy. But they are necessary given the threat Iran is posing. As such, we must make sure our allies understand our resolve. This means conditioning our relationship with Russia on its support.

And the same for China. With their voracious thirst for Iranian oil they have resisted supporting meaningful sanctions. The measure of how seriously we take the Iranian threat will be demonstrated by the pressure we impose on China. We must make clear to the Chinese leadership that, given the gravity of this threat, China must choose between our friendship and Iran's. Let us not forget that the growth of the Chinese economy is fueled not merely by Iranian oil, but by their access to our markets.

D. TAKING ON IRAN'S ELITES

Iran's economy is dominated by the well-connected and powerful who are arranged in a relatively tight economic hierarchy controlling more than 33 - 40 percent of Iran's national GDP, and as much as two-thirds of the country's non-oil GDP.

These oligarchical groups, the bonyads, control vast assets given to them by the state. They allow the elites to build support for the regime among the working and lower classes by doling out benefits.

Given this economic hierarchy, targeted financial measures that restrict the ability of these individuals and organizations to gain access to international markets—and curtail their capacity to engage in commerce—are likely to have an immediate and pronounced effect on regime decision-making.

However, far from targeting these elites, the Clinton administration actually narrowed our sanctions, for example, by lifting the embargo on the import to the U.S. of Iranian pistachios, in addition to caviar and rugs. I note that the Bush Administration has taken no action to reverse that decision.

Why have we not taken simple steps like reimposing this embargo? No less than the Rafsanjan family, the family of the former president, has built a fiefdom in Iran off the proceeds of the annual trade in pistachios. Why have we not frozen the assets of all of these organizations, striking at the very power centers of the ruling regime?

E. FINALLY, A VIBRANT PUBLIC DIPLOMACY CAMPAIGN TO SPEAK DIRECTLY TO THE IRANIAN STREET

To put it simply, Iran today, is one of the few places in the greater Middle East where the regime is anti-American, but the people are not.

Yet we have consistently failed to take advantage of this reality. We have allowed our public diplomacy to atrophy since the end of the Cold War.

Instead of challenging the lies and propaganda of Ahmadinejad and the mullahocracy, we have a public diplomacy effort that gives them Britney Spears. Instead of original content extolling American exceptionalism as demonstrated through the Federalist Papers or the Declaration of Independence, we give them rebroadcasts of CNN.

It is not enough merely to use all of these terrific ideas on disinvestment, and multilateral UN sanctions, and actually using the Iran Sanctions Act. If we just do that, we cannot be surprised if the leaders in Tehran use these actions to rally the inherent nationalism of the Iranian people, including the youth of Iran who are predisposed to be receptive to the American message. Not unless we explain to the Iranian street what we are doing and why we are doing it.

Our public diplomacy efforts were successful during the Cold War because they were sustained, concentrated and unabashed. These efforts did not shy away from recognizing the evils of the Soviet system.

Presidents Reagan and Bush understood that you can't defeat your enemy if you're afraid of saying why your enemy is wrong. We must again make this a part of our outreach and broadcasting programs.

I suggest more Thomas Jefferson and less Anderson Cooper will go a long way to explaining our opposition to the Iranian regime and our friendship for the Iranian people.

IV. Conclusion

It is American policy to take no option off the table, including the military option. President Bush has correctly stated that we cannot allow the world's most dangerous weapons in the hands of the world's most dangerous regime. But force is not the best policy.

The problem is that failure to take advantage of some or all of these tools I've discussed only serves to make it more likely that force may be used.

By taking serious actions, I believe we can prevent Iran from obtaining nuclear weapons.

Ronald Reagan observed that “history teaches that war begins when governments believe the price of aggression is cheap.” For the Iranian regime, the price of their aggression has been too cheap for too long.

We have the ability to raise the price to a point that the regime will not be able to bear the cost, just as we did with the Evil Empire not that long ago. Do we have the will to make Ahmadinejad and the ruling elite pay that price?