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RANKING DEMOCRAT

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REP. LORETTA SANCHEZ (CA)
REP. ELIJAH E. CUMMINGS (MD)

*Congress of the United States*
**Joint Economic Committee**
Democrats

109TH
CONGRESS

804 HART SENATE OFFICE
BUILDING
WASHINGTON, DC 20510-6602
202-224-0372
FAX 202-224-5568
www.jec.senate.gov/democrats

CHAD STONE
STAFF DIRECTOR

# Opening Statement
# Senator Jack Reed
# Joint Economic Committee Hearing
# July 25, 2006

Thank you, Chairman Saxton. I want to welcome both panels of experts and thank them all for testifying here today.

As we monitor the diplomatic developments surrounding the nuclear standoff with Iran—and as the current conflict between Israel and Hezbollah continues to destabilize the region—this hearing on energy and the Iranian economy is indeed timely.

Iran has recently enjoyed strong economic growth—primarily due to high oil prices. Despite some progress in reforming certain aspects of its economy, the Iranian economy continues to suffer from significant structural weaknesses. First, its heavy reliance on oil revenues makes it extremely vulnerable to oil price shocks. Second, entrenched political interests impede substantive economic reform. Lastly, the country continues to rank poorly on various indicators of foreign investment risk.

Such vulnerabilities lead some observers to conclude that the United States and its allies may have some leverage—primarily through sanctions, possibly backed up by the threat of military action—in convincing Iran to abandon any nuclear weapons ambitions.

However, oil prices are expected to remain high at least through 2007 and with a global oil market Iran will always find alternative customers in countries that are willing to violate sanctions to advance their own interests. Even if Iranian oil exports were to slow somewhat, the higher prices that resulted would, at least temporarily, cushion the revenue impact. And Iran's vast energy reserves promise that the country will remain attractive to foreign investors.

Russia and China recently signed on with the U.S. and its European partners in seeking a United Nations Security Council resolution ordering Iran to freeze its nuclear program, or face possible sanctions. To be truly effective on their own, sanctions must target the oil exports that are central to the Iranian economy. Given tight oil supplies, however, it is highly unlikely that all six negotiating partners would ultimately agree to such comprehensive economic sanctions. In fact, a decade's worth of experience with the Iran Libya Sanctions Act or "ILSA"—which was implemented during a period when oil was relatively cheap and plentiful—suggests our allies' reluctance to further rattle the global oil market. Further, both Russia and China have indicated they will not support military action against Iran.

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The experience with U.S. sanctions against Iran suggests that a unilateral approach simply will not work. U.S. sanctions have not prevented Iran from developing what International Atomic Energy Agency (IAEA) inspectors believe to be a potential military dimension to its clandestine nuclear program, or from continuing to sponsor terrorist organizations such as Hezbollah and Hamas. Some analysts believe that U.S. sanctions have done more to isolate the United States than to isolate Iran.

Rather than taking a unilateral approach, the U.S. must continue to work with the U.N. community. If universal, comprehensive economic sanctions are not feasible, we must focus on a more effective mix of targeted sanctions that our negotiating partners can agree to. Targeted sanctions may not cripple the Iranian economy to the point where it is financially incapable of developing a nuclear weapon. However, coupled with concerted diplomatic efforts, the right mix of sanctions has the potential to convince Iran to abandon any nuclear weapons ambitions it may harbor.

I look forward to the testimony of our witnesses here today. In addition to hearing about the state of the Iranian economy and its energy sector, I hope to discuss ways in which sanctions could be effectively applied, preferably as part of a multilateral diplomatic effort involving the U.N. and the IAEA.

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