The Iran-Libya Sanctions Act (ILSA)

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Summary

No firms have been sanctioned under the Iran-Libya Sanctions Act (ILSA), and it has terminated with respect to Libya. Renewed in August 2001 for another five years (P.L. 107-24), ILSA is scheduled to expire in August 2006. In the 109th Congress, H.R. 282 (passed by the House on April 26, 2006) and S. 333 would extend it indefinitely and tighten some provisions. S. 2657 would extend ILSA, with no further modifications, for another five years. This report will be updated. See also CRS Report RL32048, Iran: U.S. Concerns and Policy Responses, by Kenneth Katzman.

Background and Original Passage of ILSA

ILSA was introduced in the context of a tightening of U.S. sanctions on Iran during the first term of the Clinton Administration. In response to Iran’s stepped up nuclear program and its support to terrorist organizations (Hizbollah, Hamas, and Palestine Islamic Jihad), President Clinton issued Executive Order 12957 (March 15, 1995), which banned U.S. investment in Iran’s energy sector, and Executive Order 12959 (May 6, 1995), which banned U.S. trade with and investment in that country. The Clinton Administration and many in Congress maintained that these sanctions would deprive Iran of the ability to acquire weapons of mass destruction (WMD) and to fund terrorist groups by hindering its ability to modernize its key petroleum sector. That sector generates about 20% of Iran’s GDP. Iran’s onshore oil fields, as well as its oil industry infrastructure, were aging and needed substantial investment, and its large natural gas resources (940 trillion cubic feet, exceeded only by those of Russia) were not developed at all at the time ILSA was first considered.

U.S. allies refused to sanction Iran in the mid-1990s, and the Clinton Administration and Congress believed that it might be necessary for the United States to try to deter foreign investment in Iran. The opportunity to do so came in November 1995, when Iran launched its first major effort to open its energy sector to foreign investment, which Iran had banned after the February 1979 Islamic revolution on the grounds that foreign firms would gain undue control over Iran’s resources. To accommodate that philosophy while attracting needed foreign help, Iran developed a “buy-back” investment program under
The Iran-Libya Sanctions Act (ILSA)


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which foreign firms recoup their investments from the proceeds of oil and gas discoveries but do not receive equity stakes.

As Iran was announcing its plans, some in Congress, with input from the Clinton Administration, developed legislation to sanction such investment. On September 8, 1995, Senator Alfonse D’Amato introduced the Iran Foreign Oil Sanctions Act of 1995 to sanction foreign firms’ export to Iran of energy technology. The bill passed the Senate on December 18, 1995 (voice vote) but, in contrast to the introduced version, imposed sanctions on foreign investment in Iran’s energy sector. The Clinton Administration was concerned that U.S. monitoring of foreign exports to Iran would be too difficult to implement. On December 20, 1995, the Senate passed still another version with an amendment, sponsored by Senator Edward Kennedy, that applied all provisions to Libya as well, which at the time was still refusing to yield for trial the two suspects in the December 21, 1988 bombing of Pan Am 103, both allegedly agents of Libyan intelligence. The House passed its version of the bill, H.R. 3107, on June 19, 1996 (415-0). The Senate passed a slightly different version on July 16, 1996 (unanimous consent); the House concurred, and the President signed it into law (P.L. 104-172, August 5, 1996).

ILSA was to sunset on August 5, 2001 (5 years after enactment), in the context of somewhat improved U.S. relations with both Iran and Libya. During 1999 and 2000, the Clinton Administration had eased the trade ban on Iran somewhat in response to the more moderate policies of Iran’s President Mohammad Khatemi. In 1999, Libya yielded for trial of the Libyan suspects in Pan Am 103. However, proponents of ILSA renewal maintained that ILSA was slowing investment in both countries and that both would view ILSA’s expiration as a concession, reducing their incentive for further moderation. Legislation to renew ILSA (H.R. 1954) was enacted in the 107th Congress (P.L. 107-24, August 3, 2001). The renewal law changed the definition of investment to treat any additions to pre-existing investment as a new investment, and required an Administration report on ILSA’s effectiveness within 24 to 30 months of enactment; that report was submitted to Congress in January 2004 and did not recommend ILSA be repealed.

Key Provisions

ILSA requires the President to impose at least two out of a menu of six sanctions on foreign companies (entities, persons) that make an “investment” of more than $20 million in one year in Iran’s energy sector. The six sanctions available (Section 6) are (1) denial of Export-Import Bank loans, credits, or credit guarantees for U.S. exports to the sanctioned entity; (2) denial of licenses for the U.S. export of military or militarily-useful technology to that entity; (3) denial of U.S. bank loans exceeding $10 million in one year to the entity; (4) if the entity is a financial institution, a prohibition on its service as a primary dealer in U.S. government bonds; and/or a prohibition on its service as a repository for U.S. government funds (each counts as one sanction); (5) prohibition on U.S. government procurement from the entity; and (6) a restriction on imports from the entity, in accordance with the International Emergency Economic Powers Act (IEEPA, 50 U.S.C. 1701 and following).

1 For Libya, the threshold was $40 million, and sanctionable activity included exportation to Libya of a broad range of technology of which the export to Libya was banned by Pan Am 103-related Security Council Resolutions 748 (Mar. 31, 1992) and 883 (Nov. 11, 1993).
Waiver/Expiration Provisions. The President may waive ILSA sanctions on Iran if the parent country of the violating firm agrees to impose economic sanctions on Iran (Section 4(c)) or if he certifies that doing so is important to the U.S. national interest (Section 9(c)). ILSA terminates for Iran if Iran ceases its efforts to acquire WMD and is removed from the U.S. list of state sponsors of terrorism. For Libya, ILSA terminates if the President determines that Libya has fulfilled the requirements of all U.N. resolutions relating to the downing of Pan Am 103. (President Bush made that certification on April 23, 2004, terminating ILSA for Libya.)

Implementation and Effectiveness

Traditionally skeptical of economic sanctions as a policy tool, the European Union states opposed ILSA as an extraterritorial application of U.S. law. The EU countries threatened formal counter-action in the World Trade Organization (WTO), and in April 1997, the United States and the EU formally agreed to try to avoid a trade confrontation over ILSA (and a separate “Helms-Burton” Cuba sanctions law, P.L. 104-114). The agreement contributed to a decision by the Clinton Administration to waive ILSA sanctions on the first project determined to be in violation: a $2 billion2 contract, signed in September 1997, for Total SA of France and its minority partners, Gazprom of Russia and Petronas of Malaysia to develop phases 2 and 3 of the 25-phase South Pars gas field. The Administration announced the “national interest” waiver (Section 9(c) of ILSA) on May 18, 1998, after the EU pledged to increase cooperation with the United States on non-proliferation and counter-terrorism. The announcement indicated that EU firms would likely receive waivers for future projects that were similar.

As did its predecessor, the Bush Administration sought to work cooperatively with the EU to curb Iran’s nuclear program and limit its support for terrorism rather than risk a rift by imposing sanctions on EU (or other) firms. Some believe ILSA did slow Iran’s energy development initially, but, as shown by the projects agreed to below, its deterrent effect weakened as foreign companies began to perceive that ILSA sanctions would not likely be imposed. Since that sanctions waiver, about $11.5 billion in foreign investments in Iran’s energy sector have been agreed to. The new investment has not boosted Iran’s sustainable oil production significantly — it is still about 4 million barrels per day (mbd)3 — but the foreign investment apparently has slowed any deterioration. In addition, Iran’s gas sector, non-existent prior to the late 1990s, is becoming an increasingly important factor in Iran’s energy future as a result of foreign investment.

Since the South Pars case, a number of investments in Iran have been formally placed under review for ILSA sanctions by the State Department (Bureau of Economic Affairs). State Department reports to Congress on ILSA, required every six months, state that U.S. diplomats raise U.S. policy concerns about Iran with both investing companies and their parent countries. However, no sanctions determinations have been announced since the South Pars case. Table 1 shows reported post-1999 energy investments in Iran.

2 Dollar figures for energy investment contracts with Iran represent public estimates of the amounts investing firms are expected to spend during the life of the project, which might in some cases be several decades.

3 Testimony of Deputy Assistant Secretary of State Anna Borg before the House International Relations Committee, Subcommittee on the Middle East and Central Asia. June 17, 2003.
**Table 1. Post-1999 Foreign Investment in Iran Energy Sector**

<table>
<thead>
<tr>
<th>Date</th>
<th>Field</th>
<th>Company(ies)</th>
<th>Value</th>
<th>Output Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb. 1999</td>
<td>Doroud (oil)</td>
<td>Totalfina Elf/ENI</td>
<td>$1 billion</td>
<td>205,000 bpd</td>
</tr>
<tr>
<td>Apr. 1999</td>
<td>Balal (oil)</td>
<td>Totalfina Elf/Bow Valley (Canada)/ENI</td>
<td>$300 million</td>
<td>40,000 bpd</td>
</tr>
<tr>
<td>Nov. 1999</td>
<td>Sorouush and Nowruz (oil)</td>
<td>Royal Dutch Shell</td>
<td>$800 million</td>
<td>190,000 bpd</td>
</tr>
<tr>
<td>Apr. 2000</td>
<td>Anaran (oil)</td>
<td>Norsk Hydro (Norway)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>July 2000</td>
<td>Phase 4 and 5, South Pars (gas)</td>
<td>ENI</td>
<td>$1.9 billion</td>
<td>2 billion cu.ft./day</td>
</tr>
<tr>
<td>Mar. 2001</td>
<td>Caspian Sea oil exploration</td>
<td>GVA Consultants (Sweden)</td>
<td>$225 million</td>
<td></td>
</tr>
<tr>
<td>June 2001</td>
<td>Darkhovin (oil)</td>
<td>ENI</td>
<td>$1 billion</td>
<td>160,000 bpd</td>
</tr>
<tr>
<td>May 2002</td>
<td>Masjed-e-Soleyman (oil)</td>
<td>Sheer Energy (Canada)</td>
<td>$80 million</td>
<td>25,000 bpd</td>
</tr>
<tr>
<td>Sep. 2002</td>
<td>Phase 9 and 10, South Pars (gas)</td>
<td>LG (South Korea)</td>
<td>$1.6 billion</td>
<td></td>
</tr>
<tr>
<td>Oct. 2002</td>
<td>Phase 6, 7, 8, South Pars (gas)</td>
<td>Statoil (Norway)</td>
<td>$2.65 billion</td>
<td>3 billion cu.ft./day</td>
</tr>
<tr>
<td>Feb. 2004</td>
<td>Azadegan (oil)</td>
<td>Inpe x (Japan)</td>
<td>$2 billion</td>
<td>300,000 bpd</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td></td>
<td></td>
<td><strong>$11.5 billion</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Oil: 920,000 bpd</strong></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Gas: 5 billion cu.ft/day</strong></td>
<td></td>
</tr>
</tbody>
</table>

**ILSA and Emerging Energy Relationships.** ILSA’s definition of “investment” does not specifically mention as violations of ILSA long-term oil or gas purchases from Iran, or the building of energy transit routes to or through Iran. However, the Clinton Administration position was that the construction of energy routes might violate ILSA, because these routes would “directly and significantly contribut[e] to the enhancement of Iran’s ability to develop petroleum resources.” The Clinton Administration used that argument to deter energy routes involving Iran and thereby successfully promote an alternate Caspian energy route from Azerbaijan (Baku) to Turkey (Ceyhan). This route, which became operational in 2005, bypasses both Iran and Russia.

At the same time, the Clinton and Bush Administrations have adopted flexible interpretations of ILSA to accommodate the needs of key regional allies for energy supplies. A few weeks after ILSA was enacted, Turkey and Iran agreed to construct a natural gas pipeline from Iran to Turkey (each country constructing the pipeline on its side of their border). Turkey later announced that, at least initially, it would import gas only from Turkmenistan through this pipeline. In July 1997, the State Department said that the project did not violate ILSA because Turkey would be importing gas from Turkmenistan, not Iran, and the project would therefore not benefit Iran’s energy sector directly. Direct Iranian gas exports to Turkey began in 2001, in apparent contravention of Turkey’s pledges not to buy Iranian gas directly, but the Bush Administration has not imposed ILSA sanctions on the project.

Further tests of ILSA are looming as Pakistan, India and China build energy ties to Iran; some deals might include pipeline projects to Iran. In October 2004, Iran negotiated a long-term agreement to allow China (Sinopec) and India (Oil and Natural Gas Corp., ONGC) to develop Iran’s Yadavaran oil field, which might be able to produce 300,000

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4 This definition of sanctionable activity is contained in Section 5(a) of ILSA.
Proposed ILSA Modifications and Extensions

ILSA terminates on August 5, 2006, unless renewed by Congress. A Senate bill, S. 2657, would extend it, with no modifications, for another five years (August 5, 2011). Other ILSA-related legislation in the 109th Congress would not only extend it (indefinitely) but close some perceived ILSA loopholes and authorize funding for pro-democracy activities in Iran: The “Iran Freedom and Support Act of 2005,” H.R. 282 (Ros-Lehtinen) and a companion, S. 333 (Santorum). H.R. 282 was reported out by the House International Committee on March 15, 2006, by a vote of 37-3, with slight
amendment. The House passed it on April 26 by a vote of 397-21. S.333 has 61 co-sponsors as of June 21, but a version of the bill, submitted as an amendment to the FY2007 defense authorization bill (S. 2766), was not adopted (June 14). The most significant ILSA-related provisions in H.R. 282 and S. 333 are as follows:

- increasing the requirements on the Administration to justify waiving sanctions on companies determined to have violated ILSA provisions (under Section 4(c) of ILSA, referring to parent countries’ cooperation with U.S. sanctions on Iran);

- making exports to Iran of WMD-useful technology or “destabilizing numbers and types of” advanced conventional weaponry sanctionable;

- setting a 90-day time limit for the Administration to determine whether an investment constitutes a violation of ILSA. (There is no time limit in ILSA currently); and

- increasing the threshold for terminating ILSA by requiring the Administration to certify, in addition to existing termination requirements, that Iran “poses no threat” to the United States, its interests, and its allies.

H.R. 282, as marked up by the Middle East Subcommittee, also:

- cuts U.S. foreign assistance to countries whose companies have violated ILSA’s energy investment provisions;

- applies ILSA’s provisions to foreign subsidiaries of U.S. companies; and

- requires public disclosure of investment funds that have investments in companies that have invested in Iran’s energy sector.

Both bills have major provisions not only on ILSA but also to support a policy of promoting democracy in Iran. Testifying before HIRC on March 8, 2006, Undersecretary of State for Political Affairs Nicholas Burns said the Bush Administration does not oppose those democracy-related provisions, which largely reinforce existing Administration policy of increasing funding for pro-democracy activities in Iran. He testified that the Administration opposes the ILSA-related provisions of the legislation on the grounds that such new sanctions would likely affect European companies and in so doing would hurt the U.S. effort to work with its allies to curb Iran’s nuclear program. However, HIRC reported out the bill and the House passed it despite the Administration’s testimony, and the Administration has not signaled it would veto the legislation. Supporters of the proposed legislation believe that continued investment in Iran’s energy sector undermines U.S. and European efforts to contain Iran’s nuclear program. Others believe that ILSA’s objectives might be implemented by European and other countries if Iran refuses to curb its nuclear program.